Triveni Engineering and Industries Limited

Q1 FY 20 Earnings Conference Call Transcript
August 05, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Triveni Engineering and Industries Limited Q1 FY 20 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you, Sir.

Rishab Barar: Thank you. Good day everyone and a warm welcome to all of you participating in the Triveni Engineering and Industries Limited's Q1 FY 20 Earnings Call. We have with us today, Mr. Tarun Sawhney – Vice Chairman and Managing Director; Mr. Suresh Taneja – Group CFO and Mr. Sameer Sinha – President (Sugar), as well as other members of the senior management team.

Before we begin, I would like to mention that some statements made in today's discussion may be forward-looking in nature and a statement to this effect has been included in the invite, which was sent to you earlier. I would like to emphasize that while this call is open to all invitees, it may not be broadcasted or reproduced in any form or manner. We will start this conference call with opening remarks from the management, followed by an interactive question & answer session.

I would now like to invite Mr. Tarun Sawhney to open the call. Over to you, Mr. Sawhney.

Tarun Sawhney: Thank you, Rishab. Good afternoon everybody and welcome to the Q1 Fiscal '20 earnings conference call for Triveni Engineering and Industries Limited. Let me start off by giving you an overview of our results and then I will delve down deeper where these business verticals and then will cover them in little more detail.

As far as gross revenue for the quarter is concerned it stood at ₹ 935 crore with the PAT of just a shade above ₹ 34 crore. With respect to the sugar business the countries total sugar production for season 18-19 is expected to end at approximately 33 million tonnes and our preliminary estimates for the country's production for the following season sugar season 19-20 is estimated at just a shade higher than 28 million tonnes. I would of course be covering these estimates a little more in detail and in fact that the recent rains that we had across the country and how much they have actually helped in terms of raising these estimates. The company achieved the highest recovery recorded in its history we recorded in the previous sugar season and we have completed all our export obligations, the subsidies and benefits are yet to be accounted for and they will be accounted for after we have filed our export change which is undergoing as we speak.

As far as the engineering business is concerned, the Gear business registered a higher turnover and profitability and the water business continue to perform much better with respect to turnover and profitability. On a combined basis the order book was ₹ 1431 crore for both the businesses.

As you know I would also like to give you an update on the buyback of the equity shares; the Board of directors of the company at its meeting held on June 1st, 2019 approved the buyback of upto 1 crore fully paid equity shares of face value ₹ 1 each of the company at the price of ₹ 100 per equity share for an aggregate amount of not exceeding ₹ 100 crore being 3.88% to the total paid up equity share capital through the tender offer route using the stock exchange mechanism from the shareholders of the company on a proportionate basis in accordance with the provisions of the Company's Act 2013 and rules made thereafter. The tender period for the buyback opened on July 22nd, 2019 and it is just closed on August 2nd, 2019.

Going back to the financial highlights of the business:

As I mentioned the revenues stood at a shade above ₹ 925 crore with an 11% EBITDA margin. The EBITDA margin was similar to the corresponding quarter of the previous year. However, there were significant differences and I would delve into that in a second. The results of the corresponding quarter the previous year includes deferment of off-season expenses of ₹ 31.11 crore and accordingly profitability of this quarter under review is higher to that extent (previous quarter high). The company has availed loans of ₹ 310 crore during the quarter under the scheme of extending soft loans to sugar mills by the central government where the subvention would be provided to the extent of 7% for a period of one year.

I would now like to turn to the various business verticals:

While domestic sugar sales volumes are lower by 18%, sugar prices for the quarter under review are higher by 14%. A significant volume just about 85,000 metric tonnes of sugar has been exported during the quarter of course much lower prices. The export losses of ₹ 31 crore was booked in this quarter, in the quarter under review.

The Distillery and Cogeneration businesses have also performed reasonably well especially the former in view of the significantly higher production and the low material costs and of course higher ethanol prices which has made a big difference to our distillery business. Historically we have achieved the highest recovery for all the units of the company. The export obligations as I had mentioned have been closely complete as of today, the subsidies and the benefits will be accounted for subsequently and it is to the tune of approximately ₹ 145 crore of export subsidies. The subsidies on account of buffer stock are approximately ₹ 15 crore that are yet to be added. Current sugar prices are in the range of ₹ 33.50 to 34.50 per kilo of sugar. ₹ 33.50 being the price of plantation white and ₹ 34.50 being the price of refined sugar that we are achieving at this point in time.

The key highlights for the Engineering business are also relatively straightforward. The performance has been excellent. In both the businesses the combined order book was a shade above ₹ 1,431 crore. It's quite an excellent the number for the businesses.

Now turning back to sugar and looking at the business specifics for that vertical:

In the season of 18-19 we crushed, 7.9 - 8 million tonnes of sugarcane, it was a shade lower than the previous year. However, our recovery at 11.79% was significantly higher than the recovery of previous season at 11.38%. Our realization price for the quarter under review was ₹ 32.88 per kilo of sugar. During the quarter sugar has been sold as per the monthly quota release mechanism by the Government of India. The PBIT of Q1 fiscal '19 includes deferment of off-season expenses ₹ 29.39 crore hence its profit is higher to that extent. The export losses are ₹ 30.97 crore booked during the quarter, subsidies including the buffer stock subsidies will be booked as I had mentioned subsequently. The sugar inventory on the 30th of June stood at 63.9 lakh quintals which was valued at just ₹ 130 per kilo. Now I must mention that this is a staggering inventory and this is clearly a cause of worry and concern not just for Triveni but for the industry as well to look at these enormous numbers and the fact that the capacity to be able to store the sugar in excellent godowns is something that will be a continuing worry for the industry not just right now but also for the upcoming season.

Looking at an industry scenario:

As I mentioned the country will produce approximately 33 million tonnes of sugar and next year we are anticipating about 28 million tonnes of sugar. Recently of course there have been two important initiatives announced by the Central Government. The first an increase the buffer stock from 3 million tonnes to 4 million tonnes and of course we would get a proportionate share in this to that extent and more importantly was a stable FRP that no increase in FRP from year to year from 18-19 to 19-20 and it stays unchanged as the ₹ 275 per quintal as it was last year. So, I think this is a very important factor. It also gives some signaling in terms of future policy initiatives with respect to sugar pricing and our export policy. But overall I think to have this announced at this early stage is a very big positive for the industry.

On an international scenario:

The global sugar balance in 19-20 is estimated to be at a deficit of 3.67 million tonnes. The decline is due to estimates from Brazil and India and of course the decline in production from Thailand, EU, Australia, so I think everybody is contributing. Weather's played a very important factor in the lowering of these estimates. In fact, most market pundits say that they are looking for the Indian ethanol program to be announced and they expect that the Brazilian mix of sugar to ethanol will be contingent upon what our ethanol blending program and our export program actually, both those go hand-in-hand. Our export program and our ethanol program look like from India because that will actually lead to a substantial flow of sugar into the global market, the export program. The ethanol program will also attract some sugars into the form of ethanol and again based on how industry friendly that policy is that would play an impact again on the sugar balance in large countries like Brazil.

Turning to the second business in our agriculture portfolio:

The Cogeneration business operated for the slightly fewer days in Q1 fiscal '20 and therefore generated marginally lower revenues. However, the operating efficiencies of the units remained at the very high levels. There has been certain debate in the markets about a new co-gen tariff being announced. Let me assure you that it is not formally announced. However, there has been a lot of speculation about very low numbers. But let me say it again that this is not formally announced or notified by the Government of Uttar Pradesh.

Turning to our Distillery:

Our production was of course substantially higher than the previous corresponding quarter as the average realization leading to a PBIT of just under ₹ 40 crore which was almost double of that of the previous corresponding quarter which was about ₹ 21.6 crore. The new distillery at Sabitgarh has been successfully commissioned and the unit has supplied 3088 kilo liters of ethanol to OMCs during the quarter under review. The company has received 6.6 crore liters of contracts for ethanol supply from the OMCs during the '18-19 season which is December '18 to November '19.

Looking at our Gear and our Engineering business:

Let me start off by the gear business which had an excellent quarter. The revenues is just about ₹ 32 crore, which is significantly above the ₹ 22 crore in the previous corresponding quarter, as of the PBIT which stood at ₹ 8.2 crore was double that of the previous corresponding quarter. The growth in the OEM sales, spare services, retrofitting, etc. has been more than 50% and it has really been the driving force and major contributing factor for the growth in revenues as well as profitability. The market looks stable and there are significant positive signs coming from OEMs and that's a huge positive and we have seen that. I am confident of saying that after many-many quarters. The Defence business has also received some many-many strong enquiries and we are hopeful of concluding them over the next couple of quarters.

The outstanding order book on the 30th of June stood at ₹ 178 crore which included the long-duration orders of approximately ₹ 61 crore.

The Water business again had an excellent quarter with revenues of ₹ 68.6 crore, a significant increase from the ₹ 36.4 in the previous quarter and a ₹ 3 crore profit which was of course a stark comparison to the ₹ 2 crore loss in the previous corresponding quarter. The improved performance is attributed solely to the order intake over the last year which has resulted increased activities which of course has resulted in a higher turnover. And the outstanding order book for this business stood at ₹ 1,252 crore on the 30th of June which includes ₹ 500 crore towards covenant contracts which is after a slightly longer period of time.

Now looking at the outlook for our various business verticals:

As far as sugar is concerned what is on the anvil right now as far as cane price is concerned is a stated rise price from the Uttar Pradesh Government. However, given the fact that Central Government has not increased sugarcane prices given the fact that there is no increase in sugar prices, the FRP, there really isn't any logical reason why there should be an increase in the SAP however we will have to of course wait and see.

On the export front and the evacuation of stocks:

I think we are all keenly awaiting the government program to evacuate stocks with about 14.5 million tonnes of closing stock at the end of the sugar year and in addition to this balance for the next sugar season of at least 3 million tonnes of sugar, we are looking at a staggering amount of sugar in the country and therefore with a minimum of about 6 to 7 million tonnes of sugar that actually gets evacuated. This year we will reach about 3.8 million out of the 5 and therefore next year I think the industry really needs to come together in terms of evacuation of that program.

Next and most important is the Ethanol Blending Program:

There have been various representations made in terms of an increase in the EBP in certain States. I think that is something that is still under discussion. There have also been representations made on extending the validity of contracts and looking at multiyear contracts and multi-size at least looking at fundamentals of the pricing which should last a multi-year period and all of this will really assist in the augmentation of ethanol capacity across the country and which is actually very essentially required if we have to divert excess sugar away towards ethanol and of course if we were to look at the conversion of juice to ethanol we will need a policy.

On Engineering front:

I think the fact that the Gear's business is looking at a tremendous amount of growth from international market serves us well because while we do have got some bright spots within India we do also have other areas which are facing some amount of pain. However, our export markets are looking absolutely fantastic including our OEMs which are showing renewed signs of economic activity. As far as the Water business is concerned this is a primarily domestic business and as you know the quarter under review was the one where we had a general election, clearly there was limited opportunity for order finalization because the bulk of the orders where we participate are municipal orders, government orders etc. which of course were impacted by the fact that we had a general election. However, this quarter and going forward we are excited about various order of finalizations that are on the end.

So, all and all I think there is a good amount of positivity across the business verticals and I would now like to open up the floor for questions.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Gaurav Jhanwar from Systematix Group. Please go ahead.

Gaurav Jhanwar: My question is regarding the Sugar business that according to the press release of Q1 FY20 that 85,731 million tonnes of sugar has been exported in which we booked the export losses of ₹ 30.97 crore. In the last quarter also, we accounted the export losses of ₹ 81 crore. So, my question is that benefit from the subsidies amounting to ₹ 145 crore as you mentioned earlier, so that was not recognized due to some uncertainties. When will we recognized the subsidy and what are the uncertainties, what are the conditions that we have not yet fulfilled and whether the subsidy amount is higher or the same on the date?

Tarun Sawhney: The subsidies that will accrue to us provided we file all the correct documentation is approximately ₹ 145 crore, so that I heard you mentioned that amount. The recognition will happen only once we actually go ahead and file all the necessary documentation with the ministry approved which is under process as we speak.

Gaurav Jhanwar: Regarding the subvention policy of the subsidized interest rates like the 7% on the loans for one year that shall be extended or it would not be extended beyond one year?

Tarun Sawhney: That's an excellent question and I think that the 7% subvention loans which was given, it's a little challenging to get that extended. In fact, the industry itself is reeling from significant debt and so to offer cheaper debt as a solution is something that a lot of people in the industry including ourselves don't find as an attractive option in terms of paying the interest, so whether it does or not is predicated on arrears. Arrears in Uttar Pradesh right now are approximately (+8000) crore, so they are lower than what they were last year. As I understand they will be dropping significantly by the September and by October and therefore to have this loan extended by one more year I don't think will happen. But you never know depending on what transpires over the next 6 to 7 months and how arrears build-up that is really when you see this kind of talk about further loans and subventions, etc. to augment the cane price playing capacity of the sugar industry.

Gaurav Jhanwar: Any tentative idea when the subsidy amount would be recognized?

Suresh Taneja: I think most likely majority of the subsidies we should be able to bill it in this quarter, so basically, I think their receipt would be in Q3.

Gaurav Jhanwar: Regarding the Distillery business, as you mentioned that in the distillery operations that are like its better to get stabilized shortly, so when this business would be operationalized and stabilized and what is the current capacity utilization for this?

Tarun Sawhney: The capacity utilization is now 100%. It has been 100%, the reason why we did that is really to be more conservative in our approach and there were small fluctuations, going from 160 KLPD down by maybe 10% odd and therefore we consider that a stabilization period. However, we are now completely stabilized and the distillery is functioning at its rated capacity.

Gaurav Jhanwar: Do we have a full availability of molasses to operate the distillery at 320 KLPD?

Tarun Sawhney: Yes.

Gaurav Jhanwar: And in the Power business that you mentioned the new power tariffs has been notified or not?

Tarun Sawhney: No it has not been notified.

Gaurav Jhanwar: Any impact from the same to our business?

Tarun Sawhney: Of course, if it's lower there will be a negative impact.

Gaurav Jhanwar: Any tentative loss would be there for the same?

Tarun Sawhney: It's impossible to calculate unless you know the rate.

Moderator: The next question is from the line of Vijay Gupta, he is an Individual Investor.

Vijay Gupta: Just like the export subsidy and we are expecting it to get realized by the end of Q3 give, is the same situation also true for buffer stock subsidy?

Tarun Sawhney: Yes.

Vijay Gupta: Given that now the second distillery unit is also stabilized and we still have orders of around 6.5 crore liters while our capacity in overall is close to 10 crore liters, are we going to have enough orders and when do we expect those orders to come in to meet the capacity?

Tarun Sawhney: We have in the orders for us to last till the end of this tender.

Vijay Gupta: Is it till November 2019?

Tarun Sawhney: Yes and 6.6 cr in addition we have orders of ethanol from private oil marketing companies as well as some ENA which is to be supplied as per the state government policy. So, all in all it adds up to just a shade under 8 crore liters.

Vijay Gupta: Going by that we still going to have (+2) crore capacity?

Tarun Sawhney: No, there is no extra capacity because the distillery came online midway through the year so you have to use the capacity only once the distillery has been commissioned.

Vijay Gupta: Are we saying that probably the first quarter whatever the lower production has happened at the end of the year ultimately it will lead to the same kind of production as the demand is?

Tarun Sawhney: No I'm not following your question. In the quarter under review the production that's happened has been if it hasn't benefited by the start of the Sabitgarh distillery. This present quarter we are going to see for the majority of the period the Sabitgarh facility functioning at its rated capacity for the majority of the period and then for subsequent quarters the expectation is that all the distilleries functioned as the rated capacities. We have a sufficient number of orders based on the working days of our business, so we do not have spare capacity in our business at this point in time until the end of this molasses year.

Moderator: The next question is from the line of Anupam Goswami from Stewart & Mackertich.

Anupam Goswami: We have been hearing in the street that the ethanol prices could further be hiked, is that the millers are expecting also?

Tarun Sawhney: The argument for the hike in ethanol prices is that when the last ethanol price was formulated when the MSP of sugar was ₹ 29 per kilo, the MSP today is ₹ 31 per kilo and therefore to encourage millers to set-up ethanol capacity it should be at the new MSP and that is the argument that has been made. So, it is under consideration and I'm sure all of these elements will be looked at by the Government in determining the next ethanol bio-fuel policy which is anticipated actually in the next few weeks.

Anupam Goswami: Just wanted to know what did we produce ethanol from B grade this time?

Tarun Sawhney: Is your question that did we use B molasses?

Anupam Goswami: Yes.

Tarun Sawhney: No, we did not.

Anupam Goswami: How much sugar are we sacrificing on that note and what is the profitability generally, is that negative that's why we are not producing?

Tarun Sawhney: No, it's because we did not have a second distillery operational at the beginning of the season therefore, we did not have the capacity utilization. We did not have the processing capacity to be able to use other options. With the second distillery having been operationalized and commissioned we now do have an option of using B-heavy molasses but only to an extent.

Anupam Goswami: Do we have any plans to produce ethanol because it would lower the sugar inventory to some extent as well?

Tarun Sawhney: Yes, it would but it's only to a marginal extent to be very honest unless the prices lucrative when you actually go out and do a massive program of B-heavy and that we will have to wait and see. The other option of course is to buy C molasses from the market to be able to make up your capacity requirements, so all of those options remain on the anvil. The strategy of which option will be utilized by the company would be purely predicated on the commercial viability of that option and that will only be known once we know what the next bio-fuel policy with respect to ethanol is.

Anupam Goswami: And you expect the bio-fuel to be announced in the couple of weeks?

Tarun Sawhney: Not couple, next 4 to 6 weeks.

Moderator: The next question is from the line of Sanjay Maniyal from ICICI Securities.

Sanjay Maniyal: Just few questions, one is specifically on the sugar exports; you have mentioned ₹ 31 crore loss and 85,000 tonnes of export. Now this loss generally comes at ₹ 3-3.5 according to this calculation, what exactly have you taken in the cost here? Because what I understand the subsidy was somewhere around ₹ 8 production subsidies plus ₹ 3 transport subsidies, ₹ 11 per kg?

Suresh Taneja: Let me answer this question, you can't do an arithmetic of 85,000 tonnes simply because of the fact some of the export losses were accrued upto 31st March they were accounted for. If I remember correctly approximately ₹ 80 crore worth accounted up to 31st March, 2019 and now we are accounting for another ₹ 31 crore. So, this is the total export loss we would have in respect of our export obligations.

Sanjay Maniyal: And what is the total quantity we have exported this sugar year?

Tarun Sawhney: In this quarter we exported about 85,000 tonnes, our export obligation was approximately about 129,000 metric tonnes.

Sanjay Maniyal: Are we done with entire work?

Tarun Sawhney: Exactly, we have done the entire work.

Sanjay Maniyal: On the ethanol front because what I understand that considering the fact that let's assume that the ethanol prices remains the same, B-heavy and the C-heavy. Is it possible for you to do more than 30%-40% of the crushing from the B-heavy because you have the entire capacity of 10 crore liters what I understand for the full year basis so is it possible to do 30-40% or what kind of numbers you can do with B-heavy crushing?

Tarun Sawhney: It really depends. B-heavy is to be consumed during the season and maybe one month after because this is something that is purely in India. There is no country anywhere else in the world that really uses B-heavy. There hasn't been enough data and calculation to look at the storage capacity. I'm sure that if you did some enzymatic treatment you could keep it for longer but anyway, we don't know as yet. So, if you assume that you keep it for a month or two after the season ends you can do larger quantities of B-heavy and take the C-molasses which we know can last well beyond 12 months into subsequent years. Yes, there is degradation, yes there is quality loss that happens but you will be able to still carry that forward. The economics may still work in your favor. The analysis that you have done of about 30% to 40% would seem on the back of the envelop about right if we were to employ those strategies but you have to also see what are the prices, C molasses that are available in the retail market, compare that with of course the realization with the sugar prices and the realization of B-heavy and so it becomes a little more complex. Again I think unless the biofuel Policy is announced it will be very difficult to make those calculations but based on your question that if you have last year's prices, yes I think there will be more people that will look at B-heavy as an option.

Sanjay Maniyal: Because I'm just asking this question on the back of this thing that it wouldn't it be prudent to make your balance sheet much lighter by liquidating your inventory rather than buying the C-heavy from the market to fulfill your capacity because what I understand if you do the optimum B-heavy your sugar inventory problem will go substantially lower. If the entire industry does that then probably the inventory levels of sugar can come down drastically?

Tarun Sawhney: Yes and no. Theoretically you are right but we don't have distillery capacity across the country to be able to have a large scale ethanol blending program and the reason for that is because we don't have multi-year pricing or a multi-year contract that exists and without that it's very difficult to ask somebody to set up a multi-crore project without knowing what the future may hold. Therefore, you have seen limited investment in distillery and the limited number of new distilleries that have come up over the last couple of years. There are a few more plants across the country but nowhere near the number that the Government of India had planned when it looked at giving its interest subsidy, interest subvention of (+6000) crore. That is still on the annual, lot of people are waiting and watching however you are right, it does make sense for Triveni to evaluate B-heavy but it's still early days. The sugar season is still a good 3 months away so we have ample time in order to be able to make those decisions.

Sanjay Maniyal: But will be clear by next quarter, next con-call?

Tarun Sawhney: It may or may not be because the tender may very well be over, you are right you may have your answer by next quarter.

Sanjay Maniyal: Just one last question on the Co-Generation side, what I understand the Draft Power Policy in UP mentioned somewhere around ₹ 3 as the power tariff which is almost ₹ 2 lower than your current realization. Have you accounted at ₹ 3 or you are still accounting at ₹ 5 or whatever the realization you are getting earlier?

Tarun Sawhney: For the quarter under review we have not changed the basis of our accounting at all. Yes there are press articles in fact that was something that was even leaked over the weekend but I can't comment on that because it is all uncertain. The government of Uttar Pradesh has not notified a new price. The expectation is that it will be a lower price there is no doubt about that, for what that actual price is unknown until it gets fully notified. When it gets notified, we will then make the necessary accounting changes in the subsequent quarter.

Sanjay Maniyal: These notifications whenever it will come, it will be implemented from first April order from the date it will be notified?

Tarun Sawhney: So, again one doesn't know, we don't know what it is going to be. The rumor was that it would be from first of April and which is why you would have to restate or make the accounting changes but again until it is actually notified it is impossible to know.

Moderator: Next question is from the line of Neerav Vasa from Anand Rathi.

Neerav Vasa: My question pertains to the cane acreage date we are expecting; just wanted to understand from your experience like this crushing season is also going to be tough wherein there could be arrears with regard to payment to farmers. So, are you seeing farmers uprooting the cane by the end of this season because we are not getting money on time for two back-to-back seasons?

Tarun Sawhney: There were a few press articles talking about exactly what you are saying pertaining to Maharashtra and it is my understanding that some portion of the standing crop was used as animal fodder however the recent rains in Maharashtra have been extremely positive and will augment the cane availability for the next crushing year. Are we foreseeing a reduction in the sugar in Maharashtra? Yes of course so in the beginning of the call when I said this year we could produce 33 million and next year we are looking at just about 28 million that 5 million tonnes reduction is going to come across the country but the primary reduction is going to be Maharashtra and is going to be a little bit from Karnataka then of course spread across the country. But the two states where you did have diversion of the standing crop to fodder would see this more substantial drop in sugar production next year. As far as North India is concerned farmers typically don't divert the standing crop to fodder. I can think of only one example in the last 25 years when this has happened. That has been our experience.

Moderator: The next question is from Naveen Shah from Value Quest.

Naveen Shah: My question is on the macro, so the industry if you look at on the distillery so though the government has announced all those interest subventions schemes and also schemes for putting up the new distilleries. We haven't yet seen a lot of pick up on that front so like you alluded earlier but if you can throw more light on that? What's the reason behind that?

Tarun Sawhney: If your question is why have we not seen a massive increase in number of distilleries is coming up? Is that your question?

Naveen Shah: Yes right, exactly.

Tarun Sawhney: I will give you one personal perspective. It is predicated on the fact that the Ethanol Pricing Policy is a one-year pricing policy. If one goes back in tracks what the ethanol price was for the last 10 years since we have been supplying ethanol to the oil marketing companies you would see the ups and downs in terms of what the prices are and the basis of formulation of those prices. Now if one has to set up its distillery that has a multi-year pay back based on only one year's price it is impossible because (a) when you make the decision to set up a plant it takes you anywhere between 18 to 24 months to bring that plant into operations. I would say 24 months is the number that you should take that's 2 years and therefore you are hoping that the pricing policy in 2 years from the time that you have taken that decision is just as remunerative. This is one of the discussions that the industry and we have had with the Central Government that if you are to have a renewed interest in ethanol plants being set up across the country you need to give some kind of signal as to how ethanol prices will be calculated if not the actual price itself over a multi-year period. That kind of comfort is important. The second aspect is there is there are some regulatory issues as well right now so for example if you use partial juice in our current pricing policy, if you will use partial juice you get the price of B-heavy molasses. You don't get the price of juice which is a much higher price almost Rs. 60. I believe that this is going to be addressed in the next Ethanol Pricing Policy but as of now it doesn't exist which is why you really didn't see any offtake. It was just one factor that literally experimented with this across all the other factories in India of the 550 plants only one actually experimented with the little bit of partial juice. You need to have a little bit of signaling a policy so that the long-term returns of a distillery are clear.

Naveen Shah: So, does it mean that because of the low visibility or you don't have any visibility on the prices over a longer term is what is holding back the means from putting up the CAPEX?

Tarun Sawhney: You could say that, the other point of course is that this year itself we are estimating that we are going to do about approximately 7% EBP across the country. Now the 3% that is vacant is the North-west, the far-East and certain other states, Tamil Nadu, Kerala for example where the ethanol blending is less than 1% because of their own issues in those various states. But you do have states like Maharashtra, Uttar Pradesh, Karnataka that have almost 10% ethanol blending if not 10%. So, the states where the capacities are going to come up are the sugar producing states which will already have a very high EBP level. Another good signaling impact would be that if these states the EBP could be increased to anywhere between 12% to 15% and that would be a very important decisive factor. You should also note that Siam has given a paper stating that their engines will be—of course the duration is too long but they have stated that they engines of—Automobiles will accept EBP 20 by 2030. Now the duration of course is too long and they have to be many discussions but the moment you have this discussion on larger volumes of EBP happening, percentages going up, engines being able to take it etc. these are all great positives. The most recent paper that was issued by the government says that the current technology of EBP 15 is perfectly acceptable.

Naveen Shah: What we keep on reading and hearing another aspect to this is that a lot of sugar mills if you look at their financial health are not in the best of their health, so is that something that is also stopping them from going ahead and putting up the CAPEX or the arranging the finances from the banks?

Tarun Sawhney: I would imagine so.

Naveen Shah: Do you feel that once this new ethanol policy comes in and if there is a government decides some formula or there is a long-term visibility to the prices that they give then we might see a lot of means going ahead and putting up the plants?

Tarun Sawhney: I think there will certainly be a lot more interest in setting up new plants because the technology option that has not been explored right now is that all B-heavy, all juice etc., so those options will then come on the table and they only come on the table if you have multi-year pricing.

Naveen Shah: The distillery that we have put in 160 KLPD is it fungible; can we use juice to make molasses out of the juice to make ethanol out of that?

Tarun Sawhney: Yes we can.

Naveen Shah: So, there is no additional CAPEX required for that?

Tarun Sawhney: Very marginal, just connectivity etc. because you take the final molasses from one place, you have the pumps over that you need to laid some pipelines but its marginal.

Naveen Shah: Where have we taken this technology from for the plant or the plant itself?

Tarun Sawhney: A boiler and the plant have been sourced from domestic manufacturers.

Naveen Shah: Can you name them?

Tarun Sawhney: The plant is from Praj and the boiler is from KCP.

Moderator: Thank you very much. That was the last question. I would now like to hand the conference back to the management team for closing comments.

Tarun Sawhney: Thank you very much for joining us on the Q1 fiscal '20 earnings conference call for Triveni Engineering and Industries Limited. It's been a pleasure to speak to everybody today. As you know across the verticals the businesses have done quite well in the quarter under review and we hope to sustain this type of performance in the ensuing quarters. Thank you very much and I look forward to speaking to you in approximately 3 months. Good bye.

Moderator: Thank you very much. On behalf of Triveni Engineering Industries Limited that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.