# Triveni Engineering & Industries Limited
# Q1 FY 21 Earnings Conference Call
## August 11, 2020

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**Moderator:** Ladies and gentlemen, good day, and welcome to the Triveni Engineering & Industries Limited Q1 FY 21 Earnings Conference Call. As a reminder, all participants' lines will be in the 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 call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would like to 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 & Industry Limited Q1 FY 21 Earnings Call. We have with us today Mr. Tarun Sawhney – Vice Chairman and Managing Director, Mr. Suresh Taneja – Group CFO, 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 also 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 call with opening remarks from the management followed by an interactive question-and-answer session.

I would now request Mr. Tarun Sawhney to open the call. Over to you, sir.

**Tarun Sawhney:** Thank you very much. Good afternoon, everyone, and welcome to the Q1 fiscal '21 consolidated results call of Triveni Engineering & Industries Limited. Given the macroeconomic situation, the company has delivered good results, we believe, for the period under review, even though part of the quarter was impacted by the COVID-19 crisis quite significantly.

The revenues from operations for the quarter stood at Rs. 1,224 crore, a growth of 32%; and the PBT grew 175% to just under Rs. 130 crore.

With respect to the Sugar business; some of the highlights include, from the country's perspective sugar production for the season '19-20 can now be estimated at 27.2 million tonnes. The estimated sugar production for next season at this point in time is 30.5 million tonnes for the sugar season '20-21 after taking into account 1.5 million tonnes which will be diverted to ethanol.

During the lockdown period, the company maintained its operations at an uninterrupted level as far as the Sugar and Agri division was concerned. And therefore, the Sugar and Alcohol businesses performed reasonably well during the quarter. We received a sizable allocation under MAEQ, and we have exported our share of entitlement under MAEQ for the quarter under review. And as I mentioned, the Sugar business had performed well because of stable sugar prices and higher volumes of sale, which were about 32% higher.

The sugar revenues include export subsidy of Rs. 57.66 crore, which pertains to export sales made in fiscal '20, a subsidy of Rs. 5.81 crore pertaining to export sales during the current quarter will be booked upon fulfillment of the prescribed conditions. On a review, the effective 1st of April 2020, the management has combined the co-generation operations with the sugar operations of the company, and the co-generation activities no longer qualify as a separate operating segment. You would have noticed that in our segment results that we reported yesterday. Accordingly, these have been combined with the Sugar segment in accordance with the Ind-AS 108 operating segments. With the operations of 2 distilleries, we've achieved higher ethanol sales of 29% higher. And it is also important to note that a hand sanitizer facility started its operations in April '20.

As far as the Engineering business is concerned, both businesses were impacted in Q1 due to the pandemic. There are very encouraging trends of recovery, but there is a sense of uncertainty that, of course, remains domestically and a little bit internationally, but the signs of recovery in both the segments are extremely encouraging, and I will cover that in my detailed commentary in a few minutes.

The outstanding order book just over Rs. 1,100 crore for the combined Engineering businesses. The Board has approved a buyback at a price of Rs. 105 per share, to amounts not exceeding Rs. 65 crore. So the total outgo will be approximately Rs. 80 crore from the company.

The notable financial highlights were an increase in EBITDA margin. Compared to the corresponding quarter of the previous fiscal year, the EBITDA margin rose to 13% from 11%. As I had mentioned, there was a 175% increase in the PBT to just under Rs. 130 crore; a 146% increase in PAT to just under Rs. 84 crore; and a substantial increase in EPS from Rs. 1.32 per share to Rs. 3.38 per share. The total debt of the company as of the 30th of June is Rs. 1,246.7 crore, which is substantially lower than Rs. 1,448.3 crore on the previous corresponding quarter. And this comprises of term loans of just under Rs. 600 crore at Rs. 596.75 crore, of which the soft loans are Rs. 467.96 crore. These are loans with interest subvention and subsidized interest rates.

Our average cost of funds is approximately 6.6%. Now it is important to mention that our short-term rating in (A1 +) and our long-term rating is (AA -) at this point in time. And the majority of the loans, of course, are with interest subvention, as I have mentioned.

It's important to discuss the impact of COVID-19 on our businesses. The last time that we had spoken we were in the middle of the crisis. Now that we have been in it for over 4 months, I think it's a good time to reflect on how the impact has been on the various businesses. As you know, the Engineering businesses were closed for these periods during lockdown, but the Sugar business operated without any interruption. We were able to go pretty much contactless for about 175,000 contact points per day across the group in a matter of just 96 hours. So there's a tremendous amount of effort that's put in by the IT teams and in association with the district administration and the state administration to allow us the facility to be able to go contactless. As a consequence, during the initial couple of months of the crisis, we actually had very-very low rates of any COVID outbreak. In fact, we're seeing it ever so slightly now in the surrounding areas. However, the administration and we ourselves are, of course, much better prepared to deal with it and support the local communities in terms of any outbreaks. But the Sugar business, as a whole, as I was mentioning, was able to combat this crisis extremely well. And as a result, we were able to close out the season without incidents.

The sugar demand, of course, did take a toll, as I've mentioned earlier, even in our last call in the month of April, last week of May, month of April and going into all of the last week of March, all of August and a little bit of May. Having said that we have returned to normal demands across the country. The reduction will be approximately 1 million tonnes or so. Having said that, because we have returned to normal aspects of demand and we've seen industrial customers, we've seen retail customers actually come back with quite nicely, we've seen that the pipeline, too, has accepted a tremendous amount of sugar, although very candidly, that is also because of the rumors of an increase in the MSP, which is expected fairly shortly.

Turning to the Engineering businesses; they returned to normal operations in the middle of May '20. And we have seen very encouraging trends in order booking for the Gears business, which I will just talk about in a few minutes. Due to the closure during lockdown and travel restrictions, mobilization of resources, etc., the performance of the businesses was impacted. However, with the use of proactive planning and various digital tools, the Gears business has managed to actually go out and receive quite a few orders and commission quite a few gearboxes. There's been a lot of—the learning curve has been quite steep in terms of using—new technologies and embracing IoT and Industry 4.0 practices within not just the Gears business but also the Water business to try and enhance productivity while complying with the various restrictions that have existed across our country.

As far as the details of the Sugar businesses are concerned during the quarter, those results have been already shared with you, but let me just point out that the dispatches for the quarter under review were approximately 2.87 lakh tonnes versus 2.44 lakh tonnes in the previous corresponding quarter. The domestic realization was Rs. 32,200 per metric ton versus Rs. 32,800 in the previous corresponding quarter for domestic realization. However, the export realization in this quarter was substantially higher at Rs. 22,560 versus just under Rs. 20,000 in the previous corresponding quarter.

The current sugar price that we are seeing as of the last few days, crystal sugar, that's white plantation, white sugar is approximately Rs. 32.75 per kilo and our refined sugar is selling at a blended price of Rs. 33.4 per kilo. International sugar prices also very recently are approximately 12.60 per pound for raws at the October contract. It's very encouraging that the March contract is significantly above $0.13 and bodes well as far as next year's export program is concerned. However, I will come to that in a minute. And the white's contract is approximately $375 per ton.

The company achieved a recovery of 11.97%. This is on a white sugar basis, which was 18 basis points higher than the previous season. This is something that we are extremely proud of. Despite the crisis, the quantum of work that was required to successfully close out this season and to ensure that we maintain high levels of recovery until the very end was a commendable achievement.

Following the second announcement of the government to reallocate export quota to the mills that have completed 75% of their existing quantities, we have received further tranches of 94,210 tonnes, of which we have exported just about 78,000 in Q1 fiscal '21. And the overall export for the company is quite substantial, more than 2.57 lakh tonnes, which is really a tremendous achievement for Triveni.

The inventory as on the 30th of June was 54.35 lakh quintals valued at Rs. 28.5 per kilo. The co-generation operations, which include incidentally co-generation, achieved external sales of approximately Rs. 18 crore as against Rs. 22 crore in the previous quarter. It's mainly due to the account of the downward revision of tariff by UPERC.

From an industry perspective, sugar season '20, the sugar, the country will produce 27.2 million tonnes, as I'd mentioned. The decline is dramatically due to the fall in production in the states of Maharashtra and Karnataka. As per news report, there is an expectation that the MSP will be increased by Rs. 2 per kilo to Rs. 33, and this is primarily to help clear a portion of the outstanding cane arrears. It is important to note that our surveys that we had conducted in our research department have shown that the area under sugarcane in the country is expected to be above 52 lakh hectares in sugar season '20-21, which is about 8% higher in this season. And that's quite important because we that alludes to the fact that we will expect 30.5 million tonnes of sugar in the next season. And after taking into account 1.5 million tonnes of diversion of B-heavy and juice towards ethanol, which is probably just under double of what we achieved in this year, and it's a substantial move towards actually building a robust ethanol economy within the country.

The Uttar Pradesh production is expected to be on par with this year, where we are seeing perhaps a 1% lower cane acreage across the state. Having said that, we will balance it out a little bit more because the area under early maturing varieties have certainly risen in the state of Uttar Pradesh, and so the net result will be pretty much on par, perhaps ever so slightly higher for sugar season '21.

For Maharashtra, the net sugar area has gone up by 43%, which is quite substantial, and their production is estimated by us to be over 10 million metric tonnes. This is without considering the reduction of sugar because of diversion of B-heavy and juice to ethanol.

The estimated sugar balance in the country is quite important to also review. And as of now, we are looking this is after June 30th such as we're looking at 5.2 million metric tonnes of export of the season. However, with the reallocation that happened in July, we can estimate between 300,000 and 500,000 tonnes extra that could be added for export, totaling up to a maximum of approximately 5.7 million metric tonnes, which is an enormous achievement given that about 9 months ago, when we spoke, the target of 6 million metric tonnes under MAEQ seemed like a stretch target. But the fact that Triveni has been able to achieve it is quite remarkable.

The sugarcane arrears, which is actually quite important in Uttar Pradesh, stand at over Rs. 12,000 crore. And therefore, any increase in MSP is going to be a very welcome move in terms of eradicating these arrears. I would forecast that these arrears will certainly stay with us in large part through the month of August and moving into September. However, we will start seeing a reduction as and when the sugar gets sold at a higher price and plus after the monsoon session, when the central government incentives flow back to the sugar industry and that gets paid in the form of cane dues, and we'll see that reduction happening by October or just for the start of the next season.

The all India average for blending is at just above 5%. So certainly, that has been a bit of a disappointment, honestly, and this is up to the 22nd of June. Of course, this level will rise. The blending level in states like Uttar Pradesh and Haryana, Punjab, Uttarakhand, Bihar, Karnataka much higher, between 8.5% and almost 10%. That is encouraging, but we need quite a lot of work to be done between the sugar industry, the Oil Marketing Companies and the Government of India if they to achieve the 10%

blending target by 2022, which is one of the targets laid out by the honorable Prime Minister.

B-heavy and sugarcane juice has resulted in the manufacturer of 58 crore liters of ethanol, which is a very reasonable start, frankly speaking, but this will continue to go up as there are new capacities that can be set up. And there is an expectation that the price of ethanol will rise in case there is any increase in FRP. It is rumored there may be a Rs. 10 increase in FRP. If that is the case and if MSP is to rise, the expectation is that there will be a corresponding rise for ethanol produced from B-heavy molasses as well as from juice/syrup. The government of Uttar Pradesh has reduced the molasses quota for country liquor very recently to 17%. It was previously at 18%.

From an international sugar perspective, during the second half of July '20, raws and whites futures have posted excellent gains. Part of it coming from the strengthening of the Brazilian currency and of course driven by the reports coming out of Thailand of a disastrous crop in the next year. I think it's extremely important for us to recognize that the exports that have happened out of India have happened despite New York going below $0.10. And I think that really signals to the fact that there will always be opportunistic homes for Indian sugar. Despite Thailand having poor numbers for next year, there will be our traditional homes, Indonesia, Iran, Afghanistan, East Africa, Bangladesh they will continue to actually procure Indian sugar. And therefore, for the next export campaign, I'm fairly confident that regardless of the price movements in international prices, we will be able to find successful homes for Indian sugar. And we may even be able to cross 6 million metric tonnes. Of course, if that is -- if the target is higher than 6 million metric tonnes set by the Government of India.

The reports from the Brazilian sugar industry indicate that the Centre/South region has produced 16.3 million metric tonnes as of July, which is 50% higher than the corresponding period of the previous year. And so we're seeing fairly reasonable international prices despite a massive quantum of sugar coming out of Brazil. It's -- as far as the Indian export program is concerned, we don't conflict with the Brazilian program because the Brazilian season is underway right now. When the Indian sugar season gets underway, it's typically the off-season for Brazil. And that is a wonderful coincidence, but it also suits us very well as far as the domestic export campaign is concerned.

Looking very briefly at our Alcohol business, we produced a substantial increase in this quarter of 27,000 kiloliters versus under 20,000 kiloliters in the previous quarter, and the average realization was Rs. 48.6 per liter, which was a substantial increase, of course, from Rs. 42.5 per liter in the previous quarter.

Our transfer price for B-heavy molasses was Rs. 950 per quintal or Rs. 9,500 per ton and Rs. 425 per quintal for C-heavy molasses. This is different from the previous year where in Q1 fiscal '20, the transfer price of C molasses was Rs. 325 per quintal.

Our philosophy is very simple. We actually look at our transfer price and derive it from the market existing prevailing market prices. And these were the prevailing market prices for the quarter under review. But both the distilleries have operated extremely high efficiency over the previous quarter. The cost of ethanol sold in the corresponding quarter of the previous year was lower, as I mentioned, because of the lower molasses price. The distillery received contracts of over 10 crore liters during the current marketing year and there have been significant improvements in ethanol dispatches to the OMC, particularly in the month of June, and it's continued in the month of July as well.

I would like to mention that despite the problems during the start of the lockdown period, during the first 6 weeks of the lockdown period, starting late March and all of April where many distilleries were forced to shut down because of lifting by the OMCs. We never faced those issues, and that is represented in our results. The other businesses and investments in those businesses is well underway, and we will hopefully have something to report to you the next time we speak. And these are the derivative products of the distilleries which include investments in such as CO2, ash granulation, etc.

Turning to the Engineering businesses; yes, of course, the quarter has been impacted quite a lot by the pandemic. However, as far as the Gears business is concerned, we've had a fall in gross revenues. However, we have been able to report a very healthy 10% PBIT margin. The most notable factor for our Gears business has been an order booking of over Rs. 25 crore during this quarter and that is extremely encouraging and due to a tremendous amount of hard work that has been done by the business teams in terms of securing both domestic and international orders. I'd like to say that we're actually seeing a good amount of impetus coming from international orders, and that is extremely encouraging for Q2 and for beyond. The outstanding order book on the 30th of June stood at Rs. 157.6 crore and that include some long duration orders of Rs. 65 crore which will be executable over the next 2 years.

The Water business actually fared better. And while the gross revenues did dip, they were Rs. 52.89 crore and we did have an on-par performance and the PBIT number was about Rs. 3 crore. These are our consolidated results, and they include the performance of our wholly owned SPV. The slight decline in performance is, of course, due to the pandemic, where many projects which were under implementation were impacted due to the lockdown. However it is also important to note that due to pandemic, there were no major tenders that were finalized in Q1. And so we're seeing a great buildup in this quarter and over the next few months for government tenders to be finalized because water is something that is gaining quite a lot of traction and it is something that as I've always been saying, the investment potential in this sector is quite tremendous in our country. The outstanding order book on the 30th of June stood at just under Rs. 950 crore, which includes Rs. 477 crore towards O&M contracts, which are over a slightly longer period of time.

Turning very briefly towards the outlook; the Sugar business, the government is expected to announce a similar export program to the previous year. I think with a degree of certainty, we can expect this to happen. The question really is, will it be 6 million tonnes or will it be higher than that? I think we have shown that we can achieve 6 million tonnes. This is despite the problems during COVID times, the fact that ports were running at 40% capacity, yet we've been able to get outstanding numbers out. This is despite the fact that the raws price went under $0.10. Despite that, Indian sugar had a fixed export subsidy was able to find homes across the world. So very encouraging sign.

As far as the Gears business is concerned, there could be some deferment of orders on the domestic and international side. However, it is encouraging to see that OEMs internationally and domestically are aggressively sending in inquiries and looking to place orders on our business going forward. The company is exploring several new products and geographies so that we can expand this business and improve its turnover and profitability. And our research and development initiatives have actually gained a lot of traction during the quarter under review. So we hope that we will be able to actually capitalize on the work that is being done in-house in terms of expanding our business.

As far as the Water business is concerned, as I mentioned, we expect a large number of tenders coming back to finalization in the next 2 to 3 quarters. I think this is quite crucial. And we expect several new business opportunities in fiscal '21, and the business pace has geared up to tackle all of these issues.

Thank you very much. And of course, lastly, let me just reiterate that the Board of Directors of the company has approved the buyback of equity share value to face value of Rs. 1, not exceeding 61,90,000 equity shares, representing 2.5% of the total paid-up equity share capital of the company at a price of Rs. 105 per equity share in cash, aggregating just under Rs. 65 crore, excluding taxes, with taxes, it will be approximately Rs. 80 crore.

Thank you very much, and I look forward to your questions.

**Moderator:** Thank you very much. Ladies and gentlemen we will now begin the question-answer session. We take the first question from the line of Sanjay Manyal from ICICI Direct.

**Sanjay Sanyal:** Just few questions on the subsidy part. So you have booked a certain subsidy this quarter. What I understand, you have done 78,000 tonnes of export and you have only booked Rs. 5 crore related to this quarter. So is it safe to assume that approximately Rs. 75 crore would be booked in next quarter?

**Tarun Sawhney:** No. The export subsidy that we have booked is Rs. 57.6 crore and the subsidy to export sales that has been carried forward is Rs. 5.8 crore.

**Suresh Taneja:** Let me clarify we have booked all the subsidies pertaining to the exports carried out in the quarter in addition to subsidy which is pertaining to FY20 and only Rs. 5.81 crore is left to be booked in the subsequent quarter.

**Sanjay Sanyal:** And the one which will be exported next quarter, so that will be approximately 14, 15...

**Suresh Taneja:** Absolutely.

**Tarun Sawhney:** That's correct. Yes.

**Sanjay Sanyal:** And secondly, just want to understand what are the farmers' payment due and simultaneously, what are the inventory levels at this point in time?

**Tarun Sawhney:** So as I mentioned, our inventory levels are 54.35 lakh quintals on the 30th of June. And as of right now, our dues are just above Rs. 700 crore. We also expect over Rs. 300 crore to come from the Government of India in terms of our exports. So that reports a cash flow item. But we are very comfortable in terms of making these payments to the farmers. As of today, we seem to have no compelling reasons. However, we are waiting for a lot of dues. There are dues that are expected from the State Government as well. And as and when those come, we will pay them directly to our cane farmers.

**Suresh Taneja:** Tarun, a small correction. The actual cane dues are approximately Rs. 630 crore as of date.

**Tarun Sawhney:** Sorry, yes.

**Sanjay Sanyal:** As of today?

**Tarun Sawhney:** As of the 30th of June, it is higher. We have made payments in the month of July and early August. But as of June, they were above Rs. 700 crore.

**Sanjay Sanyal:** And you've mentioned that the sugarcane acreage has increased across the country. What would be the increase in your catchment area?

**Tarun Sawhney:** We've seen an increase in the low single digits.

**Sanjay Sanyal:** Which means that we expect a higher production next year or we expect to sacrifice some more sugar from the B-heavy side?

**Tarun Sawhney:** So I think you've raised an excellent point. Yes, it's too early to tell how much sugar will be sacrificed into B-heavy. If the price of B-heavy molasses or ethanol made from B-heavy molasses does rise, clearly it will be more attractive for us to aggressively look at a B-heavy or a bigger B-heavy campaign. This year, it is about 50%. We can certainly look at higher numbers.. The second point, of course, is that we have seen a larger number of licenses that have been issued by the cane commissioner's office in Uttar Pradesh for the unorganized sector, kohlus and crushers, etc. So we will see slightly higher levels of diversion. And this is pretty much even across the state. It's not necessarily just in our areas, but it is there. Now the biggest factor, of course, is the rainfall in East UP, our factory received excellent and adequate rainfall. Western Central, the rainfall has been slightly under average, which is not a bad thing, frankly speaking. We anticipate—looking at the net data, we anticipate—good amount of rainfall come in the next 4 to 6 weeks. As a result, we do not expect any water scarcity-related issues in our cane area. If that is the case, the yields will be excellent, certainly on par with last year, could potentially be higher, but it's very early to tell. We're in the middle of the grand growth period. In the month of September, we'll be able to give you a much better idea of what the quantum of sugarcane that we bear in the state and certainly with us.

**Sanjay Sanyal:** And lastly, if I just can ask what kind of OMC contracts you have done this marketing year and what are the expectations for the next year?

**Sameer Sinha:** So in terms of dispatches, we would be looking at about 10.5 crore liters, of which the contracts with OMCs, whether public or private sector, would be in the region of about 9.5 crore liters.

**Sanjay Sanyal:** So this 10.5 crore liters includes everything in the sense levy...

**Sameer Sinha:** Yes. It could be ENA and everything else also.

**Sanjay Sanyal:** And then next year, what is the expectation?

**Sameer Sinha:** So next year, accordingly, looking at our distillation capacity, this is virtually we will be producing about 11 crore liters, so we'll be running at 100%. So you can take your pick of around 9.5 to 10 crore liters is what we are targeting.

**Sanjay Sanyal:** So any more CAPEX on this side in the distillery front?

**Tarun Sawhney:** At this point, the Board has not approved any CAPEX. The only notable change is over the last quarter, we have, as I had mentioned, one of our distilleries had permission to operate up to 350 days. The second distillery has also received permission to operate 350 days. So you get a marginal improvement in capacity and total output, which is what Sameer has just mentioned. The increase is coming from our ability to operate for a few more days in a calendar year, the pollution clearance that we have been granted. But to directly answer your question, we do not have any plans at the moment to add more capacity. We have the capability of consuming all the molasses that is produced within the group within our facilities quite comfortably. Any further investments will be considered only when we see greater visibility on longer-term ethanol pricing. Without that, I had said this on our last call and also at several forums; I believe that it is still to set up fresh capacity for purchasing molasses from the open market, the payback is quite lengthy. And despite the attractive loans that is available from the central government, there has been very little off-take, very few projects that have actually come up under this business model. However, there are task forces that have been set up by the Government of India. It's important to note that. Very recently, the one was set up just on Friday, actually, and the first meeting of it happened yesterday and to look at longer-term ramifications and to create a robust ethanol economy in India. And of course, when one looks at that, the driving force has to be molasses and sugarcane.

**Moderator:** The next question is from the line of Rohit Sehgal from ICICI Securities.

**Rohit Sehgal:** There has been no update on buffer stock policy, where we have read that this will progress much in the favor of… so what is the latest update on this, on buffer stock policy?

**Tarun Sawhney:** Right. The government has not announced the buffer stock policy for next year as yet. We believe that it is under active consideration. But as far as next year is concerned, what are the various incentives that the Government of India will consider; it's still a big question mark. And you're right to raise this question that we have some opaqueness as far as buffer stock carrying on into the next year. It certainly exists. It's been raised by the industry associations with the Government of India. We hope to be able to have an answer soon. But I cannot offer you a definitive answer today because we don't have any indication from GoI.

**Rohit Sehgal:** Secondly, like in the long term, we are looking at Brazil sugarcane industry as a blue-print, you need to divert more of sugarcane juice into ethanol, like for diversion of sugar like for 4 to 5 metric tonnes. So are you in talks with the government for long-term pricing policy because only then like we can put more CAPEX in this as you need more storage capacities?

**Tarun Sawhney:** Yes, you are absolutely right. I think the storage capacities and all are smaller decisions and those will be made automatically. But the bigger decision is to set up large capacities to process sugarcane juice instead, which will be many times the size of distilleries that exist today which were classically set up to process final molasses, pre-molasses, very much in a Brazilian fashion. For that to happen without a long-term pricing policy and long-term supply policy, you will have very few takers. It will be only some opportunistic decisions that could be made. But in terms of generating a whole ecosystem and in ethanol economy, that won't happen, in my opinion, which is why I said to the previous speaker's question that there are committees that have been set up to look at this. And this is not just the Ministry of Food, it is the Ministry of Petroleum, it is MNRE, it is NITI Aayog. It is the various functioning departments of the Government of India that have an opinion on this matter. And it has been looked at very-very closely. And it's actually because it's two very important reasons. Number one, ethanol is the perfect fit into the agenda of an Atmanirbhar Bharat. It's very important to consider that if that is driving economic agenda, ethanol fits in squarely within those parameters, number one. And number two, energy security for us has always been a driving force for our nation and ethanol security as a subset of that will be very crucial. And so we will look over the next few years, ethanol will not just be for petrol but it will be blended into diesel, it will be blended into jet fuel and there can be various other forms and utilizations of ethanol. However, it needs a bedrock of policy and long-term policy, as you very rightly mentioned. Do I expect it to happen? Yes, but not overnight.

**Rohit Sehgal:** So it may happen in coming like 6 months or a year, we can expect some kind of long-term policy or not?

**Tarun Sawhney:** See, I can't comment on whether it's going to happen within 6 months to a year. If you say 6 months, I don't think so. I think these policy decisions take a longer time. There are so many stakeholders to consider. But it is something that when it happens, you will have a sea change in this particular ecosystem.

**Moderator:** The next question is from the line of Kaustubh Pawaskar from Sharekhan.

**Kaustubh Pawaskar:** Just from the sugar industry perspective, can we say that the structural story in the sugar industry has been improving or has been changing? And the cyclical nature of the industry is almost getting over, considering the fact that recovery rates are improving? The MSP hikes are supporting the realization and also now blending is also helping the production levels to stabilize. So can we say that the cyclicality nature of the industry is getting over?

**Tarun Sawhney:** You've asked a fully-loaded question, frankly speaking. In my personal opinion, yes, it is, but I would say it with a tremendous amount of caution, and I'll tell you why. The cyclicality of the industry has changed primarily due to the Central Government. It is because we have reverted to a quota system which has regulated supply into the market and we have coupled that with a minimum sugar sales price. That is absolutely essential because it is then trying to keep at least part of the industry head above water. It has been absolutely vital because otherwise, we would have fallen down as we saw just a few years ago falling down towards the international market prices when we had the complete free sale. So it is because of the supply side constraints that are being enforced by GoI that we have some sense of normalcy and we have a feeling that this cyclicality of the industry has gone away.

The other very important thing to note is that for the last 7 years we have not had a bad monsoon. Without the sugarcane across the country, I mean, in Uttar Pradesh less so. But for the rest of the country, it is hugely susceptible to the vagaries of the monsoon. And yet, we have not had a bad monsoon and luckily, we have including this year, not had a bad monsoon. Now that has ensured that you had pretty good and healthy crop pretty much across the country. And we've been able to meet the demand that has emanated from the country. So that's another very important factor that comes along with the whole cyclicality argument. Then the GoI incentive has come from time-to-time, including MIEQ, MAEQ, the buffer stock subsidy, etc., various other subsidies that have come from time-to-time to the state government have also served to even out this business cycle. And the attempt is actually quite clear that you have a stable environment where the farmer actually is also happy. and a farmer experience by the way, through the last few years has been a very positive one, where farm incomes have gone up at least twice, sometimes 3X, depending on where you are in the country. And this is because of the new varieties and the higher yields that have been propagated.

Now going forward, of course, it's important to consider that the rates are going to start multiplying dramatically over the next few years. Yes, there's been a lot of work. Finally, it has been done after 2- 3 decades of a hiatus in terms of developing not just one or two magic varieties but 10-15 different types of varieties and a lot of experimentation and research so that we don't have the trap that we fell into 10-12 years ago of having same varieties, and that's leading to cascading problems because of poor recoveries, etc.

Having said that, these recoveries that we have, for example in Uttar Pradesh for Triveni of 12%, the increase to that will be marginal. It's not that the increase can't happen, but there will be a marginal increase. Our journey is going from an average of 9.5%, 10% to 12%. That was a huge leap. That was a massive leap. But going forward, it's only going to be incremental. And there's going to be many other softer factors that could play a role in that, including transportation or the cut to crush times, some amount of variety change, development, a lot of farm engagement, etc. Those things will play a role in the incremental changes in recovery. So the trepidation that I would also like to mention over here is that you have cane price which is a big question mark and we had stability in terms of cane pricing, which has been a very positive factor, both at a FRP and in SAP level. The hope is that going forward that if there is to be any increase in cane price; it is coupled with an increase in the MSP. If you have that dual factor happening simultaneously and in a compatible manner, then you will be able to maintain this feeling that we have moved out of the classic sugar cycle. However, if that balance is disturbed, then there are a lot of question marks that will be raised. I hope that answers your question.

**Moderator:** Next question is from the line of Resham Jain from DSP Mutual Fund.

**Resham Jain:** I have a couple of questions. So first is just a book keeping question. Out of 54 crore kgs, which is a closing stock, how much of it is buffer stock?

**Suresh Taneja:** Buffer stock is approximately 13 lakh. But from 1st of August, there is no buffer stock available till the time the new scheme is announced.

**Resham Jain:** There is no buffer stock as of today, you can say ...

**Suresh Taneja:** Absolutely.

**Resham Jain:** My second question is on overall broader strategy. If we look at the cash flows, for example, last year also, this year also, we have a very healthy cash flow, and we are rightly doing buyback at the current price. But given the large cash flows which we are generating, the buyback seems to be a smaller amount. And from a next 3 to 4 years' perspective, the overall cash generation is going to be very-very large. So how are we going to use this cash flow other than the buybacks, the smaller buybacks which we are doing currently?

**Tarun Sawhney:** Excellent question. I would pre-phrase the answer by saying that during these calls we don't give forward-looking guidance. But I will say that the Board is contemplating various utilizations of our cash flows. We still have some debt in the company, as you have seen, plus we are evaluating certain projects. There are a few small projects that are very much underway. For example, we have invested in—it's a very small project, frankly speaking—the hand sanitizer. We are also investing in a country liquor unit, which will start operations within this quarter. And so there are various other business opportunities, not just within sugar but within our engineering businesses that will be contemplated for further expansion and growth of the company. But at this point in time, I'm afraid; I can't give you a definitive answer of what we're looking at simply because we don't make forward-looking statements.

**Resham Jain:** And just a related question is that if you look at the overall debt Rs. 1,247-odd crore which we have currently, if you can give a breakup that how much is like clean debt and how much is subsidized debt out of this?

**Suresh Taneja:** We have a term loan of Rs. 596 crore, out of which roughly about Rs. 475 crore is all soft and concession term loan, so major part is concession loans.

**Resham Jain:** So the clean credit which you are taking non-concessionary is roughly around Rs. 600-odd crore?

**Suresh Taneja:** No, I am first of all telling you about the term loans. In terms of term loans, our total terms are Rs. 596 crore, out of that about Rs. 475 crore is our concession loans. And in terms of working capital loans of Rs. 650 crore, there is no concession at all. I hope it's clear.

**Resham Jain:** Yes, it's clear. Actually, just relating it with the cash flow, there is some amount of debt which you will always see because it's seasonal in nature. So just trying to understand and obviously, we know that business is cyclical and there is a lot of government support as of today. Because the cash generation, if I look at this year, will be like closer to whatever Rs. 350-400 crore, and we don't know how the remaining Rs. 350 crore cash is going to be used because debt is available at a significantly cheaper cost. So, just trying to understand the whole use of cash, which I'm not clear with, actually.

**Tarun Sawhney:** So yes, I think you've raised a very important point. I'll give you my two sentences on this, and then I'm going to ask our CFO to also come in and share his views. Our perspective is to be cautious. Let me be very honest. We're at a point in time, when we're talking to you in the middle of Q2, where we don't know what's going to happen with next year's cane prices. We expect the FRP to be announced any time now. At this point in time, I think from a strategic perspective, it is always better to be cautious. When I speak to you 3 months from now, I think we'll be in a better position at that point in time knowing what the MSP and the SAP is, to be able to tell you exactly what our utilization of cash or projected utilization of cash could potentially be going forward. But at this point in time, it's best to be a little more cautious and to have that strategic headroom within the group. Suresh?

**Suresh Taneja:** Yes, absolutely.

**Moderator:** The next question is from the line of Urvija Shah from Isha Securities.

**Urvija Shah:** Its a bookkeeping question, what is the receivables from the government that we expect?

**Suresh Taneja:** As of date, we have roughly approximately Rs. 354 crore of receivables from the government for subsidy. And additionally, there are power receivables too.

**Urvija Shah:** And if at all, the promoters would be participating in the buyback?

**Suresh Taneja:** Yes, promoters would be participating in the buyback.

**Moderator:** We take the next question from the line of Udit Gupta, from Individual Investor.

**Udit Gupta:** What is our expected ethanol production for FY21?

**Sameer Sinha:** See, our annual capacity is around 11 crore liters and you can divide it approximately in a uniform manner across the various quarters. The capacity is about 11.20 crore. We'll be producing about 11 crore.

**Udit Gupta:** What could be our mix going forward from B- and C-heavy?

**Sameer Sinha:** This year, as we have mentioned, it's been around 50-50, but we need to look at the pricings which will get announced for the next tender and accordingly take a view, which we may skew it further towards B-heavy if it becomes more attractive.

**Udit Gupta:** What is the processing cost of ethanol per liter, sir, excluding the cost from molasses?

**Tarun Sawhney:** Mr. Taneja, would you answer this?

**Suresh Taneja:** I think roughly, the processing cost is about Rs. 8 to 9 per liter, which includes all variable and fixed expenses.

**Udit Gupta:** It includes interest depreciation cost as well?

**Tarun Sawhney:** Yes.

**Udit Gupta:** Is there any transportation cost to the AMC or is it paid by them?

**Tarun Sawhney:** So the transportation cost, they give on a slab-wise basis. However, the actuals of transportation is a little higher than what is reimbursed to us by the OMCs.

**Udit Gupta:** So we do incur a small portion of that cost?

**Tarun Sawhney:** Yes.

**Udit Gupta:** So this Rs. 8 to 9 includes that as well?

**Tarun Sawhney:** No, it does not include that.

**Udit Gupta:** It is not included in that.

**Tarun Sawhney:** But it is very small because we try and ensure that we are within the boundaries. In fact, whatever is the allowance that is permissible; the extra amount incurred is quite marginal.

**Udit Gupta:** Does this amount go down as we like go towards 11 crore liters or it's like more or less fixed at Rs. 8 to 9?

**Sameer Sinha:** No, it would be a combination. Can I answer that?

**Tarun Sawhney:** Yes. Go ahead.

**Sameer Sinha:** See, 11 crore liters is the total product mix. Now we would be making some ENA for ourselves, for our country liquor also and the rest will all go to Oil Marketing Companies, both in public and private sector.

**Udit Gupta:** I was just asking, is there any economies of scale playing out in this Rs. 8 to 9 or it's like more or less fixed?

**Sameer Sinha:** This is more or less fixed because we have one of the finest industry benchmarks in our operating efficiencies.

**Tarun Sawhney:** We're operating at near peak capacity. So all the efficiency that were available are already with us, to answer your question.

**Moderator:** The next question is from the line of Rajil Shah, Individual investor.

**Rajil Shah:** My question regarding about the government policy. You mentioned that there are a few ministries which are involved right now to making the ethanol economy which was not seen earlier. So is it safe to assume that the government is more focused right now and maybe we can see some more favorable action for the sugar industry sooner rather than later regarding the incremental ethanol capacity?

**Tarun Sawhney:** So first, bear in mind that, yes, I believe that there is a lot more talk and conversation at the Government of India level and with industry and industrial partners about the creation of an ethanol economy. We have seen this, and I have personally seen this coming out of the COVID crisis, the conversation has gone up quite a lot. We see a large number of ministries and departments that are having these conversations, and I'm personally involved at various levels and with various stakeholders in terms of evaluating this. The stumbling blocks are the acceptance of a long-term pricing and supply policy. And there are many concerns on that front from the various stakeholders and not all the stakeholders, frankly speaking, agree to have a long-term policy. So it will take time. It is something that has to happen, in my opinion, but it is something that will certainly take time. Will it happen in 3-6 months? Probably not. It will take a little bit longer. But the writing is pretty much on the wall that it will happen sooner rather than later. The second thing, of course, is that only once it happens, do we see the investment from the private sector in terms of larger ethanol capacities, first-generation, second-generation coming into play at that point in time. It's important for me to mention that because the establishment of an ethanol plant takes more than 12 calendar months, much more. It could take up to 24 months, if you have to go through the same lines of pollution clearance, etc. The groundwater clearance itself is a fairly complex issue as far as new industrial plants of this nature are concerned. So it will be for you to see the impact in terms of corporates deriving revenue from the new ethanol economy, I think for some time away.

**Rajil Shah:** So what kind of pricing do you foresee to put up any further CAPEX? I mean what kind of pricing commitment do you see from the government side which can help you guys to put up incremental capacity?

**Tarun Sawhney:** Well, it's not a matter of what one sees, it's what is present and prevalent is therefore everybody to see. So we know what the ethanol price is today, the C, B and juice. And we know what the tender quantities are. Those data points are clearly available. So the quantum that is asked for the Oil Marketing Companies is quite a lot more than what is supplied by the industry. And it cascades down between what the tendered quantity is, what is applied for, what is allocated, what is supplied. It cascades all the way down, which is why up to last month, we had only received 5% blending when we were looking at ethanol for this year. So frankly speaking, I think as far as future pricing is concerned, there is a formula apparently that exists within the government. I am not privy to that formula as a corporate in terms of establishing the ethanol price going forward. So what I understand, it takes all factors into account, including sugar price, sugarcane price and a whole host of other factors. It's a fairly complex formula, to my understanding. And so if we see changes in any of these variables, the expectation is that there will be a commensurate increase in the ethanol price as well. Now unless we see a disproportionate increase, I don't see large investments happening for new distilleries, rampant investments across the ecosystem, across the economy simply because the return needs to be accelerated by a few years. Right now, the return is approximately 6 years for a brand new plant.

**Rajil Shah:** And the CAPEX what you mentioned, the small CAPEX, so that will consolidate how much? I mean RS. 20-30-odd crore?

**Tarun Sawhney:** I'm sorry?

**Rajil Shah:** The CAPEX which you mentioned that the small CAPEX will be there, so that will be around Rs. 20-30-odd crore CAPEX or is any big CAPEX you are looking at?

**Tarun Sawhney:** Actually, the CAPEX has already been incurred. So there isn't any future CAPEX at this point in time. And that was to the tune of what you had mentioned, about Rs. 20 crore.

**Moderator:** The next question is from the line of Kaustubh Pawaskar from Sharekhan.

**Kaustubh Pawaskar:** Most of my questions have been answered. Just one, can you just again explain me on the export subsidy part? I missed out that.

**Tarun Sawhney:** I'm sorry. What is your question pertaining to exports?

**Kaustubh Pawaskar:** It is regarding the export subsidy, which you received of around Rs. 56 crore for FY 20 and another Rs. 5 crore for this quarter. So this Rs. 56 crore is for FY20 or it is the exports what you have done till now?

**Suresh Taneja:** The Rs. 57.6 crore that we have included in our revenues is for all the exports that were done up to that point in time. Rs. 5.81 crore is pertaining to export sales that were done during the quarter but will be booked only on fulfillment of the prescribed conditions.

**Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments. Over to you all.

**Tarun Sawhney:** Thank you very much, ladies and gentlemen, for joining us for the Q1 fiscal '21 results for Triveni Engineering & Industries Limited. I think we're at a very interesting point in time where we are coming out of COVID crisis. As far as our Engineering businesses are concerned, we are positive that we will come out safely and securely and we would see a return to better revenues and orders coming in. I think there's keen anticipation that there is something that, that will progress at a reasonable pace going forward.

As far as Sugar is concerned, there are very important decisions to be taken by the State Government of Uttar Pradesh and even more important decisions to be taken by the Central Government. We would see probably all of this playing out before we speak again for the Q2 earnings conference call. I think there is an element of positivity within the industry and I'd like to close this call by saying that we are very happy in the position that we're in as a group. I think the work that we have done on the ground with our farmers in terms of cane development, in terms of operating efficiencies will only allow us to eke out better efficiencies as we approach sugar season '20-'21.

Thank you very much. I look forward to speaking to you in approximately 3 months.

**Moderator:** Thank you. On behalf of Triveni Engineering & Industries Limited, that concludes this conference. Thank you all for joining. You may now disconnect your lines.