



Triveni Engineering & Industries Ltd. Q3 FY12 Results Investor/Analyst Conference Call Transcript July 30, 2012

Moderator Ladies and gentlemen good day and welcome to the Triveni Engineering & Industries Limited Q3 and nine-months FY12 results conference call. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during this conference, please signal an operator by pressing "*" and then "0" on your touch-tone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you sir.

Rishab Barar Good day everyone and a warm welcome to all of you participating in the Q3 and 9 months FY 2012 results conference call of Triveni Engineering & Industries Limited. We have with us today on the call Mr. Tarun Sawhney-Joint Managing Director and Mr. Suresh Taneja - CFO, Triveni Engineering along with other members of the senior management team. I would like to mention before we begin that some statements made in today's discussion maybe forward-looking in nature and a statement to this effect has been included in the con call invite, which was mailed to everybody 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 would like to start this conference with opening remarks from the management, followed by an interactive question and answer session where you can discuss your views and key issues. I would now like to hand over to Mr. Tarun Sawhney to share some perspective with you with regards to the company's operation and results for the quarter under review. Over to you Mr. Sawhney.

Tarun Sawhney Good afternoon everybody and welcome to the quarter ending June 2012 earnings conference call. Firstly I would like to start off with the performance overview of the quarter. Our net sales stood at ₹ 4.5 billion with an EBITDA of ₹ 712 million. The PBT during the quarter ending June 2012 was ₹ 145.4 million and the profit after tax stood at ₹ 120.7 million. The total debt position at the end of this quarter was ₹ 1,167 crore of which long-term position was ₹ 503 crore. Our finance cost was slightly higher and this was due to an increased working capital utilization and an increase in rates over the previous corresponding quarter which was 170 to 180 basis points.

I would now like to spend a little bit of time talking about our sugar business; with respect to the industry scenario, India's sugar production for the season ending September 30th 2012 is estimated by us to be approximately 26.2 million tonnes which is an increase of 7% year-on-year where the state of Maharashtra has produced more or less similar quantity and U.P. produced approx. 17% more at about 6.9 million tonnes which has led to this increase in production for this year. As far as U.P. is concerned the average recovery for the state stood at 9.1%, which

was marginally lower than the average recovery for the previous season of 9.14%. Western U.P. was the significant contributor for the decline in the average recovery across the state. On account of the higher estimates of sugar production for this current season the government has initially allowed exports of only 2 million tonnes in two equal tranches. Thereafter and a few months ago sugar has been placed under OGL thereby facilitating exports without any restrictions. It is our expectation that the total exports for the sugar year 2011-12 will be approximately 3.5 million tonnes. Broadly speaking we also estimate that the opening stock at the beginning of this sugar year will be fairly similar to the closing stock of this year as well. The government has also made several changes over the last quarter and the most important being is reverting to a quarterly release mechanism for free sale sugar thereby allowing flexibility to individual sugar groups to sell sugar at different points. Of course this has been changed as of last week where that restriction has now been lifted and we have been given specific targets for monthly sugar sales again despite having a quarterly quota.

Looking at the international markets, the world sugar surplus is expected to be about 8 million tonnes in 2011-12 and for the year 2012-13 we had originally estimated a decline of 3 million tonnes however given the rainfall pattern and the production over the last week or so in Brazil the current estimates are for no change or no fall or rise in the global surplus. Sugar prices internationally have been hovering between \$600-\$650 for crystal sugar, which are very healthy prices and that has facilitated a large amount of the exports from the domestic market. Sugar pricing domestically has been very robust since the beginning of this quarter based on a 45 lakh tonnes release, sugar prices have shot up steadily and even touched as high as ₹3,450-3,500 per quintal momentarily and then have settled around ₹ 3,425-3,450 levels in Uttar Pradesh, this is for Western and Eastern Uttar Pradesh but Central U.P. being slightly lower. We will of course talk about the sustainability of these prices and answer questions on that front.

Regarding the next season we forecast a production of 25 million tonnes for the country as a whole which could fall to about 24.5 million tonnes based on the monsoon. One has been of course privy to a large number of reports that have been coming out by the Cane Commissioners of the various states, etc., and while signs do point to 24.5 million tonnes of production, a lot of it is dependent on the monsoon over the next three to five weeks. We have of course had adequate rains at our factories in North India and in Uttar Pradesh the rains are expected only in July and over the last 2.5 to 3 weeks we have an adequate rainfall in both West U.P. and in East U.P. Also over the last three months the management has focused a large amount of attention on cane development, on the propagation of new and improved varieties and of course enhancing the productivity of the crop for the next year. One of the main benefits of this intervention has been the eradication of any of these diseases and pests that have come up and the tracking of it in a most thorough manner therefore we anticipate that for the next year we can expect to see an increase in our recovery and in our crush for the group.

Lastly, the sugar division has also invested in some minor capital expenditure during the last few months, the expenditure has been on two accounts, firstly we have set up incidental co-gen at our units in Milak Narayanpur and in Chandanpur and secondly we are converting our Sabitgarh factory in district Bulandshahr into a refinery. Looking at our co-generation business one brief comment that our season during the last quarter was very short and we operated for a few days in the month of April.

The distillery business on the other hand has had one of its best years ever, this is only 9 months in, but still we estimate it to be the stellar year for this particular business where we have achieved higher realization and higher profitability for the entire business given our product mix of ENA, Ethanol and RS.

Looking at our engineering business I would first like to talk about high-speed gears business, the sales for this business has come in at a ₹ 182 million with the PBIT margin of 25%. During the quarter and the nine months under review both the turnover and the profitability in absolute terms have been lower and in line with the capital goods industry however as you will notice our profit margins have not declined at any point and this is due to a large amount of efforts being put in to value engineering and into reducing costs and maintaining profitability. The order intake for this quarter has been at ₹ 212 million while the outstanding order book is marginally higher compared to the previous quarter at ₹ 635 million.

Regarding our water business, the business has been focused on providing world-class solutions as you know in the water and waste water treatment space to customers in industry and in the municipal segment as the business has gained strong recognition and is in the high potential markets and is a supplier of superior quality products and services. For the quarter under review, we had a net sales of ₹ 413 million with the PBIT margin of 6%. The point to note is that we had ₹ 90 crore of fresh order in-take in this quarter taking our order booking to ₹ 180 crore for the nine-month period.

With that being said I would like to open up the floor for questions and answers.

- Moderator** Thank you very much sir. We will now begin with the question and answer session. We have the first question from the line of Ravichandran from Unifi Capital, please go ahead.
- Ravichandran** Could I know the inventory level of sugar as for June this year and June last year?
- Suresh Taneja** Total inventory is 25.12 lakh quintals as of 30th of June this year which comprises of levy of 3.51 lakhs. Now with regards to the last year figures, we don't have it readily available here, can we pass it on to you in a little while please?
- Ravichandran** And what is this valued at?
- Suresh Taneja** Levy is valued at levy and free sugar is valued at ₹ 31.50.
- Ravichandran** This is not specific to Triveni but the general question is the industry following the release mechanism given by the government over the last couple of months or just holding back the stock and not supplying to the market?
- Tarun Sawhney** I don't think it is possible to hold back stock. The penalties for holding back stock is very severe, it means conversion of free sale quota into levy. We can only speak for our group, the Triveni group has been selling all the sugar that has been released to us and if you ask me about the industry, it is highly unlikely the sugar has not been sold regarding the quota that has been given across-the-board.
- Ravichandran** We are hearing that corn prices are hitting an all time high and corn production is very low in US and the antidumping duty from Brazilian manufacturing units has also been lifted. Will this change the international prices of sugar in any manner?
- Tarun Sawhney** I guess corn, the assumption that you are making is the corn being converted into ethanol in the United States and that having an impact on the ethanol pricing in Brazil which thereby has an impact on the sugar production in Brazil. It is a very fast step to establish a correlation that far along. Frankly speaking the Brazilian production has resumed, sugar production has resumed to a higher level than it was at a month ago and therefore prices have tempered from \$ 650 to about \$ 615 as of the close on Friday.

Moderator The next question is from the line of Devang Mehta from Canara Robecco, please go ahead.

Devang Mehta Actually I wanted to understand what the industry wide inventory would be?

Tarun Sawhney Industry wide inventory of sugar?

Devang Mehta Yes.

Tarun Sawhney Our estimated inventory for the end of the sugar year is going to be about 8.3 million tonnes.

Devang Mehta Would that be sufficient for four months?

Tarun Sawhney This is as of September 30th 2012, for an inventory balance as of the 30th of June I don't have that readily available for the industry at this time.

Devang Mehta So if I want to make any assumption about the prices going forward, the demand for sugar would be around 23.5 million tonnes and we expect around 24.5 million tonnes, right?

Tarun Sawhney For the following year?

Devang Mehta Yes.

Tarun Sawhney It is difficult to establish what actual consumption is. I would leave that to your best estimate. However in the scenario that you have painted, there is an excess of about a million tonnes in terms of growth of the stocks. That frankly speaking is very little. One thing that is important to understand is that there is some more confidence that is coming back into the trade, traditionally if you look at the trading of sugar over the last 5-6 maybe even 10 years, about one million to two million tonnes has always been absorbed by the trade in form of the supply chain. Now that frankly speaking with a lot of what has transpired over the last few years has actually disappeared. So the trade especially over the last 2-2.5 years has only when dealing on a hand to mouth. Traditionally for a product like sugar there has to be a pipeline and for any agricultural products like this there should be a pipeline. It is in the benefit of the consumer as well as the supplier to have that pipeline with the confidence coming back into the sugar sector, we can see a million-two million tonnes being absorbed by this pipeline slowly and steadily over the next few months. So frankly speaking any increase or slight increase in the overall demand supply scenario over the next 12 months can very easily be absorbed within the pipeline, in fact more than the million tonnes that you pointed out can be absorbed by the pipeline in our estimate.

Devang Mehta If I want to look at the pricing scenario which is around ₹ 34 right now and the inventory levels stay at the same level and if by the logic that you mentioned that this excess production would be absorbed by the pipeline we would still be having sufficient amount of inventory for the season going forward, which means the pricing of around ₹ 34 would not be sustainable.

Tarun Sawhney No I think we do have sufficient inventory, you are absolutely right. However our view is that the pricing of about ₹ 3,400 or the prices that we are currently experiencing is the sort of average price that one can expect going forward. Then of course our small ratifications for month-to-month So there will be a slight variation from this price. But over a long-term period one can really estimate this price as a sustainable price looking ahead for the next few quarters.

- Devang Mehta** I would like to understand how conducive is the cane crop if the rainfalls are below normal. Rainfall levels in West U.P. are already below 40-45%. How do I get an idea of how the pest attack would-be or to what extent the rainfall would affect the cane crop as the media report states that U.P. acreage for sugarcane has gone up. What would be the affect of sucrose content on lower rainfall?
- Tarun Sawhney** It is very difficult to estimate what the impact will be because it depends on the quantum of rainfall. The expectation from the Met department and from our own experts is that we will receive rainfall especially in the areas where we have our factories in western, central-west and eastern U.P. over the next few weeks. The one very important point to remember is that as far as the area west of Bijnor in Uttar Pradesh is concerned the primary source of irrigation is still canals. So the network of canals and rivers that exist in this part of our state is plentiful with respect to irrigating sugarcane fields. Other parts of Uttar Pradesh will be more affected if the monsoon does fail. That is with respect to sugarcane yield and of course by correlation if we don't have the rainfall then you won't have the grand growth period and you will have some impact on recovery. With respect to your question on insect and pest, it's been a double edged sword with a hotter period that has continued for a long period of time, your traditional pest that you had, does not exist, your borers etc., have been under control, however, it has resulted in some bug infestations, etc., which are very much under control so at least in our factory the moment we noticed it, we have undertaken the relevant activities in order to get that under control.
- Devang Mehta** If the FRP prices that have come for sugarcane are 17% up what is our expectation for SAP prices in U.P. for the season?
- Tarun Sawhney** It is very early to tell where we are dealing with a new government and we are hopeful that the government will look at the plight of the industry with respect to all the factors that it faces today and comes up with a price that is viable for both the industry and for farmers. One of the points that I would like to mention with relevance to your previous question, if we go back and look at 2006 and 2007 where there was a massive drought across the country, the Maharashtra production fell staggeringly, which is also being forecasted not to the same extent but this is being forecasted in the media these days. However the recovery in U.P. was significantly higher than what it has been forecasted and in the year-to-year comparison. So it is also important to look at what are the previous trends been over the last 10 to 15 years as well.
- Moderator** The next question is from the line of Trilok Agarwal from Birla Sun Life, please go ahead.
- Trilok Agarwal** What is your assessment on the yield impact that we could have due to erratic rainfall in the northern India and second is if you could also tell me what is your estimate of open inventory for the next season?
- Tarun Sawhney** Our estimates for the opening stock for the next season is 8.3 million tonnes and to answer your question about the the impact of rainfall, now it really depends on access to canals and river water so for example in parts of Punjab, the sugarcane belt in Haryana, western Uttar Pradesh, the western part of central Uttar Pradesh, these will remain relatively unaffected with a poor monsoon. It is central U.P., eastern U.P., Bihar that will be the most affected by a poor monsoon in those parts. Having said that over the last couple of weeks there has been quite a lot of rainfall and across the state it is fair to say that on an average the sugarcane blocks have received two full irrigations which frankly speaking at this point in time is adequate.
- Trilok Agarwal** Just to reconfirm you said 8.3 would be the opening inventory for next season?

TarunSawhney Correct.

Trilok Agarwal That includes 3.5 million tonnes exports that you are talking of season?

TarunSawhney Yes.

Trilok Agarwal Maybe I am getting it wrong but at the opening remarks you said 3.8 million is the opening inventory so not sure that was correct or this is correct.

Tarun Sawhney No I said 3.5 million is the total exports.

Moderator The next question is from the line of Nirav Vasa from SBI Cap, please go ahead.

Nirav Vasa My first query pertains to the ratoon cane, would it be possible for you to give us some idea on the ratoon cane in our catchment areas?

Tarun Sawhney The ratoon cane at this point appears very healthy. The impact of any pest and insect has been the lowest in the last 5 or 6 years and even all of that has been very much under control and therefore the crop is very healthy. The tillering on ratoon has also been very good so far and we are hopeful with timely irrigation and timely dosage of pesticides and fertilizers over the next few months we can expect a very good ratoon crop for the next year.

Nirav Vasa Coming to the cane pricing, last year the cane pricing was around ₹ 240-250 a quintal across U.P. and my assessment is that majority of the mill owners are not able to make any money by selling sugar. Whatever profit they have reported, it is mainly by either distillery and co-gen operations, am I right in my assessment?

Tarun Sawhney You are absolutely right, I mean with that particular price and with what the average sugar realization was at least for the first nine months it was a great challenge for the sugar operations.

Nirav Vasa Considering this kind of scenario if the government asks you to pay a higher price for cane which was traditionally been the trend in U.P., how do you think industry can cope with it?

Tarun Sawhney If you recollect the few of my statements just a few minutes ago, I mentioned that we anticipate average realization around the same levels that we have today in which is ₹ 3,400 per quintal over the next several quarters. Now the average realization if you know for the previous nine months was significantly lower, ₹ 4 lower and therefore if you do have any increase, I do not anticipate a very significant increase in cane price, may be ₹ 5-10 something like that at the maximum, if not keeping the prices the same that coupled with the fact that you have a higher average realization will allow the industry to take out the small profits from sugar operations only.

Nirav Vasa So if I assume that the price of around ₹ 255 to 260 per quintal, at that price do you think the farmers would be satisfied with the cane prices that they might be getting?

Tarun Sawhney I don't see why not, I anticipate that if things go well we should have a better yield than we had last year and therefore the return to the farmer from per hectare of land will be higher, at least I am speaking of farmers in our areas. West U.P. last year was a very challenging place to operate in, where there was massive disease, etc., and it shows in the performance. This year those factors do not exist at this point in time and therefore the return to the farmer would be much higher from sugarcane even with the marginal or no increase in sugarcane pricing.

Nirav Vasa My second query is related to your engineering business. In your engineering business are you witnessing any pricing pressure or some kind of unhealthy competition in industry?

Tarun Sawhney I will separate the question into two parts. With respect to our gears business we are not experiencing any unhealthy competition. Yes it is the challenging market but we are being able to get sufficient orders and we are in the market on a daily basis and we are not experiencing anything with respect to what you just said. With respect to our water business I will ask my colleague, B.K. Agarwal, to answer.

B.K. Agarwal In the water business the competition is very much regional barring large projects and in regional jobs sometimes unhealthy competition does appear but there is a phenomenon which has been there and we have seen in last 10 to 15 years time this competition really vanishes with time.

Nirav Vasa Overall what my understanding is that now with the order finalisation coming in at slower pace the intensity to bag orders has increased and this results in unrealistic pricing. Are you sensing some hints of unrealistic pricing in the water business?

B.K. Agarwal The pressure on the orders will come more on the industrial side whereas on a municipal side we do not see any let down in the orders being finalized because a lot of funds have been there in the World Bank, ADB, JICA and even the JNNURM development related, we got money, the expectation of JNNURM getting revived with much larger allocation of money even for water so we don't expect that the water market on the municipal side will see anything lower than what it has been last year's time but yes industry and particularly power you are right there could be a pressure on the order finalizations and slowdown for the next 6 months to 12 months' time till issues are sorted out at the power sector level.

Nirav Vasa My last question pertains to you and gear business. In the gear business would it be possible to share with me the industries from which you are getting order inflows?

Tarun Sawhney We have three broad segments; the first one is the high-speed which goes primarily to OEMs such as Triveni Turbine Ltd, Siemens, and BHEL. So these gear boxes are used in the power sector, they are used with turbines or compressors, etc., in whichever industries those products are used. The second is the area of refurbishment so there are the existing gear boxes where we service which is a much higher margin business and that again comes from all industries, from power plant, sugar factories, petrochemical plants, fertilizer, paper, etc. The third line of business is a low speed business which is a smaller business which is scheduled to grow quite a lot over the next few years and over there we have seen some orders coming from the marine sector, a very few from iron and steel and from a few other low speed sectors as well.

Nirav Vasa But overall is the pace of inquiry still the same or it is also showing some fatigue there?

Tarun Sawhney It depends from quarter-to-quarter, last quarter there were some signs of fatigue. I have been told that this quarter it will resume to previous levels where we would be able to make a claw back on whatever fatigue there was in the previous quarter. Generally capital equipment has experienced a tough time over the last 3 to 5 months. One can estimate that this will carry on for maybe a month or two and we do expect the signs of revival. The other important point over here is that we have started focusing a lot more on exports especially within the ASEAN region and that in itself is bearing fruits. We can see that in terms of the inquiry base. Our inquiry

base, it has never been larger and I anticipate there is a much larger proportion of our revenues, going forward will come from export revenue.

- Moderator** The next question is from the line of Sunil Jain from Nirmal Bang Securities, please go ahead.
- Sunil Jain** Two questions. One is related to how many days has our plant operated in the current season?
- Tarun Sawhney** Are you talking about our sugar business?
- Sunil Jain** Yes sugar business.
- Tarun Sawhney** Our factories operated anywhere between 130 to 145 days on average for all services.
- Sunil Jain** If I am not wrong our total capacity is 61,000 TCD, correct?
- Tarun Sawhney** Correct.
- Sunil Jain** If I calculate it works out our production is 51.2 lakhs tonnes?
- Tarun Sawhney** Yes.
- Sunil Jain** So effective days will work out an average around 84 days.
- Tarun Sawhney** You are trying to work out capacity utilization.
- Sunil Jain** Capacity working.
- Tarun Sawhney** You don't necessarily function at full capacity in each plant all the time. The total cane availability even last year was of course lower than what we would ideally like to have. So frankly speaking if you do have a lower quantum of cane, if you operate a sugar factory what you want to do is, you want to spread it out in the most efficient possible manner and the most efficient possible manner is not necessarily crushing at your peak capacity for a shorter period of time rather it is to spread it out over a slightly longer period of time and to crush at a lower than maximum capacity and that usually leads to the most efficient functioning.
- Sunil Jain** But if I compare it to one of your peers who has the capacity of even more than you, if I just calculate the total production of sugar from their plant and our plant there is a huge difference between that, why is that?
- Tarun Sawhney** That may very well be because of the total cane availability in their area versus the cane availability which is available to the factory. You have to also account for diversion so last year in terms of west U.P. there was a massive amount of diversion. We are estimating that this year the availability will be more in our areas, we will be able to manage diversion better and therefore the same metrics that you are using, if you will do that comparison again one year from today you will find a closer comparison if not much better.
- Sunil Jain** You mean to say the current year which is the season which will be starting after September?
- Tarun Sawhney** That is correct.

Sunil Jain But the last year which was gone was not so great in the availability of cane.

Tarun Sawhney Because in west U.P. there was a massive influence of pest and disease which lead to a significant fall in the availability of cane to the factory, that actually impacted our overall numbers and metrics that you are calculating, very significantly especially with respect to our two largest factories at Khatauli and Deoband and not to the average for the rest of the group.

Sunil Jain So next year are we assuming that U.P. production is likely to be higher by 5-7%?

Tarun Sawhney Yes.

Sunil Jain And in our company we maybe growing by 20%?

Tarun Sawhney It is very early for us to put an estimate to that but we will certainly look at 10% in terms of overall sugar production.

Sunil Jain Second question was related to the international sugar prices; how do you picture that now that it has again bounced back a lot, so do you see still they can move up or can we see some consolidation over the year or can it even come down?

Tarun Sawhney Our view is that the prices are very robust, the chances of it falling very substantially are low over the next few months. Having said that we are in the middle of the crushing season in Brazil and based on the rainfall over the next two months we will be able to tell exactly what is the position in terms of pricing. But for the next two months it is fair to say that prices will hover between the 580 to 650 mark which is a very good price frankly speaking.

Sunil Jain A relevant question to this is that what is the exports parity price from current price right now. The current price in your market is ₹ 34 but from Tamil Nadu or Maharashtra where the people are exporting what are they realizing on an export basis?

Tarun Sawhney We haven't calculated that, it's a matter of simple arithmetic of converting rupees into dollars. You can assume a price of ₹ 3,100 – 3,150 for Karnataka, Maharashtra and Tamil Nadu and then work it out based on what your current prices are.

Moderator The next question is from the line of Kaushik Poddar from KB Capital Markets, please go ahead.

Kaushik Poddar I just want to find out what is the cost of production of sugar per kg?

Suresh Taneja It is ₹ 30.6 this season.

Kaushik Poddar And what is the kind of debt repayment that you have in mind for the next year?

Tarun Sawhney Roughly about ₹ 125 to 130 crore.

Kaushik Poddar That is on a long-term debt you are saying?

Tarun Sawhney Yes.

Kaushik Poddar Long-term debt was around ₹ 500 crore for this year?

Tarun Sawhney Exactly.

Kaushik Poddar So that will be around ₹ 400 crore at the end of the next season?

Tarun Sawhney That's right.

Kaushik Poddar ₹ 375 to 400 crore

Moderator The next question is from the line of Abhilasha Satale from Techno Shares & Stocks, please go ahead.

Abhilasha Satale I just want to know what is the current scenario as far as arrears are concerned because as we have discussed in our previous call that many of the mills are not making money in sugar, they are basically making cash flows from by-products. So this has also led to arrears in the industry. So what is your view on that and will it impact farmers sowing in the next season?

Tarun Sawhney The sowing for the next season is completely over. So it is not going to really impact the availability and production of sugarcane for next year from that perspective. However having said that we have about ₹ 100 crore of cane payment outstanding which we intend to make going forward over the next few weeks.

Abhilasha Satale This is in perspective for the industry or for Triveni Engineering?

Tarun Sawhney The whole industry has arrears and I am talking about the arrears of Triveni Engineering.

Abhilasha Satale Across the industry what is the figure like? Are arrears in U.P. or even in Maharashtra building up?

Tarun Sawhney I don't track that but the data will be available from the cane commissioner's offices.

Abhilasha Satale But have you seen this has been building up like as compared to the last previous cycle?

Tarun Sawhney Actually it is coming down, the arrears at this current season were higher and mills have continuously paid down there arrears. So every few weeks these arrears are disappearing, it is very positive going forward.

Abhilasha Satale Recently we have also seen gur prices going up as compared to sugar prices, sugar prices have reacted but prior to that even gur prices have gone up. So what is your assessment as far as drawal rate is concerned for this season because last year we have seen that a maximum drawal rate for sugar was around 75-76% so would gur prices going up impact the drawal rate for sugar?

Tarun Sawhney Our estimation is that the total quantum of sugarcane that goes to the unorganized sector to gur and khandsari, it very rarely varies so it's the same quantum that goes. So if you have a higher yield you have more availability for sugar factories. In the parts of U.P. where we are present the quantum that goes to the unorganized sector doesn't really change. So for us the way this benefit is increasing the yield because thereby the entire increase in yield comes to our factories. So what I'm trying to say to you is that the total drawal on a higher yield will go down if you are looking at percentage terms because in absolute numbers it doesn't change.

Abhilasha Satale One more clarification on the inventory figure, you said that 8.3 million excluding exports?

Tarun Sawhney Including exports end of season.

Abhilasha Satale So this is available for disposal.

Tarun Sawhney Correct.

Abhilasha Satale 26 million tonnes is a production estimate what we are calculating, minus 23.5 is our consumption on an average then 6 million tonnes was the inventory what we were carrying over?

Tarun Sawhney What I am not commenting on when you are doing the sugar balance sheet, I am only looking at the releases by the sugar directorate. Now it is up to you to really look at how much have been sold over and above the release. The total releases estimated by the sugar directorate are only 21 million tonnes. However consumption is almost definitely higher than 21 million tonnes, you are assuming its 23.5 million tonnes. So all of this is over and above the release mechanism and part of it goes into the pipeline, part of it gets consumed. Since there is no statistically accurate way of giving you what is an absolute consumption. I think my numbers depending on who you speak to, vary considerably. So I am only using government supplied data in order to tell you what the closing stock is. Very honestly, whether that is with the mills, with the pipeline or with the consumer, there is a portion of that, that could change out of the 8.3 million, about 2 million out of that could be here or there.

Moderator The next question is from the line of Aman Sonthalia from Suvridhi Capital market, please go ahead.

Aman Sonthalia Can you tell me how is the prospect of production for the coming season as far as Karnataka and Maharashtra are concerned?

Tarun Sawhney I believe that the production in Karnataka and Maharashtra will be down next year. I'm afraid we don't really track the rainfall patterns on the ground, our mills are all in Uttar Pradesh so it is very difficult for me to give you an accurate estimate.

Aman Sonthalia Our cost of production is ₹ 30.50 around, this includes the interest and administration costs also?

Suresh Taneja No it does not include the interest cost.

Aman Sonthalia And how much have you taken for molasses and bagasse?

Suresh Taneja No, this cost of production is after taking into consideration the money we make after selling molasses and bagasse also.

Aman Sonthalia How much you have taken the price?

Tarun Sawhney I don't have it readily available with me but it is a net figure, ₹ 30.6 is the net figure.

Moderator The next question is from the line of Sunny Agarwal from Aditya Birla Money, please go ahead.

Sunny Agarwal Two questions. The first one on ethanol pricing since the government has announced ₹ 27 per liter, what is your outlook on that and based on what the Rangarajan Committee, now that it has a stated formula. So what is your

expectation on what will be the next price and second question is on your thoughts on the likely ban on sugar trading in the future market, what is your take on that?

- Sameer Sinha** Regarding ethanol pricing, it was a Saumitra Chaudhuri report and this has come out with the fixed-price plus the formula also with ceiling and prices over there. It is in discussion at the very senior level in the government so probably the prices will get announced over there. But we expect a higher price coming for ethanol and once that happens this will also translate into a higher pricing for ENA, RS and all the other segments of alcohol.
- Sunny Agarwal** Don't you think seeing the chemical industries opposing this, there could be restriction on the front of government to increase prices?
- Sameer Sinha** That is one of the reasons why this report has been delayed so much so we would not like to comment any further, let the government take a decision on this.
- Tarun Sawhney** Regarding your second question about the ban on future trading, we would hope that we have the freest market possible but one understands that the government has all tools to regulate prices within its purview. Our hope is that we have the freest market and a most competitive market going forward for this industry.
- Sunny Agarwal** But historically once the government has banned these futures so at that time have you witnessed any short-term pressure on sugar prices post this ban?
- Tarun Sawhney** Not necessarily because the trading volumes have been so thin, look at the NCDEX and MCX the quantum of sugar being traded, is all secondary market trading.
- Moderator** We have the next question from the line of Baidik from Unifi Capital, please go ahead.
- Baidik** Baidik here. Just a follow-up question, just wanted to understand your price indicators and lead indicators, you have estimated ₹ 34 for the year because given that monsoon constraints are well taken, the sugarcane acreages in India have actually gone up by about 10% as of last week. So would like to understand the lead indicators that has led you to believe that this ₹ 34 might be a realistic average for the year?
- Tarun Sawhney** Fairly simple, you have got a very good quarter in terms of Q1, traditionally you always have much higher prices, it is a festival quarter plus you have the north Indian millers that only starts their production by the 15th of November when sugar is only available to be sold in the market by the first week of December, so that quarter is traditionally a much better quarter. It's the next two quarters where production comes into full swing and we see prices weaning and then of course the 4th Quarter again with large number of festivals including Ramadan, etc., and prices tend to rise. Now going forward the reason why I am painting a picture about this pricing, I don't see it going higher than this, I don't see it going very much lower than this is because of the rainfall pattern. Now one can assume that all of this has been factored in to current pricing. Having said that if we do still continue with exports, there will certainly be some exports in the month of October and early November as well out of this season's quota from the southern manufacturers and therefore we will have the same kind of balance sheet going forward in the next year as of the close of this year. A balance sheet that doesn't really increase stocks in the country and does not reduce stocks in the country, that is point one. The second point is I mentioned a little bit earlier is the confidence that is coming back to the industry and coming back to the agents of the industry, I foresee that over the next 12 months the pipeline will once again become a little active, there will be

some amount of stocks that the pipeline will keep between about a million and 2 million tonnes. What this does is it offers a larger degree of stability of pricing. If one looks at the last decade and estimate the pipeline stock over the last decade, whenever pipeline stock have increased you have found a greater degree of stability of pricing. So there is a large combination of factors that lead me to believe that this would be the average pricing for a U.P. based miller.

Baidik If you just help me understand the macro picture of this, the acreage for sugarcane right now we have got 57 lakh hectares if I have got my figures right, is there a historical precedence of price discovery going by the supply which is in turn function of acreage that will probably give us sense of comfort as to where the numbers might end?

Tarun Sawhney The first point is that our estimate is 52 lakh hectares and not 57 so we are off by 5 lakh hectares, your figures versus ours and if you then factor that into the availability of sugarcane and sugar produced you will find that your balance sheet numbers change accordingly and therefore don't give an increase or a decrease in stock.

Baidik So in other words given that it is going to stabilize at about 52 lakhs hectares for the year, everything else being a constant ₹ 34 looks realistic is that what you are saying?

Tarun Sawhney Correct at an average price, it means that you will be higher and you will be lower.

Baidik I mean what is the realization for just U.P. for the quarter gone by?

Tarun Sawhney Our realization was ₹ 30.4.

Moderator As there are no further questions I would now like to hand the floor over to the management for closing comments.

TarunSawhney Thank you ladies and gentlemen for joining us, for the Q3 & 9M FY12 results of Triveni Engineering & Industries Limited. I look forward to speaking to you again three months from now and I hope you have a good day.

Moderator Thank you. On behalf of Triveni Engineering & Industries Limited that concludes this conference.