



Triveni Engineering & Industries Limited

Earnings Conference Call Transcript

November 30, 2011

- Moderator** Ladies and gentlemen good afternoon and welcome to the Q4 & FY2011 Earnings Conference Call for Triveni Engineering & Industries Limited. As a reminder, for the duration of the conference call, all participants' lines are 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 assistance during this conference call, please signal an operator by pressing "*" and then '0' on your touchtone telephone. Please note that this conference is being recorded. Joining us on the call today are members of the senior management team at Triveni Engineering and Industries Limited. At this time I would like to hand the conference over to Mr. Rishab Barar. Thank you. And over to you.
- Rishab Barar** Good day, everyone and a warm welcome to all of you participating in the Q4 & FY2011 Results Conference Call of Triveni Engineering & Industries Ltd. We have with us today on the call Mr. Tarun Sawhney -- Joint Managing Director, Triveni Engineering & Industries Limited; Mr. Suresh Taneja -- CFO 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 may be forward-looking in nature and a statement to this effect has been included in the conference 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 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** Thanks you Rishab. Good afternoon ladies and gentlemen and welcome to our year end September 2011 earnings conference call. For the fiscal year 2011 the consolidated financial results are as follows: Our net sales stood at ₹ 17.07 billion and our EBITDA stood at ₹ 2.01 billion. Profit after Tax stood at ₹ 222 million after an Extraordinary charge of ₹ 122 million. That equated

to an Earnings per Share of ₹ 1.34 before the Extraordinary items. The Board has also declared a dividend of 20 Paise per equity share which is 20%.

The Engineering business had an increase of 17% in Net Sales and a strong outstanding Order Book of ₹ 5.2 billion. In terms of specific highlights there was a Technology License renewal in the High Speed Gears business where we are entering the gamut of Low Speed Gear manufacturing and we have increased our portfolio within High Speed Gears.

In the Water business, our largest Water order is under execution.

Within the Sugar business prices were muted during the previous year. The Sugar business PBIT stood at ₹ 529 million vis-à-vis loss of ₹ 222 million in the previous year. Despite the cane price announcement for the season in 2011-2012, the operating performance is expected to be better. We are expecting improved Sugar prices which should offset the increased costs.

The Scheme of Arrangement involving the demerger of the Steam Turbine business to Triveni Turbine Ltd, (TTL) has become effective as of the 21st of April 2011 from the appointed date on the 1st of October 2010. The financials of the quarter and the year-ended 30th September 2011 do not include the financials of the Steam Turbine business and are not comparable with the previous period or previous year.

A few more details regarding the year gone by: Our Sugar business turnover was lower by 6%, primarily on account of lower Sugar realization and lower production of power and alcohol. The Sugar average realization was lower by 6% on a year-on-year basis. Even though the SAP was higher by ₹ 40 in the 2010-11 season the overall cost of production was lower by 6% resulting in the Sugar business recording a PBIT of ₹ 529 million against a loss of ₹ 222 million in the previous year. This impact was also due to the lower levy obligation in the previous year.

Co-generation income was lower on account of the lower Sugarcane crush and the non-operation of co-generation during the off-season due to the unviability of coal prices.

The sale of CERs could only be effected after the close of the financial year and therefore ₹ 40 million revenue would be recognized in Q1 of fiscal '12 on account of the sale of the CERs from our Deoband unit up to May 2010. The issuance and the sale of balance CERs due upto February - March '11, and RECs for Khatauli unit and Deoband unit for the crushing season 2011-2012 are also expected in this financial year.

The Distillery operations in the last year were also impacted due to procedural restrictions on the movement of molasses. Having said that the Distillery achieved a better realization and therefore higher profit before interest and tax of ₹ 90 million.

Looking at our Engineering business the Gears business achieved growth of 19% in turnover and 21% in PBIT with record PBIT margins of 35% for the full year. The business had two major breakthroughs during the year. Firstly, the renewal of the high speed license agreement for a period of 12 years,

which covered additional products and geographies. This business is getting good response from the OEMs for the new products and we are expecting to be the preferred suppliers in our new product lines as well.

The second notable development was the signing of the Technology License Agreement with Lufkin to enter into the niche low speed segments of gearboxes in the Rubber and Plastics industry, the Steel and Metals industry, the Marine industry and the Coal Pulverizer industry. The business is scaling up in terms of infrastructure to take advantage of the new products and geographies by investing in manufacturing through the addition of a few state-of-the-art equipments as well as strengthening of our human resource teams in marketing, product development and design both domestically and internationally. The outstanding order book is robust at around ₹ 690 million and the order inflow during the past year was also quite healthy.

In our Water business, the business recorded a growth of 16% Year-on-Year although the initial estimates were a little higher. This was primarily due to the delays in the Engineering clearances, site preparation and other issues that needed to be sorted out from the client side. As the company started executing larger projects whose execution period was more than 12 months there was some lumpiness in revenue recognition and therefore in profitability as well on a Quarter-on-Quarter basis.

The business is currently undertaking its largest project, the Agra Municipal project, the work of which is underway and we believe that in fiscal 2012 the billing from this project will be significant. The order booking in this business has been slightly lower than our earlier estimates, not many projects of the size that we were aiming at were finalized during the previous year. Having said that the order intake has been more than ₹ 100 crore during the year and these orders were primarily from the Industrial segment. Our primary clients last year were in the Power sector and that sector as you all know faced some amount of slowdown and sluggishness. The order book stands at ₹ 450 crore and this, of course, includes the O&M order book as well.

Looking forward I would like to take some time and talk about our Sugar business for this fiscal year as well as our Engineering businesses. With respect to Sugar it is our estimate that India will produce between 25 and 26 million tonnes of Sugar. A notable development has been the government's announcement of 1 million tonnes of export recently as well as the withdrawal of the stock limits for trade as of 30th November 2011. We estimate a further 1 to 2 million metric tonnes of export of Sugar for the year. The possibility of this future export will serve as a positive, in terms of stabilization of domestic prices.

Sugar prices are currently around ₹ 33 for new sugar and slightly lower for the sugar that has been carried forward from the previous year and we expect them to remain firm on the account of exports and the removal of stock limits for the next few months. The UP government has announced an SAP of ₹ 240 for general variety cane and ₹ 250 for early maturing variety cane.

The Industry Association has taken up the case of cane pricing and the matter is pending before the Lucknow bench of the Allahabad High court.

With respect to our crushing Triveni has started crushing in 6 of 7 of our facilities. We have better recoveries as on date compared to last year, and this is a result of the efforts that have been made in cane development and in farmer relations last year and, of course, these are continuing efforts going forward. We estimate a higher production than the previous year by about 15% to 16% which is based on our estimates of yield and recovery. However, we will only be able to give more accurate estimates once the crushing season is in full swing.

Weather, as you know, plays a very important factor in these crucial months in the determination of yield and in recovery, and in the past few years, we have seen what is commonly known as the January effect, we are hopeful that the initiatives that we have taken with respect to cane development, farmer interaction and operational improvement both from supply chain perspective and from management perspective will allow us to achieve our growth target for this season. Diversion has been happening albeit at a slower pace than compared to last year. The diversion price in West UP is about ₹ 210 and in Central UP is about ₹ 190 per quintal of cane and therefore with the higher price payable, the higher SAP we find that the total diversion is significantly lower than last year, and there has been a reduction in the number of Kohlus and crushers that are operating within our regions this year as compared to last year.

The Co-generation and Distillery production during the year should be higher in line with our higher crush of sugar. We have also taken some balancing CapEx last year and this has resulted and we are seeing it as the season is underway in terms of higher bagasse saving in our units. The Distillery has been in operation since September 2011 and there have been seamless production from the off season to season and there are good volumes that we produced in October and November.

Coming back to the sugar operation there has been of course a continued focus in cane development in partnership with the farmers, this will help reduce our cost of production by improving the early variety cane getting higher Sugar from Sugar varieties and we are seeing that as the season continues. The last point is that in the Sugar business, we, of course, expect a large debt repayment of about ₹ 125 crore during this year and this will be the position as of 30th of September 2012.

With respect to the Engineering businesses the outlook is positive. Our Gears business order book as I mentioned is ₹ 690 million as of 1st of October, which has expanded significantly in October and November with our margins remaining intact. Infrastructure expansion is underway and we have also expanded our sales and marketing teams with a local setup in some South East Asian countries. Of course, there is a challenging investment climate, and there is some slackness in the economy and that has resulted in some amount of order finalization delay, we have factored these delays into all our calculations and still remain positive. Part of that reason is due to the enhanced product portfolio and enhanced geographical portfolio for our Gears business.

With respect to the Water business the outlook is positive given the investment climate. We have established credentials in the Power sector and in the Municipal sector, courtesy which we will be targeting a larger number

of projects this year. The Agra project as I mentioned would be operational at some point this year.

Funding from JICA and ADB is continuing and we see that projects that were delayed in the last year will be and are very close to finalization in Q1 and Q2 of this year. We are confident of maintaining our margins going forward in our Water business as well and we estimate that our growth for our business will be higher in the industry average. With that I would like to open the floor for some questions and answers. Thank you very much.

Moderator Thank you very much sir. We will now begin the question-and-answer session. Our first question is from the line of Karthik Subramaniam from Unify. Please go ahead sir.

Karthik Subramaniam Could you tell us bit more on the SAP impact and what would be the case outcome, what is the direction of the case? I believe that the UP Association has actually filed a case against the government that is one question. The other question is if Sugar prices remain at ₹ 33 and what will be our realization and with the levy, what do you think the actual cost of production for Sugar would be for the season?

Tarun Sawhney With respect to the case, as you know, the matter is subjudiced at the Lucknow bench of the Allahabad High Court and we are expecting the hearings to continue next week. The Association has contended of course that the price that has been fixed is arbitrary and of course is very high. It is very difficult to figure out exactly what is going to happen and what the outcome of the case will be. So let me leave that aside. As far as our budgeting is concerned we have assumed the price that has been declared for our own budgets and calculated our financial statements accordingly and so I can speak to you a little bit more based on those assumptions. Our cost of production for Sugar produce this year will be between ₹ 2,900 and ₹ 2,925 per quintal of Sugar. So if prices remain for new Sugar around ₹ 33 mark per kilo, one can expect some robust margins, however, I must caution you that the prices at this point are in my opinion temporary and we will certainly see prices coming down and being tempered as the season continues. The extent of that tempering of course is a big question. Clearly, the fact that the government may announce additional exports and additional measures for price stabilization will go a long way in assisting the P&Ls, balance sheets of sugar companies, and, of course, of Triveni. I anticipate that the tempering in price will only be to the extent of about a ₹. 1 to ₹ 2 for the rest of the year.

Karthik Subramaniam Is it not your cost of production a bit lower? Because last year if you look at it the cost of cane was about ₹ 20.5 and our final cost of production was something like 27.2 which was an addition of crushing and all it worked out to about ₹ 6-6.5 and I think if you see mathematics for this year it should work out to something like ₹30.5 per kilo?

Tarun Sawhney The cost of production does not include our finance cost.

Suresh Taneja This is at the PBIT level based upon our estimated crush and recovery and taking into consideration SAP of ₹ 240 it works out to be about ₹ 29.25 for us at PBIT level.

Karthik Subramaniam Do you get something at PBT level?

Tarun Sawhney The finance cost is fairly evident, once you deduct the finance cost out of the gross contribution you ultimately come to the final profitability.

Karthik Subramaniam What will be the closing stock of Sugar which we have at the end of 30th September?

Tarun Sawhney 11.3 lakh quintal.

Ravichandran I am Ravichandran, I have a question, two years back when the Sugar production was very low at 18-19 million tonnes figure everybody want the government to import the Sugar but the government took its own time. Even the last year for the export the government will take its own time they never moved ahead of the curve, they take their own time. Just for the sake of argument if the government does not allow additional export of Sugar in the near future, do you think the Sugar manufacturers will maintain some discipline as far as the price is concerned, or you cannot hold huge inventory, the industry as a whole because irrationally for six years back whatever price you want to get you have started selling it whether that can happen theoretically?

Tarun Sawhney The possibility of collusion is absolutely out. We certainly do not participate in any form of price fixation or collusion. I will answer your question which is a very good one what happens if the additional 1 to 2 million tonnes is not exported? Now if I put myself into the position of the government without knowing how crushing is going on across the country, it is very difficult for the government to actually release more Sugar for exports. We have received the 1 million tonne export at a very timely moment and that certainly has impacted prices as you can see. Now going forward, I anticipate that the next tranche of exports be it 0.5 million or 1 million tonnes will only be after February 2012 once there is a very, very good idea of what the production would be and 60 to 70% of production in North India is complete. So prior to that I personally do not estimate and in our price estimations going forward I have used that assumption in giving you our anticipated realizations for the coming year.

Ravichandran And could you share some highlights on the situation in Brazil and Thailand after the floods?

Tarun Sawhney The situation in Brazil has been factored in by the international markets as we all know. The weather and the resulting loss in crush have already been factored in the current international prices. Having said that the crush for the next Brazil crop is expected to be substantially higher than this year. We anticipate that Brazil will return to its highest ever levels of crush for the following year and therefore that has also been factored in and has tempered international prizes which are around about \$604 per metric tonne. With respect to Thailand the floods have been devastating. The impact not only on agriculture but also on infrastructure has been devastating. So Thailand which has always been an exporter of crystals as well as raws will face significant problems in meeting the requirements of its natural export partners. That of course leaves a good opportunity for the sugar that will be exported from India, from Maharashtra probably and from the coastal states.

And we see that those traditional markets for Thai sugar will be looking at 150 of ICUMSA Sugar or refined Sugar from India over the next couple of months.

Ravichandran Do you have any figures to quantify that what will be the impact in Thailand because of the floods?

Tarun Sawhney I am afraid we do not.

Ravichandran Could you just tell me what is your estimate of the Brazilian crop for the season?

Tarun Sawhney I am afraid we do not give out estimates. The estimates that we too rely on are from the international Sugar organization and from other such bodies, which I'm sure you have access to.

Moderator Our next question is from the line of Kaushik Poddar from KB Private Limited. Please go ahead.

Kaushik Poddar This is in connection with ethanol, what is the current price you are getting and what is the kind of percentage blending that you are supposed to do, and is 10% happening as the way the government has decreed?

Tarun Sawhney It depends from state to state. I will answer the second part of your question first. It depends on state to state. The actual blending is in mandate of course it is 10% however, in various states you have different percentages of blending that are happening. We are moving towards that 10% mark. As far as Triveni is concerned we have only offered a lower percentage on alcohol to the oil marketing companies which equates to about 29% of our production. This is because of the quality of ENA which we are producing at our distillery which is considered by the industry as one of the best and superior most quality. As a result our ENA prices are above ₹ 35 per liter.

Kaushik Poddar But you are supposed to get ₹. 27 from the government, isn't it?

Tarun Sawhney The ENA price is about ₹. 35. The ethanol price is ₹ 27.

Kaushik Poddar Is government thinking of revising this ₹ 27?

Tarun Sawhney Absolutely. Dr. Sumitro Chaudhary's report which has been submitted, we are waiting for those recommendations to be adopted. The oil companies we believe are agreeable to a formula that links ethanol price with the fuel prices and so we anticipate that there will be an increase in the ethanol price, however when and how and the mechanism is very fluid at this time.

Kaushik Poddar This revision will be for 11-12 or it will be for future years?

Tarun Sawhney The revision will be for the future and we anticipate that if it does happen one can see this year the possibility of getting between ₹ 30 and ₹ 31 for ethanol price. The important part of getting ₹30-31 is that it will form the base for all the other distillery products. So for the manufacture of RS, for example, or extra neutral alcohol or the ethanol price in our opinion will serve as a benchmark.

- Kaushik Poddar** So all the other products will have an upward lift, if that happens?
- Tarun Sawhney** Precisely, it will serve some kind of a floor.
- Kaushik Poddar** And in your opening remarks you had talked about a 16% growth this year?
- Tarun Sawhney** That is correct. Our initial estimates point to a 16% growth in Sugar production for Triveni.
- Moderator** Our next question is from the line of Aman Sontalia from Suvidhi Capital Markets. Please go ahead.
- Aman Sontalia** I have some reports about UP that there is some problem with the yield also and the recovery is also low in some part of UP. Is this information correct or incorrect?
- Tarun Sawhney** I can only speak for our own factories, and we have six out of our seven factories that have started. We are getting better recoveries at the same time as compared to the last year. Now with respect to yield, the increase in yield that we have forecast for our factories a large portion of this increase has to do with the cane development activities that we have done for our farmers. So we especially have a very comprehensive list of cane development initiatives, 12 in number and off-line we are happy to share all the various things that we are doing across our units and they have resulted in a significant increase in yield. Now, cane development can only be for a certain portion of area, it cannot be for the entire area, but when we look at things on a consolidated basis, we see that our yields for return are certainly higher than they were for last year. There is a significant improvement especially in our new factories where the improvement is significantly marked. With respect to plant yield very frankly speaking it is very early to tell because the plant crop is immature, it relies very heavily on sunshine, on variation in temperature in the month of November, in the month of December and in January before it is harvested and crushed in February. So it is very early to tell. The initial signs are that we will get at least the same crush from the crop as last year. We are anticipating actually higher yields in our newer factories at least, but it is very early to tell. The ratoon however is well under swing and I can happily report that the yields are better.
- Aman Sontalia** As you have said there is a cost of production is around ₹ 2,925 per quintal. So sir, whether you have included the depreciation, administrative cost and interest in this costing, and what is the price of Bagasse and molasses you have taken to calculate the costing?
- Suresh Taneja** This is purely a PBIT cost of production, not taking into consideration the finance cost, and all other costs are included herein, so as far as byproducts are concerned we always do it in market related prices.
- Aman Sontalia** What rates you have taken to calculate this ₹ 2,925?
- Suresh Taneja** You mean the byproducts?
- Aman Sontalia** Yes.

- Suresh Taneja** We have gone in the basis of actual realizations of last year.
- Aman Sontalia** What was the realization last year?
- Suresh Taneja** I think average in the case of molasses was approximately ₹ 200 and in the case of Bagasse about ₹ 140.
- Aman Sontalia** Is the company holding any shares in Triveni Turbine also?
- Tarun Sawhney** Absolutely. The company has a shareholding of 21.8% of the equity of Triveni Turbine and of course the profit from that 21.8% will flow to our P&L.
- Aman Sontalia** What is the saturation point of Sugar in India? The highest production which India has produced so far is around 280 lakh tonnes and as per your view what is the maximum production which India can produce?
- Tarun Sawhney** You have asked a very, very good question. We spent a lot of time actually analyzing this. The maximum production of Sugar, the 28.3 million that was produced a few years ago was the highest by a large, large margin. Now, given agronomic practices that are currently in place, given the fact that farm holdings, land size is reducing, coming back to those levels of production will be a challenge going forward without any massive changes in agronomy or in policy. So if you assume that there won't be any change in policy or in agronomic practices, to get back above 26.5 million figure will be a very, very significant challenge in the years forward.
- Aman Sontalia** If I go with the data, most of the time I find that some figures show that the consumption of sugar is 30 lakh, some figure shows that price around ₹ 240 and some of the data is 230-220-215, what is the actual figure as per your view?
- Tarun Sawhney** Our view is that the consumption of Sugar is about 22.5 million tonnes and the growth in this figure is significantly under debate but the factor that one has to always look at is the pipeline. Now the stock limits will be removed as of 30th of November as I mentioned in my earlier remarks, and therefore the opportunity for the growth of the sugar pipeline across the country, which has traditionally been between 1.5 million tonnes to 2 million tonnes will take place over the next few months.
- Aman Sontalia** How is the Water division doing and whether the company is anticipating any big order going forward?
- Tarun Sawhney** The Water division is poised to close certain jobs in the Q1 and Q2, for which the bids are already under discussion, and these are certainly large jobs which we have been doing and almost on the size of what we're doing for the Agra job.
- Aman Sontalia** Any new order we are expecting right now?
- Tarun Sawhney** Same thing, in Q1 and Q2 we should be getting at least one or two jobs of Agra size.

- Aman Sontalia** As you have stated in earlier remark that Brazil is expected to produce highest sugarcane production but as ethanol price is quite high do you anticipate a diversion of cane into production of ethanol higher than compared to the last few years?
- Tarun Sawhney** Brazil is very fluid. My comments were directed at the total cane availability. Now the split between Ethanol and Sugar is a very dynamic situation in Brazil and it is not simple as turning a tap on and off, but there is the possibility of big swing between Ethanol and Sugar. That of course is dictated by future prices. I think, it is very early to tell and I think the Brazilian manufacturers themselves will be taking a call for next year in Q1 calendar year of 2012.
- Aman Sontalia** What is the current Ethanol price in Brazil and what is the realization they are getting?
- Tarun Sawhney** The realization they are getting is fairly remunerative of course it is very, very significant, it can't really be compared with Indian realizations at all, and all the data of course is available on the trade exchanges.
- Aman Sontalia** Last year recovery was around 9.2% for Triveni, this year you're anticipating better recovery. So how much better recovery you are anticipating, around 0.2 or 0.3 or something like that?
- Tarun Sawhney** It is very early to tell, our crush this time is with better recoveries than last year so I am happy to report that we are anticipating much higher recoveries but to actually put a number around it whether it would be any of the numbers that you just mentioned is, it's very difficult at this time, a lot can change. I will be happier to talk about our estimate for recoveries at our next earnings conference call next year.
- Aman Sontalia** So you have taken the costing with the recovery of last year?
- Tarun Sawhney** We have taken costing with a marginally higher recovery that we are anticipating this year.
- Moderator** Our next question is from the line of Kamlesh Kotak from Asian Markets. Please go ahead sir.
- Kamlesh Kotak** Going by estimates which you just shared like a cost of production should be something around ₹ 29.25 and realization should be somewhere around ₹ 33, should we assume that going by the last year's production we should be operating the reporting profit in Sugar business maybe ₹ 50 crore upwards?
- Tarun Sawhney** Ideally I will be very happy to say, yes, but what I mentioned is that the current Sugar realization is ₹ 33 for new Sugar and ₹ 32 to ₹32.25 for old Sugar from the previous year. This, I anticipate to be stable for the next 30 to 60 days after which I would say that there will be a gradual decline in realizations as the production comes on full force and we can complete numbers coming out of Maharashtra, Maharashtra sugar coming to North India the numbers out of Gujarat, Karnataka and the rest of the country. So I think there would be a decline in sugar prices after the month of January.

This decline can be tempered by timely government action and I am hopeful that we will see additional exports at the correct opportunity going forward.

- Suresh Taneja** I must also add over here that ₹ 29.25 is only at PBIT level, you have the finance cost, etc. thereafter and also the levy Sugar would be at a loss. You had to arrive at a correct arithmetic to find out whether there will be a profit or not.
- Kamlesh Kotak** Roughly what could be the average estimate of the Sugar price let us say for the next year we should take, something around ₹ 30 we can say?
- Tarun Sawhney** I think that one should look at an average, perhaps just north of ₹ 31.
- Kamlesh Kotak** How is our debt shaping up? We are having still a high amount of debt. Is there any chance of getting further higher from here, or we could bring it down?
- Tarun Sawhney** Very good question, we have plans of repayment of ₹ 125 crore of debt in this fiscal year.
- Kamlesh Kotak** I wanted some colour on Gear business. How that is shaping up in particular with the kind of industrial CapEx flowing. So we see any pocket that are beginning or any traction in some pockets or how is the outlook for that business?
- Tarun Sawhney** It is a good question. There of course has been a loss of traction domestically with some economic softening. We have seen that and that equated really not in terms of a lack of orders, but in a delay in order finalization. The two significant developments from last year are two license agreements with Lufkin Industries that has opened up new geographical areas and new product segments. So as far as counterbalancing and actually expanding on our business from last year we are very keenly poised. We are expecting orders from South East Asia, from East Africa and from other regions where we have recently entered and that will all account to what is growth for that business. The low speed license agreement as I also talked about earlier we anticipate that a good chunk of our order booking for this year will come from the new low speed license agreement and that will equate to a very substantial increase in the following fiscal year from just the low speed business. So the Gears business as a whole is well poised and we have a good order book, we are conservative in that, we actually exclude from the order book orders that we feel that could be delayed and that the customer will be late in execution, and as a result we are very confident that we will be able to deliver growth and we will be able to deliver the same profitability as well.
- Kamlesh Kotak** I wanted to get more specific kind of an idea in terms of any factors which you can just break up in our revenue profile which are looking to be strong and which are looking to be weak?
- Tarun Sawhney** Absolutely. With respect to the segment in our Gears business we divide them up primarily into 4 product streams. So you have our OEM business. The OEM business is looking stagnant perhaps slightly lower, some of the

other smaller OEMs have faced a pinch in terms of their order books. Our Replacement and Refurbishment Solutions is growing as compared to last year. Our Hydel business is growing fairly substantially when compared to last year. And the last business is our Low Speed Business and that business the gestation period or rather the delivery period for those orders is longer than our 6 to 7 months period for traditional high speed gears and so we see a significant growth in our order booking whether that actually fructifies into revenues this year, a portion of it will, a small portion, but it will really flow into revenues in the following year. So all in all there are certainly good positives in our Gears business despite the fact that there is softening domestically.

- Kamlesh Kotak** And how much of the overall CapEx is coming from the OEM side or revenue, OEM and Refurbishment, particularly?
- Tarun Sawhney** About 60% is OEMs and about 22% is Refurbishment.
- Kamlesh Kotak** And the remaining is equally divided between the rest of the two, Hydel and Low Gear?
- Tarun Sawhney** That is correct. That was the profile for last year, of course it will be different this year, and it will be considerably different in the years to come.
- Moderator** Our next question is from the line of Anup Ranadive from Derivium Traditions. Please go ahead.
- Anup Ranadive** My first question is pertaining to the export quota, did we have any export quota for the previous season and have we sold the export quota?
- Tarun Sawhney** Yes, we have sold the export quota from the previous tranches, and that has been accounted in the previous fiscal year.
- Anup Ranadive** Could you give us any sense of the volume and the price at what we have sold the quota?
- Suresh Taneja** The total export profit was around ₹ 17 crore.
- Anup Ranadive** And quantity?
- Suresh Taneja** I think it was just under 3 lakh quintals.
- Anup Ranadive** And in the current 1 million tonnes of export quota are we expecting any kind of sales from that quota?
- Tarun Sawhney** At this point we anticipate that we will get under 200,000 quintals of sugar for export. Of course the profit from that will come into this quarter or the following quarter as and when the export happens.
- Anup Ranadive** My second question is regarding the sugar prices, from the end of Q4 to the current month, prices have increased by close to ₹ 4 per Kg, that is about 15%-odd. In your sense what was the reason for the price to increase so sharply?

- Tarun Sawhney** When the sugar balances come down across the country and prior to the start of the season especially in North India, every year in the month of November we usually see a firm increase in prices, every year we anticipate it, because of this one particular reason. In addition to that you also have the holiday effect, you have the holidays of Dussehra and Diwali which are high consumption periods for sugar and also further propel the price, as a second factor. The third factor for this 15% increase in prices is also the declaration of the cane price in UP. So the higher cane price has to have some percentage of impact on Sugar prices.
- Anup Ranadive** With the prices increasing sharply by 15% did we see any volume tapering off because of that?
- Tarun Sawhney** The volumes are fixed by the Sugar directorate in terms of monthly sale quotas, so you do not really see any tapering of volumes.
- Anup Ranadive** That can always get rolled over, right, when typically the inventory is the left over from the allowed quotas, so does that always happen?
- Tarun Sawhney** It cannot get rolled over. When you get a monthly quota you have to sell that sugar in that month, you cannot roll it over.
- Anup Ranadive** Or does it go to levy?
- Tarun Sawhney** That is right, it goes to levy if you roll it over.
- Anup Ranadive** My final question pertains to the current scenario. You gave us a very good understanding of how the production is going to pan out and what your expectations of the prices are. So in your view do you think that the export quota announcement by the government will be the key factor determining the Sugar prices at least for the next two quarters?
- Tarun Sawhney** You mean the current export quota or the future additional?
- Anup Ranadive** Future export quota, you said it could be between 1-2 million tonnes depending on how the season progresses. So if it is 1 million tonnes or 2 million tonnes, would that be the game changer in terms of sugar prices in your view?
- Tarun Sawhney** One has to of course appreciate that what the figure 1 to 2 million is up to September 30, 2012, so I do not anticipate that in Q1 or Q2 we're going to see anything more. I think the government as I mentioned earlier will start reviewing the situation in February and any further exports perhaps a small tranche to help the industry based on the pricing at that time may come in Q2, however, I really am hopeful that in Q3 we will see significant action on the part of the central government with respect to exports.
- Moderator** Our next question is from the line of Kashev Harlalka from BHH Securities. Please go ahead.
- Kashev Harlalka** Good afternoon sir, at the outset, the numbers are like very surprisingly we did well this quarter. It has to be looked in the backdrop of Balrampur Chini and the other sugar majors reporting a significant loss. Balrampur Chini

reported a loss of ₹ 20 crore and we showed that we are not just a Sugar business and there are also Gears and the Water business contributing and the numbers are heartening to say the least. Now at the current point in time with this new SAP of ₹ 240 courtesy Mayawati, are we breaking even, are we making money with the rise in sugar prices or we are losing money, can you give us some sense of what is happening currently?

- Tarun Sawhney** Firstly, let me thank you for your kind words they are much appreciated and motivating for us. With respect to current prices at ₹ 33, clearly, there is a profit based on our forecast for the ongoing season, however, as I mentioned earlier I do not believe that ₹ 33 pricing is maintainable. Our prices on our books for carryover stock was somewhere in the region of ₹. 27.4 a kilo and of course we had 11.6 lakh bags. We are selling our old Sugar stock which is being sold at a profit.
- Kashev Harlalka** And what is the new pricing with this new levy in cane if we could get a sense on that?
- Tarun Sawhney** We are not selling new Sugar at this time, however, the new Sugar prices at the current season Sugar prices are in the region of ₹. 33 per kilo.
- Kashev H** No, what is the cost after ₹ 240 taken into account if we have to pay ₹ 240 obviously, we will be contesting that, but say if we have to pay that what would be the new costing be?
- Tarun Sawhney** Our cost of production not including interest is about ₹ 29.25.
- Moderator** Our next question is from the line of Abhinav Mansingka as an investor, please go ahead.
- Abhinav Mansingka** Good afternoon. A couple of questions. You have shared 15 or 16% production target for the current year. Could you share some sort of cane crush goal?
- Tarun Sawhney** The increase in production of Sugar is a combination of cane crush and better recoveries. It would not be correct at this very early stage of the season to report such minute break ups, because we have of course assumed an increase in crush and better recoveries in arriving at our growth in Sugar balances or production. So in our next quarterly conference call I will be happy to discuss this in a little more detail but at this time it is too premature, only six or seven of our factories has started and started very recently.
- Abhinav Mansingka** Maybe if you could do that in a backdrop of how you expect UP to do and maybe whether you will be able to increase or stay flat as compared to UP as a state?
- Tarun Sawhney** Let me put this into a different perspective. The growth in sugar production that we are anticipating is primarily from our new Sugar unit; the one that has been set up in the last decade, 4 of them out of the 7. At these units we have spent a lot of money, lot of time and lot of effort in cane development in the propagation of sugarcane amongst farmers persuading them to move from their traditional crops and approach and embrace sugarcane and we

have been successful. The results of this and with this high cane price one has to also understand that the cane price that has been announced is a big motivating factor for farmers, and for farmers to also deliver their cane to the sugar factory versus diverting it to alternate Sugar or to alternate sweetener manufacturers. So a combination of all these factors has been taken in and has resulted in our guidance so to speak of 15% to 16% increase in Sugar production.

Abhinav Mansingka One last question from my side, this is with regards to your Co-gen and Distillery operations. I notice that your integration efforts have so far been restricted only to Khatauli and Deoband, wherein relatively newer plants there is absolutely no integration with regards to Co-generation and Distillery? Could you just talk us through the strategy and any plans going forward in the future with this?

Tarun Sawhney For the new plants, of course, it makes sense to look at Co-generation, once they are able to consistently achieve a high level of crush. The last few seasons have been fairly tumultuous as far as the industry is concerned with varying crushes, with capacity utilization also on a daily basis varying very significantly. All those factors go against a good and well operated Co-generation facility. We are confident and as we anticipate even for this year and going forward achieve higher levels of crush we would then look at these projects in the future. At this time, of course, we have no such plans, we are in a very precarious situation. This year is a challenging year, and it is a difficult year to actually foretell what's the result would be, because there is litigation pending, there is weather that can go for or against the sugar factories and so it is very difficult to comment at this time.

Moderator Our next question is from the line of Aman Sontalia from Suvidhi Capital Markets. Please go ahead.

Aman Sontalia What is the average cost of debt and what is the quantum of current debts and long-term debts?

Suresh Taneja As of 30th September 2011 our long-term debts are around ₹ 546 crore and working capital is about ₹ 280 crore, and our average cost of debt is approximately 10% for the year 2010-11.

Aman Sontalia And what is the anticipated interest costs for the year 2011-12?

Suresh Taneja I think that is a million-dollar question. There are too many thoughts on that particular issue. In my opinion the interest costs actually cannot be more than what is prevailing as of now. And in fact, one of the views is that after a few months the interest would actually start climbing down. So to what extent it happens is very difficult to tell as of now, but I think we are fairly confident that it cannot be more than as it is now.

Aman Sontalia What I'm asking is that the interest rates which is prevailing right now, if it remains at the same level, what will be the interest working for the company?

- Suresh Taneja** Earlier we have given you the information that term loans to the extent of ₹ 125 crore will be repaid during the year, and we have a total debt of ₹ 825 crore as of now and however I must also tell you that our working capital at the year end is not a reflection of the total working capital utilization during the year because of the fact that it is a seasonal industry, you have peak build up of stocks and then these stocks are sold during the course of the year. So roughly speaking one should take approximately about 60% of the value of the stocks as the average utilization for the year.
- Aman Sontalia** The total interest burden will be around the same, which we have paid during the last year that is 2010-11?
- Suresh Taneja** I think very roughly it will be the same, because on one hand interest rates could be a little higher than what we experienced in 2010-11 but also it will be offset by the term loan repayments during the year.
- Aman Sontalia** Is there any sugar development fund loan in the books of the company?
- Suresh Taneja** Yes, it is also there in the books of the company, but slowly and gradually it is getting repaid also.
- Aman Sontalia** One more question what happens to the case which the industry was expecting a rebate from the UP government for setting up a new factory, is there any development on that front?
- Tarun Sawhney** That case is subjudice and is pending in the Supreme Court and there has been no notable development as of date, we are expecting the hearings to continue in regular course, and we are still hopeful for a positive outcome.
- Moderator** That was the last question. I would now like to hand over the conference over to the management for the closing comments.
- Tarun Sawhney** Ladies and gentlemen thank you very much for joining us for our Year-End September 2011 Earnings Conference Call. I look forward to engaging with you in January or February of next year.
- Moderator** With that we conclude the conference. Thank you for joining us, you may now disconnect your lines.