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Sub: Transcript of Analysts/Investors Conference Call held on 25th January, 2023	

Dear Sirs,

Pursuant to Regulation 46 of SEBI (LODR) Regulations, 2015, please find enclosed transcript of the Analysts/Investors Conference Call held on 25th January, 2023, post announcement of unaudited financial results of the Company for the quarter and nine months ended December 31, 2022. The transcript is also available on the website of the Company at www.trivenigroup.com

You are requested to kindly take the same in your record.

Thanking you,

Yours faithfully,
For Triveni Engineering & Industries Ltd.

GEETA BHALLA
Group Vice President &
Company Secretary
M.No.A9475

Encl: As above

Triveni Engineering & Industries Limited

Q3 & 9M FY 23 Earnings Conference Call Transcript
January 25, 2023

Rishab Barar: Good day everyone and a warm welcome to all of you participating in the Triveni Engineering & Industries Limited's Q3 and 9M FY 23 Earnings Conference Call. We have with us today, Mr. Tarun Sawhney, Vice Chairman and Managing Director; Mr. Suresh Taneja, Group CFO; Mr. Sameer Sinha, CEO Sugar Business Group; 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 everybody 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 following an interactive question-and-answer session.

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

Tarun Sawhney: Thank you, Rishab. Good afternoon, ladies and gentlemen, and welcome to the Q3 and 9M FY 23 earnings conference call for Triveni Engineering & Industries Limited. The overall performance of the Company for the nine months ended December 31, 2022 has definitely been satisfactory.

The key highlights, I would like to discuss that before we get into the business-wise details are the following: The sugarcane crushed for Q3 FY 23 is 3.12 million tonnes, which is an increase of 25.3% over the corresponding period of the previous year, and this is a result of the CapEx that was spent on modernization and debottlenecking at three of the factories of the group.

The net recovery stood at 9.38% after the diversion of B-heavy molasses with 92% crush with B-heavy molasses during the quarter. The lower recoveries which I will discuss later are mainly due to the heavy late rains. We are expecting to narrow this gap in the balance part of the season as our sampling data suggests that the plant cane which will start coming to the factories in the next couple of weeks is showing great promise.

The Company has achieved sugar exports of 135,000 tonnes, which includes the sale of quota of 73,000 tonnes during Q3 FY 23. And this is, of course, out of total quota of approximately 205,000 tonnes. All of this has been attributed to remunerative prices.

The increase in net distillery turnover by 61% in the nine months has been driven by additional capacities that were commissioned during the course of the year, and this leads to sales volume increase of just under 40% coupled with 8% approximate improvement in realizations. There has been a robust increase in the turnover of both the Power transmission and Water business growing by 29% and 41% approximately year-on-year for the nine months. The outstanding order book for our engineering businesses stood at ₹ 1,766 crore.

Yesterday, the Board of Directors at our Board Meeting approved a CapEx of ₹ 90 crore for the Sugar business and ₹ 100 crore for the Power Transmission business. The proposed CapEx of ₹ 90 crore towards our Sugar business is for a process change at Milak Narayanpur towards refined sugar and modernization, debottlenecking, and most importantly, efficiency improvements at various sugar units which will lead to substantial cost optimization and the reduction in our cost of production.

The proposed CapEx of ₹ 100 crore in our Power Transmission business is towards a brand new bay that will be set up with complete equipment for a new gear shaft. This will be at our existing facility at Metagalli in Mysore and it will also include machinery towards our Defence business project and plant, which is a separate facility that will be set up over the next 12 months as well. For the Power Transmission business, this will lead to an enhancement in terms of total capacity from a base of approximately ₹ 250 crore to ₹ 400 crore. *(Note: corrected to 250 as it was mentioned erroneously on the call as 450).*

I would like to also spend a few minutes discussing the financial highlights for the nine months of FY 23. Profit before tax before exceptional items increased by 7.4% in the quarter. The profitability in the Sugar business is lower as the cost of sugar sold pertaining to the previous season includes the impact of sugarcane price, which was increased for Sugar Season 2021-2022 and led to a higher cost of production, when compared to the previous corresponding quarter. Further, for the nine months FY 22, these numbers also include an export subsidy of ₹ 57 crore related to the previous period.

The higher profitability of the engineering business is due to strong revenue growth of 45.8% and 35.8% during the current quarter and nine-month period compared to the previous corresponding period.

The total debt of the Company stood at ₹ 389 crore on a standalone basis versus ₹ 525 crore on the 31st of December 2021. The standalone debt comprises of term loans of ₹ 335 odd crore, almost all these loans are with interest subvention or at subsidized rates of interest. On a consolidated basis, the total debt is ₹ 480 crore compared to ₹ 592 crore for the previous period. The average cost of funds on the 31st of December stood at 4.75% versus 4.15% in the corresponding period of the previous year. The Company at this point in time is holding surplus funds through short-term fixed deposits of ₹ 1,278 crore. Our proposed buyback of ₹ 800 crore is presently under approvals. The stake sale in Triveni Turbine Limited has infused substantial funds in the Company, which, even after the proposed buyback, will meet the expansion requirements of the businesses and reduce finance costs on working capital requirements.

I would like to give a brief update on the buyback, the Company has obtained approvals from shareholders, the draft letter of offer has been filed with SEBI and final observation letter is awaited.

Turning towards the financial highlights, again, I would like to point out that for the quarter, the revenues from operations for the Company grew by 34% to ₹ 1,659 crore, and the EBITDA margin stood at 16% at ₹ 230 crore and the PAT was a shade above ₹ 147 crore.

I would like to now spend a few minutes discussing the various businesses in a little more detail. Starting with the Sugar business, our realisations during the quarter were ₹ 3,611 per quintal for domestic sales and our export realisation was a considerable premium at ₹ 4,041 per quintal for the same period. The current sugar prices as of the 24th of January at our factories, for refined sugar, it's approximately ₹ 3,560 per quintal; and for sulphitation, it's about ₹ 3,450 per quintal.

Sugar inventory on the 31st of December was just under 24 lakh quintals valued at ₹ 34.4 per kilo (kg). Co-generation operations have achieved external sales of ₹ 36.5 crore for the nine months against ₹ 33 crore, an increase of 10%.

I would like to mention that our domestic realisation price for this quarter is, as I mentioned, ₹ 3,611, which is a 1% reduction versus the corresponding period of the previous year. Now, this to me, frankly speaking seems a little bit of an anomaly, because if we look at the stock position, especially on a month-on-month basis, to have prices at the same level, marginally lower than the previous corresponding period is a little bit of an anomaly. The expectation for the remainder of this year is that prices will gradually increase to a more healthier level.

From an industry perspective, the country as of the 15th of January has produced 15.68 million tonnes, which is an increase of 4% when compared to the previous year. 515 mills are crushing versus 507 mills at the same point last year. And Uttar Pradesh has produced 1% more sugar, at 4.07 million tonnes at this particular point in time, which is in line with our projections.

According to our estimates (Triveni), we are anticipating net sugar production into the season 2022-2023 of 35 million metric tonnes, and this is lower than we previously announced estimates as well as street estimates, which were approximately 36 odd million tonnes.

We still believe that this is a very healthy amount of production, and with 6 million tonnes of exports that have been announced, there is a possibility of a second tranche of a maximum of probably about 1 million tonnes that can be considered by the Government and our hope is that the Government does consider an additional tranche very soon of 1 million tonnes of sugar, as the window to truly export sugar from India will end with the sugar season and that is approximately the point in time when Brazilian sugar, etc. will also be in global markets.

Turning to the international markets based on reports, the forecast is that sugar season 2022-2023 is a surplus of 3 million tonnes of sugar and this is primarily due to substantially larger crop in Centre South Brazil as well as an increase in Thailand.

The global sugar prices have also softened very recently, but it has been fluctuating for quite some time and very substantial and improved pricing in global market. So, today, after touching highs of over 21.18 cents in December 2022, New York #11 futures are now trading at about 19.82 cents. London White #5 contract was trading at $551 per tonne, down from the recent highs of about $580 per tonne in December 2022.

So we are sort of hovering around recent highs, which is quite encouraging, and which leads me to the point that if India were to export another 1 million tonnes of sugar, the timing is very appropriate right now. The world market will certainly absorb that sugar and Indian mills will receive remunerative pricing.

Turning towards our alcohol business, we have had an 87% increase in production for the quarter under review. The same quarter has had an increase in average realisation of ₹ 2.5, which stood at ₹ 56.6 per litre. Additional capacities have been commissioned in the nine months, which has resulted in the increased sales volume and the aggregate distillation capacity now stands at 660 kilo litres per day (KLPD).

The profitability margins have been somewhat impacted by increased transfer price of B-heavy molasses. And, as you will note, we adjust the transfer price to be more relevant with the market prices from time to time. The sale of ethanol produced from grain accounted for 33% and 20% of total sales volume in the current quarter and nine month period correspondingly.

The ethanol produced from B-heavy molasses constitutes 57% and 72% of sales volume in the current quarter and nine month period against 88% and 80% in the corresponding periods of the previous year.

From a domestic industry perspective, of the 470.5 crore litres that's been finalized by OMCs against the total requirement of 600 crore litres, contracts for just under 460 crore litres have been executed till January 1, 2023. Against the above, 38 crore litres have been lifted by OMCs by January 1 to the average blending is 10.43%. The target of course as we all know for the nation for this year is 12% blending.

The total contracted quantity from sugarcane juice and B-heavy molasses is 133 crore litres and 204 crore litres respectively till January 1, 2023. 5.8 crore litres in the contracted quantity towards C-heavy molasses, 18.7 crore litres from damaged food grains and 97 crore litres from surplus rice. Therefore, the sugarcane-based feedstock continues to be the dominant contributor towards the ethanol blending programme.

And my view on this is fairly clear, that as we go forward and approach levels of EBP20, the sugarcane sector should continue to play a disproportionately high role in terms of the Government EBP programme. And we definitely need that to be accounted for in Government policy. And I am alluding directly towards the pricing of ethanol that is made from juice, because I think it is the most reliable source for ethanol and for the EBP programme, as we move towards the 1,000-crore mark and beyond.

Turning quickly to the Engineering Businesses, I'd like to start with our Power Transmission business, which has seen revenue increases in the quarter of 71% to ₹ 60.5 crore, and a PBIT improvement of 91.5% to shade above ₹ 21 crore.

The closing order book is 23% higher at ₹ 262.75 crore. For the nine months, the order booking grew at 10% for the same period. And I will, of course, be happy to discuss the changes in the CapEx of the Power transmission business during the remainder of this call.

Turning quickly to the Water business. There’s been a 34.4% improvement in revenues in the quarter to ₹ 104 approximate crore and the closing order book is a shade above ₹ 1,500 crore, broadly in line with what it was in the previous corresponding period. The above results are based on the consolidated perspective including our wholly-owned SPVs.

The orders that have been achieved in the Water business for the nine month period stands at just above ₹ 190 crore, excluding O&M orders. The Company is expecting robust order booking in the coming quarters And we are anticipating several important orders to be concluded within Q4 FY 23.

I would like to spend just a few minutes talking about the outlook of the various businesses. As far as the Sugar business is concerned, as a result of the debottlenecking and modernization carried out top three factories are crushed is expected to be significantly higher this year. We are still maintaining as we did on our last call before the sugar season or just about when the sugar season had started that we will have a higher crush of between 9% and 10% this year. Of course, with the CapEx that have been planned, we propose that we will have a higher crush in the next season and even higher crush compared to this year as well.

The current ongoing season, there is a declining trend of recoveries across the State of Uttar Pradesh for the ratoon crop, and this is due mainly to the rains during the grand growth periods and thereafter, in late October. However, we have had fantastic conducive weather and it is expected that there will be a catch up for the balance part of the season with the plant crop coming to the factories. Our test data from our labs indicates very positive results for the plant crop, which we anticipate coming to our plant, with the start expected in the next week or 10 days up to 2 weeks, depending on each plant.

Considering the crush and recovery expectations, we expect higher production for the year. And with 60% of our total sugar being refined sugar and the doubling of the pharmaceutical grade production plant. This would all boost realizations and profitability in the coming quarters. The plant at Deoband, which was converted into a refinery is operating brilliantly, and the sales of that refined sugar will be reflected in Q4 and beyond, a very small quantum was reflected in Q3.

On the policy front, we believe this is the most appropriate time for the Government before the budget to consider during the budget, an increase in the MSP of sugar plant to offset the impact of costs and cane prices, etc. As I mentioned, the Board is also approved ₹ 90 crore CapEx to further modernize, debottleneck the plants and for efficiency improvements across the various facilities.

I would like to also mention that the recoveries for this year and last year are not directly comparable because last year, our largest factory at Khatauli, ran on C-heavy molasses. And therefore there was a higher recovery, versus this year in our factories, six out of the seven plants have run on B-heavy molasses, the quantums are different as I mentioned earlier.

Turning to the outlook of our alcohol business, we have a capacity of 660 KLPD and a planned increase up to 1,110 KLPD with two more distilleries both of the new ones being dual feed. We believe that that is the modus operandi for sugar mills, but that should be adopted giving you ultimate flexibility in terms of looking at the bottom line, and the availability of different feed stocks for the distilleries.

We are encouraged by the recent increase in ethanol prices. However, there is an urgent need for the Government to improve the pricing of ethanol produced from juice. It is our understanding that the Government is considering this as well as an improvement in ethanol prices from grains. As far as Triveni is concerned, we have 260 KLPD of ours that can operate on grain of the 660 KLPD. And so therefore, we do have a great deal of flexibility of being able to take advantage of the relative increases in prices as and when they happen.

Looking at the Power Transmission business, the outlook for the domestic product segment within high speed gears is extremely promising as industrial CapEx in sectors like cement, energy, distillery, steel is growing and have been supported by policies and robust economic growth. And we are very encouraged by the increasing demand from these sectors.

I would like to mention that following the expiration of the high-speed license agreement with Lufkin Gears LLC, which happened just a few weeks ago in January 2023, the Company will pursue the high-speed high-power segment independently, and it is confident and I am confident of enhancing our market share in identified target markets, which includes global markets.

In the aftermarket business, the Company is focused on expanding its addressable market and market share looking both at domestic and identified target markets. The Government's 'Make in India' initiative has led to new opportunities for diverse engineering products and the Power transmission business is actively participating in many of these indigenous projects.

In the Defence segment, the business expects strong orders, in areas such as propulsion shafting and many others. We believe that there is long-term growth in the segment combined with the machining infrastructure that is likely to show growth over the coming years.

Furthermore, the LM2500 package indigenization, the agreement that we have with GEAE is expected to grow and to result in positive and good revenues for this particular segment. With a CapEx of ₹ 100 crore, which is split as 66% for gears and 33% for the defence business that will allow the business to really meet the accelerated order booking that is anticipated over the next few quarters.

For the Water business outlook, the Company is expecting a fantastic order booking hopefully in this quarter and the next quarter, with many projects coming under conclusion. We are expanding our activities in overseas markets as I mentioned earlier. And there are certain tenders in international markets which will also be concluded during the first half of this calendar year. And there are many attractive states such as Karnataka, Uttar Pradesh, Punjab, Delhi, Telangana and Maharashtra, where the Company is working aggressively on securing projects.

The overall output for EPC and HAM projects, which is driven by large investments for the Government, both at the state and central level is extremely positive, and we hope for some positive news on that front as well.

Thank you very much, ladies and gentlemen. With that I'd like to conclude my opening remarks and open up the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sanjay Manyal from ICICI Securities. Please go ahead.

Sanjay Manyal: I wonder if you can give a range for the gross recovery decline till the December and till date? And what is your expectation for the full season?

Sameer Sinha: So, the gross recovery declined till 31st December was about 0.39 units. As we stand today, we are around 0.34-0.35 units down, and we believe that will be very close to last year's figures. We may not touch it, but generally at a touching distance.

Sanjay Manyal: So, you are expecting there would not be much decline on a full season.

Sameer Sinha: There will be a decline, but not significant. Let me just add to it and this is predicated on the plant cane performance, which is yet to come which will come in February it may even turn out to be better than what we are seeing at our labs, right now.

Sanjay Manyal: Sure. Just one more thing on the accounting purpose, where have you accounted for this ₹ 29 crore profit booked from the quota sale?

Suresh Taneja: It is appearing as a part of the revenue.

Sanjay Manyal: Is this not the part of other income?

Suresh Taneja: No. It's not the part of other income.

Sanjay Manyal: Okay. And just one last thing on the alcohol side, I think, you are still selling some 10% around ethanol from C-heavy, given the fact that it is not that remunerative, why you are still selling the C-heavy?

Sameer Sinha: We are not selling from 10% of ethanol from C-heavy. It is largely Extra Neutral Alcohol (ENA), which is for our in-house consumption for Indian Made Indian Liquor (IMIL) business as well as a little bit of grain ENA.

Sanjay Manyal: Okay. Perfect. And just lastly, if you can just elaborate on the engineering business from a 2 to 3 year perspective, what is the vision for this business, given the fact that you are taking a substantial CapEx? What do you think, how the revenues for the gears as well as the defence business can pan out in next 2 to 3 years?

Tarun Sawhney: So you have seen the growth in order booking across the Power Transmission business. And I've always given this as a combined number, which includes gears and defence. And we are anticipating that on the defence side, certainly there are a lot of projects that are nearing conclusion. So growth has been very good this year, it will fructify into revenue. And, therefore, that business requires an independent facility for the manufacture all of these varying products, that's part of the CapEx.

The other portion of the CapEx that has been announced is for a brand new facility at the same complex in Mysore, because we will be touching full capacities at some point during the course of the next fiscal year. And so we need to set up a brand new facility, because we're seeing this business growing. We're anticipating larger quantums of business, both from OEM (Original Equipment Manufacturer) and aftermarket sales, and therefore, there is a requirement for newer capacity addition.

Now, in terms of a 2 to 3 year perspective, I think the growth that is anticipated across both these businesses of Power Transmission is extremely robust. We're looking at not just the domestic market contributing towards it, but also select international markets and the signs of that are already flowing in, in terms of enhancement of order booking from key customers. So, I typically don't give you numbers in terms of what our anticipation is, but we've been growing as good rates, I expect those excellent double-digit rates of growth to continue.

Sanjay Manyal: Sure. Thank you very much for all the answers.

Moderator: Thank you. The next question is from the line of Yash Agarwal from JM Financial. Please go ahead.

Yash Agarwal: Congrats on the good set of numbers. Mostly, what is our distillery capacity at the moment in terms of litres? Annually, how many litres can we do? And going forward, what are our plans to enhance this capacity further and what amount of litres would that get us towards it?

Tarun Sawhney: Right. Okay. So we have enhanced our capacities very recently, there's been one distillery that was commissioned in April of 2022, a second distillery that was commissioned in June - July of 2022, taking our total capacity up to 660 kilo litres per day across the four distilleries. This year, as we have projected, we will be producing about 18 crore litres of alcohol. On a steady state, the 660 KLPD, which will be next year, FY 24 will produce just a shade about 21 crore litres of alcohol. The Board has also announced a further addition of two distilleries of 225 KLPD each, which will be commissioned in Q4 of the next fiscal year. Those distilleries when they are running at full capacity, we take our total production above 31 crore litres.

Yash Agarwal: Okay, sure. That's helpful. Secondly, this question again on sugar prices. You mentioned that you expect sugar prices domestically to move up as the season progresses. On that count, what is the probability of further cut in production numbers from 35 million tonnes, because I think we started at 36.5-37, now we are down to 35. So is there any further probability that the domestic production could be lower? First question is that.

And second question, obviously is, supposing the Government does not allow further exports beyond 6 million tonnes. Would that pressurize prices or subdued the momentum in terms of prices in any way?

Tarun Sawhney: So, my interpretation of this is that the markets at this particular point in time have taken a view that the Government will have no further exports. And, therefore, if there are exports that happen, it will certainly boost domestic sugar prices, number one. That's an important point to consider. So, I don't see any downside from a perspective of if the Government does not announce another million tonnes of exports. It will have a dampening effect. In fact, it's quite the opposite. I think it's already been factored in, if there is exports, it will boost domestic prices. Number one.

Number two, further downside revision, of course, anything can happen, because we are dealing with agricultural products. And, last year, the most significant impact on the plant crop was unseasonably high temperatures in the month of March. Now today, as we stand at the end of January, we are still 35-40 days away from March. So meteorological data, which is far more accurate, suggests that we will have normal temperatures as we go through the rest of the season.

Now in case that remains so, I believe that they will not be any great vacillation from the numbers that we project from the country out of Triveni estimates of 35 million tonnes of production after a diversion towards ethanol. However, there is any possibility. I don't think, there is a great possibility of the production, the net number being higher than 35 million tonnes.

Yash Agarwal: Okay. Got it. First, I want to know, what is the diversion to ethanol that we have considered in the current sugar season? And what could possibly be the diversion in the next season once more capacities come along in the country?

Tarun Sawhney: So the diversion this year we have taken it as 4.5 million tonnes. There is a little bit of work that is required to touch 4.5 million tonnes. And my hope is that with the subsequent tenders and the Government being so proactive in terms of facilitating with 12% lending for this year that we will see more diversion of sugar as the season concludes by the end of May. That's number one.

As far as next year is concerned, I think, it really depends on the capacity addition that takes place. Now the capacities, frankly speaking, new capacity addition from sugar factories to process juice has waned. So the sugar industry investing into large distilleries that is not projected to increase by any dramatic amount between now and the next year. And, as a result, I don't see that increasing, although, I do believe that we need higher prices of ethanol based on cane juice, and then we will very quickly see more investments happening. So there are a few isolated distilleries, Triveni has two coming up, a few other groups that have a few coming up. But nothing substantial, but I do believe the Government is looking at this and my hope is that that policy will change and they will allow the sugar industry to divert more juice taking it up to at least 6 million tonnes of diversion and beyond over the coming years. My personal view is that the sugar industry should be able to divert all of 8 million tonnes of sugar towards the ethanol blending programme. And that should be a more sustainable model over the medium to long term basis.

Yash Agarwal: Good. Got it. Also, last question from my end. What approvals are required for the buyback to go through?

Suresh Taneja: Major thing was the shareholders' approval, which we have already received. And we have given all the draft advertisements, etc. And the draft letter of offer has been filed with SEBI, and we are awaiting the final observation, which is expected soon.

Yash Agarwal: Okay. It's an open market route? Or is it a tender, the buyback?

Suresh Taneja: It is a tender on proportionate basis.

Yash Agarwal: Okay. Thank you so much for answering all my questions.

Moderator: Thank you. The next question is from the line of Anupam Goswami from BOB Capital Markets. Please go ahead.

Anupam Goswami: Hi, sir. I want to know what is our ethanol mix target this year and going forward?

Sameer Sinha: So, this year, we have already done the numbers, which are already with you in terms of 90% being the total ethanol and 10% being ENA. Of that, 57% is from B-heavy and 33% is from grains. This is for the Q3 numbers. Now for the total alcohol, which we will be dispatching in FY 23, I think, the number will be from B-heavy will be about 74% to 75%, and grain will be about 25% to 26%.

Anupam Goswami: Okay. So our endeavour would be more towards producing B-heavy till the max we can, right?

Tarun Sawhney: Absolutely. Correct. As I mentioned in my concluding remarks, the crush increase that is happening of 9% to 10% this year gives substantially improved feedstock for the distilleries. And the fact that now – we are looking at more optimization next year means that we will have more feedstock, more B-heavy molasses that will be available for the distilleries for the following year as well.

Anupam Goswami: Okay. And this recovery scenario, which caused due to the late rains, I was under the impression, why haven't the price moved in UP then, if the whole UP had a lower recovery, and how chances are good that for additional export quota will come?

Tarun Sawhney: So, I think, I just answered part of that question just a few minutes ago. The movement in sugar prices or rather the stagnation in movement of sugar prices is a bit of an anomaly. There is no reason given the balance sheet position as of even today, that the sugar prices should be at the levels that they are.

My view is that the market is estimating what the production numbers will be. We are happy to give our Triveni estimates in terms of production today and the association meetings are happening early next week, where there will be more announcement of the production for the nation as a whole. And I think all of that once it gets absorbed will reflect into some positive movement in sugar prices.

Anupam Goswami: But according to you, do we need another 3 million tonnes of export to keep the stock as well as the prices steady for the millers to have at least in margins on this?

Tarun Sawhney: No, absolutely not. If I run through the quick balance sheet numbers if you have just under 26 million tonnes of consumption in the country. So, let's say, 27.5 to 27.7 million tonnes and you have 35 million tonnes of production with 6 million tonnes of exports, with another 1 million tonnes of exports it's pretty much maintained the opening balance as the closing balance for sugar season 2022-2023. So there's not that much export that is required. And I think the Government is judicious in this perspective and is watching what the total production numbers are. My hope, of course, is that with these estimates coming up, the Government will quickly announce 1 million tons of exports.

However, my personal view is that the market, the trade has factored in no more exports. And so, therefore, I do not see any downside to sugar prices, frankly speaking, I only see some upside.

Anupam Goswami: Okay. Some upside will obviously cause when the sales and demand supply again, more of a demand and less of a supply it comes. Otherwise it stays more or less at this level, the prices.

Tarun Sawhney: No, that's not what I said.

Anupam Goswami: Okay, because if there is no export, there would be, again, no pressure on the supply. So the prices could be at a gross level, basically.

Tarun Sawhney: You see prices, of course, move from time to time. There's a quota that is announced by the Central Government on a month-to-month basis. It has an impact on pricing. The variables that actually result in market price are fairly substantial, it is not simply a demand and supply equation, because it's a controlled commodity, there are various elements. I wouldn't agree with you that the prices will remain stable at this level. I think there is huge opportunity and other mechanisms to allow for price enhancements to happen. The majority of those rest with the Central Government and DFPD (Department of Food & Public Distribution).

Anupam Goswami: Okay. So even though we have had a good export realization, what is our cost of production, because I'm trying to gauge like what caused the margin to decline like this?

Suresh Taneja: If you're able to get almost the same recovery as last year, I think, the cost of production would also remain at the same level. The cost of production as of 31st December is not very relevant, because as of now, the recoveries are little less. And going forward in the season, the recoveries will further improve. So, therefore, you would get the benefit as the recoveries improve.

Anupam Goswami: Okay. So still 31st December since the inventory has now valued at ₹ 34.4, can we take it similar to this level ₹ 34.4?

Tarun Sawhney: No, that's not what we said. We said that with the rest of the season, the recoveries will improve. The cost of productions will come down. And if we achieved the same recoveries as last year, and with higher crushes despite some small increases in other costs, input costs, etc., we will still maintain the average cost of production as last year.

Suresh Taneja: Just to give you an example, 31st March 2022, our cost of production was ₹ 32.7. So when the recoveries converging now, I think, one should move towards that figure.

Anupam Goswami: Okay. I got it. Thank you so much.

Moderator: Thank you. The next question is from the line of Shailesh Kanani from Centrum Broking. Please go ahead.

Shailesh Kanani: Thanks for the opportunity and congratulations on a good set of execution. My couple of questions were on the PTB division, what would be the capital employed as on third quarter in this division?

Suresh Taneja: ₹ 141 crore.

Shailesh Kanani: ₹ 141 crore. Okay, sir. And if my understanding is right, we are spending roughly around ₹ 180 crore more in this division, considering our earlier announcement and the announcement in this quarter? So, broadly, given the asset turns what we have, which is, say, in the range of 1.5. We are expecting very good growth in this division. Is that understanding, right?

Tarun Sawhney: That understanding is correct. I would also urge you to consider that the CapEx that has been incurred the total amount that you have mentioned is pretty much split 2:1, so 66% of it is for growth of the traditional gears business, and the balance is for the new facility that has been set up for defence production. That the latter is required as a discrete independent facility for all the defence products, the orders that we have won as a company and we will you continue to win over the next few quarters and we anticipate excellent growth on that front.

As far as the traditional gears business is concerned with a focus of expansion in certain areas, especially a dual-prong strategy of OEM growth and service and aftermarket revenue growth, we do need further capacity additions, and the growth rates that you have assumed are very much in line with what we expect and what we are already seeing in terms of enhanced order booking levels.

Shailesh Kanani: Okay. Sir, to just summarize what you said, so out of this ₹ 180 crore, ₹ 120 crore is going towards capacity expansion and one-third is a little bit longer gestation or expected, right? So that understanding is right?

Tarun Sawhney: Broadly…Absolutely, that is correct.

Shailesh Kanani: What I'm trying to understand is that, I'm expecting around 30-35% jump in this business. So just wanted to know where the other inflows are expected to come from apart from private CapEx, any other monitorables for us to look out for the next couple of years in this division?

Tarun Sawhney: It's defence. There's private CapEx, there's public CapEx and there's defence. There are three. And I'm not going to comment on the growth rates that you're expecting. But what I will say is that we're expecting very reasonable growth across both the traditional gear segment and the defence segment. The boost in terms of order booking, the very large quantums, of course, will come from the defence side, but that will have a longer gestation period that will be over a larger number of years.

On the traditional gear side, it is expected with shorter duration as is always, that is the nature of the business. I do want to mention this growth will not be at a consequence of profitability. We are very proud of the margins that the business has maintained over the last 15-20 quarters of over approximately 35% EBITDA margins and over 30% PBT margins. Broadly brushstrokes I'm giving you for the last number of quarters, and the growth will certainly not be at a consequence of that. So we are looking at profitable growth as it happens.

Shailesh Kanani: Okay. Thanks so much, sir. Very useful. So coming to the water division, there has been some margin pressure in nine months, any views on that, any particular reason for that? We're facing margin pressures on water division?

Tarun Sawhney: I mentioned this in my opening remarks, I would encourage you not to look at nine month numbers and to wait for the next quarter and look at the annual numbers, because a lot of this is based on execution and recognition of revenues, etc. and that is lumpy, the business is lumpy, the recognition is lumpy and so, point in time to look at the margins will not do justice to that business and it's unfair to that business.

I do believe that it is a challenging business, but we have got excellent margins, especially when we compare ourselves to our peers in the group certainly in the in the top echelon, and I believe that that this business is growing profitably and growing well, and you will see a reflection of that when you review our full year results.

Shailesh Kanani: Okay.

Moderator: Thank You. The next question is from the line of Lokesh Maru from Nippon India Mutual Fund. Please go ahead.

Lokesh Maru: Yes, thank you. Just wanted a sense on what you're expecting on or what you're hearing on State Advised Price (SAP) price hike expectations front, basically given that this year is on the pre-election one. So from the current sugar season and the next one, if you can provide any clue on that?

Tarun Sawhney: So, Lokesh, this is not the pre-election year, in fact, next year is the pre-election year. And we are halfway through the course of this year, there have been press articles, your news is as fresh as mine. But my perspective is that there is really no reason for any increase to happen this year, even if it is from a political perspective, from an economic perspective, I don't think there is any reason. The real improvement to farm incomes has happened as a consequence of yield, and farm incomes have done very well. I think it is very clear to me that if there were any increase in SAP this year, it will lead to substantial cane arrears. And that is something that the Government definitely wants to avoid. It has done extremely well thus far to ensure that cane price payments have been better than ever before. So even at this particular point in time, I don't think that position is something that the Government wants to tinker with. My view would be that there will be no increase in SAP this year. And I would certainly argue, and then put forward our perspective to the Government for next year to see where sugar prices are, and give our views in terms of what the pricing should be for the following year.

Lokesh Maru: Understood. Thank you.

Moderator: Thank you. The next question is from the line of Nikhil Jain from Galaxy International. Please go ahead.

Nikhil Jain: Just two questions. On the Water business side, what do we anticipate as our sustainable EBITDA margin on a long-term basis? What is it that we can actually achieve? And the second is that the business, the engineering business and the Water business, so they are, let's say, distinctly different from the Sugar business. So, do management have any thoughts or any plans to demerge that at some point of time, let's say, it's now ₹ 500 odd crore business plus, right?

Tarun Sawhney: You've asked a very pertinent question. Let me answer the first one. On a long-term sustainable basis, we're certainly looking at EBITDA margins north of 10%, or double-digit PBIT margins is, what is the expectation of this business. Of course, there is lumpiness order value changes, its execution changes, etc. But over a long-term basis, that is the expectation at a sustainable level and a much larger level of revenues from where we are today. Point one.

The second point is in terms of the disparate nature of businesses that you've commented on. The Board at this point in time has not evaluated any form of demerger. As and when it does, we will inform the stock exchanges, happy to come back to you to discuss it further. But at this particular point in time, the businesses are all under the umbrella of Triveni Engineering.

Nikhil Jain: Sure. Thank you. Thanks a lot.

Moderator: Thank you. The next question is from the line of Rajesh Majumdar from B&K Securities. Please go ahead.

Rajesh Majumdar: I had a couple of questions, one specific to the Company and one at a macro level. So, again, on the sugar number, ISMA started off with a figure of 40.5 million tonnes (gross or pre-diversion) as on December, and now we're hearing figures like 38.5- 39, where it will go. And it seems that this production loss is going to be coming from Maharashtra, Karnataka mostly, is that a correct assumption? Because most of the UP mills are thinking the recoveries will be higher in the fourth quarter, and production will be slightly higher than last year. Is that a correct assumption?

Tarun Sawhney: So broadly speaking, I think the most significantly lower production numbers are certainly coming from Maharashtra. I'm hearing one or two mills have already shut down, and more and more will start. So the reduction is coming there. Now as far as the ISMA estimates are concerned, I think earlier they were broadly our own Triveni estimates were very much in line, where we had 4.5 million tonnes of diversion, coming to about 36 million tonnes of sugar production. We've now reduced that number to 35 million tonnes, as we believe that the numbers coming from Maharashtra, a little bit from Karnataka will be lower to the majority of this. Uttar Pradesh should be broadly in line with what is last year some companies higher, some companies lower.

Rajesh Majumdar: So effectively same as last year?

Tarun Sawhney: Correct. Your second question?

Rajesh Majumdar: Okay. My second question was a larger question on the E20. If you could give me some colour on the way the supply side is gearing up, because we are hearing by April 2023, there'll be E20 in the pumps. So how is it going to be like, is it going to be like a separate dispenser like we see abroad or is going to be the pumps changing over to E20, the latter is not possible given that the old cars are not likely to run on E20. So some colour on the supply side, because I know how the auto companies are gearing up. But on the supply side, how will the pumps gear up to sell E20?

Tarun Sawhney: So, well, I can answer both, even though you've asked me only on the supply side. On the supply side, from the press announcements for MoPNG, it is going to be on a pilot basis in certain cities across the country. And I think that is going to basically look at certain distribution points, certain petrol pumps that have the facility to bifurcate E20 from E10, and offer that optionality to customers. We don't know as yet what the pricing of E20 will be, very frankly speaking. So will it be at the same price or will it be at a potential discount is still something that is to be discovered. That's point one.

The second point that I would like to make is that most four wheelers, from a metallurgical perspective have engines that can meet high levels of ethanol blending. So they don't really have any performance related issues. It is the two-wheelers that have the bulk of the problems of historic vehicles. But going forward from 1st of April, there is no problem for any new vehicle in the country. And so this announcement strategically matches with the automobile manufacturers having E20 vehicles being sold to the public. I do believe that from a pilot perspective, it's the best way to go, because frankly speaking, otherwise creeping up from E10 to E11, 12, 13, 14 all the way up to 20 is not a viable scenario. This is an ideal scenario, and it is a visionary move in terms of adoption of E20 across the country.

Rajesh Majumdar: So, as I understand the old four wheelers can also handle the E20 as per what you just discussed as per the engineering of the old four wheelers are concerned?

Tarun Sawhney: I can't comment on all the four wheelers. But only from a metallurgical perspective, there may be some rubber part issues, etc. But broadly speaking, the answer would be towards yes. Everything is shades of gray here.

Sameer Sinha: Can I just supplement it, what you will have is, finally, two dispensers coming in; one will be E10, which will be the base on the protector which may move up to E11, E 12; and the other one will be an E20 dispenser. So that would be what the pilot is going to undertake right now, that's how you're going to get blending.

Tarun Sawhney: But four wheelers to answer your second question, by and large should not face any problems.

Moderator: Thank you. We'll move to the next question from the line of Nitin Awasthi from InCred Equities. Please go ahead.

Nitin Awasthi: I would like to know what was the grain ENA prices which you realize last quarter?

Sameer Sinha: Grain ENA prices, which we realized last quarter were about ₹ 54 plus 18% GST.

Nitin Awasthi: Grain ENA, I was referring to, not grain ethanol. There would be a different side. Is it grain ENA will be selling in the market?

Sameer Sinha: So that's why I said, ₹ 54 plus 18% GST. So, this matches with the ethanol prices of ₹58.50 plus 5% GST. If you look at those parity numbers, you will come closer to those numbers.

Nitin Awasthi: Okay. Understood. Sir, second question was, like you mentioned, you're looking for the Government to increase the ethanol prices. If the Government were not to increase the ethanol prices, would it be under the investment plans going ahead in the ethanol segment.

Tarun Sawhney: I think the speed at which new CapEx would come up would certainly be impacted. Because you are seeing material price increases, you are seeing our input cost increases that are happening. For example, for the grain-based plants, you're seeing that the cost of fuel has increased quite substantially. You're also seeing metal price increases and some delays. So, there will certainly be an impact and will delay the amount of CapEx coming into this industry, however, is it a total negative, not a complete negative, there is still a difference between grain and molasses or juice-based plants.

Nitin Awasthi: Understood, sir. Thank you.

Moderator: Thank you. The next question is from the line of Rajiv Agarwal from Sterling Capital. Please go ahead.

Rajiv Agarwal: Thanks for the opportunity. I just want to understand this distillery division, you've recorded very good growth in IMIL sales, Indian Made Indian Liquor sales. So which areas do you market this product and can you share the quantum of sales for the quarter and for the nine months in terms of litres?

Sameer Sinha: What we are doing right now is that we are selling it in UP and our focus is on two areas; one is which are the areas which are close to us where we save on the freight costs going ahead; and B, is also a little distance away some good cities within UP wherein our brand gets built up and the numbers we have in terms of cases is about 9.31 lakh cases in this quarter and 21.84 lakh cases in the nine months.

Rajiv Agarwal: So, I wanted this in litres. Can you share it in litres, please?

Tarun Sawhney: Multiply by 9, please, and you'll get the litres? Can you hear us?

Moderator: Thank you. The next question is from the line of Udit Gupta, an Individual Investor. Please go ahead.

Udit Gupta: I wanted to understand, what is the amount of grain required to produce a litre of ethanol, sir? And what is the price of the rice that we are buying right now for the grain?

Sameer Sinha: So, there are two aspects to it. One is the surplus rice, which comes from FCI that's a fixed by the Government at ₹ 20. And the recovery we are getting right now is virtually 470 litres per metric tonne of grain. The other one is what we buy from the market that's called the damaged food grains. And their pricing has been somewhere around ₹ 19 to ₹ 25, and we get about 455 litres per metric tonne of the grain.

Udit Gupta: Thank you, sir. That was my question.

Moderator: Thank you. The next question is from the line of Shikhar Singh, Individual Investor. Please go ahead.

Shikhar Singh: Hello, thank you for giving me the opportunity. Can you put some light on the cost of production of the ethanol both syrup-derived and B-heavy ethanol, and also the country liquor? Hello, am I audible?

Suresh Taneja: Number one, in the case of ethanol produced from B-heavy molasses. We have a transfer price of ₹ 1,000 and the recoveries are approximately about 29.5 to 30. So you can come to the material cost and over and above that, you can take approximately ₹ 10 to ₹ 11 considering variable costs as well as the fixed expenses. So that will be your total cost of production. And similarly, in the case of grain, I think we have already given you the figures of recovery, etc. We have already given you the procurement price. So, you can arrive at what is the material cost per litre of ethanol and, thereafter, approximately the same amount ₹ 11 to ₹ 12 you can add towards the variable costs and fixed expenses.

Shikhar Singh: Okay. And is regarding the country liquor?

Tarun Sawhney: No, I think we don't declare our prices for conversion of country liquor.

Sameer Sinha: In terms of grain, it's an important thing that we also get a co-product out of it. And which is Dried Distillers Grain Solids (DDGS), which is about 36% of it, and of the alcohol produced and which we market at about ₹ 25-26. So, at the end of the day, my net conversion cost comes to about ₹ 4 or ₹ 4.50. That's for grain-based.

Shikhar Singh: Okay, sir. Thank you.

Moderator: Thank you. The next question is from the line of Shailesh Kanani from Centrum Broking. Please go ahead.

Shailesh Kanani: Thanks for the opportunity. Sir, just one question I had to ask. Sir, in Sugar division, what is your strategy to increase availability of feedstock going ahead? If you can elaborate something on that front, because we are seeing good growth on that front and crushing facilities also is excellent. So, can you just help me understanding on that front?

Tarun Sawhney: Absolutely. We have a multi-pronged cane development strategy that has been in place, there are short-term and medium-term targets that go down to the micro level to the over 1,000 people that actually work within the development function of the business. Now, to give you a small idea of the work that is being done, it is being done right from soil mapping and understanding the constitute elements of the soil and improving the soil balance, so that you can get higher productivity at the farm level to the actual planting of the crop to propose newer technologies across our area, we have had huge success. And we will continue to hopefully have great success in terms of newer technologies, and better planting practices deeper and wider, just to paraphrase, etc. In addition to that, the provision of quality seed, seed treatment, quality fertilizer, pesticides, herbicides, etc. That is extremely vital. Lastly, I think the programme that we have in place with respect to technology in terms of capturing information is absolutely vital in terms of our sourcing the cane once it is grown. So, it's a multi-pronged approach.

And the last point that I left out is a vast number of demonstration plots. The show and tell method is absolutely vital, in terms of encouraging farmers to adopt more modern and current practices. And that is extremely important in terms of our medium-term targets.

And I have actually left out one more element, which is an association that we have with leading institutes across the country, in terms of getting the best advice really at the ground level to be disseminated amongst our farmers. So it's a six-pronged strategy that we have in place to ensure continued availability and greater availability of sugarcane.

Shailesh Kanani: Excellent, sir, Thanks a lot, sir. That was very useful. Thanks a lot.

Moderator: Thank you. As there are no further questions, I now hand the conference over to management for closing comments.

Tarun Sawhney: Ladies and gentlemen, thank you very much for joining us for the Q3 and nine-month results for Triveni Engineering. It's been a very interesting quarter, I believe, a good set of numbers. There have been some challenges in the sugar production front, but the other elements of the business have all performed well.

As we move into the fourth quarter of this year, there is huge hope in terms of a turnaround, not really a turnaround, but a vast improvement in sugar production and cost of goods as far as sugar is concerned. And, of course, the expectation from the engineering businesses as well as our distillery business is quite robust.

I look forward to talking to you with our full year results in May. Thank you very much. Have a good afternoon.

Moderator: Thank you very much. On behalf of Triveni Engineering, that concludes this conference. Thank you for joining us.