Triveni Engineering (TRIENG)

ICICI direct Research

CMP: ₹ 54 | Target: ₹ 82 (52%) | Target Period: 12 months | BUY

June 18, 2020

Result Update

Robust cash flow generation…

Triveni Engineering reported a strong set of numbers with 74.9% growth in revenues & 72.6% growth in earnings. Robust revenue growth was led by 105%, 97% growth in sugar, distillery segment, respectively. Sugar volumes doubled on the back of 1.3 lakh tonnes (lt) of export during the quarter. Distillery volumes increased 66% aided by new 160 KLD capacity commissioned in May 2019. However, power revenues were down 10.3% due to reduction in tariffs by ₹ 2/unit in July 2019. Gear business sales dipped 17.3% impacted by lockdown at the end of March. Water business revenue grew 8.2% due to slower execution of some projects. The company aggressively exported sugar during the year benefited by sugar subsidy announced by government. The company has contracted for 2.7 lt of export in the current crushing season (October 2019-September 2020). This has led to a substantial reduction in inventory & healthy cash flow generation.

Exports, diversion to B heavy ethanol to lessen sugar inventory

Triveni has reduced its sugar inventory by 40,000 tonnes in FY20 largely on the back of significant increase in exports & 37000 tonnes sugar sacrifice towards B heavy ethanol. The company has been allocated 0.93 lt of additional quota (other than original 1.8 lakh tonnes) in two tranches that is largely exported in Q1FY21. Considering continuance of export policy in next crushing season, we believe the company would be able to export 2.7 lt of sugar in FY21 also. Moreover, it would be aggressively diverting sugarcane for B heavy ethanol. Given both these factors, we expect 0.9 lt of reduction in sugar inventory by March 2021. We estimate ₹ 313 crore, ₹ 398 crore of operating cash flow generation in FY21E, FY22E, respectively.

Distillery volumes to aid earnings

Distillery sales increased 84% to ₹ 391.2 crore in FY20 aided by commissioning of 160 KLD capacity in May 2019. Triveni has sold 8.5 crore litres of ethanol/ENA during the year. It has received approval to run the distillery for 350 days. With the current capacity, the company can produce 11 crore litre ethanol/ENA. We expect distillery volumes to increase from current 8.5 crore litre to 10.5 crore litre by FY22. Moreover, with high proportion of B heavy ethanol, distillery realisation is also likely to improve going forward. We expect 12% CAGR in distillery sales during FY20-22E.

Valuation & Outlook

With the introduction of MSP, continuance of export policy and Triveni's effort towards diverting higher sugarcane towards ethanol has created a strong business model with sustainable earnings & stronger balance sheet. Given the strong cash flow generation of ~₹ 700 crore in the next two years, we believe the company would be able to reduce its working capital debt by ~₹ 400 crore. We value the stocks1.2x FY21E BV to arrive at a target price of ₹ 82/share and maintain **BUY** recommendation on the stock.

Triveni ENGINEERING & INDUSTRIES LTD.

Particulars

Particulars (₹ crore)	Amount
Market Capitalization	1,338.7
Total Debt (FY20)	1,387.0
Cash and Investments (FY19)	32.9
EV	2,692.8
52 week H/L (₹)	88 / 29
Equity capital	24.8
Face value (₹)	1.0

Key Highlights

- Sugar volumes doubled in Q4 on the back of 1.3 lakh tonnes of exports & higher domestic sales quota. Distillery volumes increased by 66% on the back of new capacity commissioned earlier in May 2019
- The company has not booked ~₹ 57 crore of export subsidy of the quantities exported in March quarter
- Maintain BUY rating on stock with revised target price of ₹ 82 per share

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ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20-22E)
Total Operating Income	3370.2	3151.7	4436.6	4565.5	4244.2	-2.2%
EBITDA	273.1	309.0	543.2	568.7	560.9	1.6%
EBITDA Margin %	8.1	9.8	12.2	12.5	13.2	
Net Profit	119.1	216.3	335.1	366.5	373.6	5.6%
EPS (₹)	4.62	8.39	13.52	15.41	16.39	
P/E	11.7	6.4	4.0	3.5	3.3	
RoNW %	12.6	19.0	19.9	23.4	20.8	
RoCE (%)	10.6	11.1	17.6	18.1	17.7	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Total Operating Income	1,494.0	854.3	74.9	1,069.3	39.7	Net sales increased by 74.9 % led by higher sugar volumes due to 1.3 lakh tonnes of exports & increase in distillery volumes aided by new capacity
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	1,107.1	549.2	101.6	814.6	35.9	
Employee Expense	76.0	64.1	18.5	63.7	19.2	
Other operating Expenses	124.5	124.0	0.5	103.1	20.8	
EBITDA	186.4	117.1	59.2	87.9	112.2	
EBITDA Margin (%)	12.5	13.7	-123 bps	8.2	426 bps	Operating margins contracted due to dip in power tarriffs as well as volumes
Depreciation	18.6	14.2	30.9	19.3	-3.8	
Interest	15.1	25.7	-41.3	14.0	7.4	Interest cost declined due to lower working capital debt by ₹ 290 crore
Other Income	7.5	4.4	72.2	6.8	11.0	
PBT	160.3	81.6	96.4	61.3	161.5	
Tax Outgo	26.6	9.5	179.5	21.4	24.5	
PAT	137.6	79.7	72.6	45.2	204.6	Net profit increased by higher operating profit & re-assesment of income tax after the change in Income tax rate earlier this year
Key Metrics						
Sugar sales volume (in lakh tonnes)	3.8	1.9	100.5	2.5	49.2	Substaintial increase in sugar volumes due to 1.3 lakh tonnes of exports & higher domestic sales quota
Domestic realisation (₹ per kg)	32.7	31.7	3.2	33.6	-2.5	Small uptick in sugar prices
Distillery volumes (in crore litre)	1.9	1.1	66.1	2.2	-14.2	Higher distillery volumes aided by new capacity commissioned in May 2019
Distillery realisation (₹ per litre)	53.1	43.2	22.9	46.8	13.5	Increase in distillery realisation due to higher proportion of B heavy ethanol

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E	
(₹ Crore)	**Old**	**New**	**% change**	**New**	**Comments**
Net sales	4272.3	4565.5	6.9	4,244.2	We are revising our sales numbers upward factoring in higher sugar exports during the quarter. We are introducing FY22 numbers
EBITDA	628.4	568.7	-9.5	560.9	
EBITDA Margin (%)	14.7	12.5	-225 bps	13.2	
PAT	410.7	366.5	-10.8	373.6	However, we are revising earnings estimates downwards due to lower sales from engineering business impacted by lockdown situation
EPS (₹)	17.3	15.4	-10.7	16.4	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current						Earlier	
	FY17	**FY18**	**FY19**	**FY20E**	**FY21E**	**FY22E**	**FY21E**	**Comments**
Sugar Sold (in tonne)	613,755	761,276	759,067	1,069,545	1,077,496	941,077	925,227	We factor in similar sugar exports in FY21
Sugar Price (₹ per tonne)	38,210	36,765	31,420	32,406	32,491	32,724	33,378	Revise sugar realisation downward due to exports prices having come down substantially
Distillery volume	38,078	28,093	51,279	84,859	102,400	105,600	10,560	
Distillery price (₹ per KL)	43,562	40,745	41,515	46,100	46,381	46,381	48,072	
Power Units sold	13.6	18.2	17.5	14.5	16.8	17.5	19.5	
Price per unit (₹ per units)	5.6	5.9	5.2	3.1	3.2	3.3	3.2	
Gear/Gear box revenue	88.0	107.3	129.3	154.2	157.3	176.2	177.7	Revise gear business sales due to negative impact of lockdown
Water segment revenue	167.3	160.3	231.4	305.0	289.8	347.7	347.0	

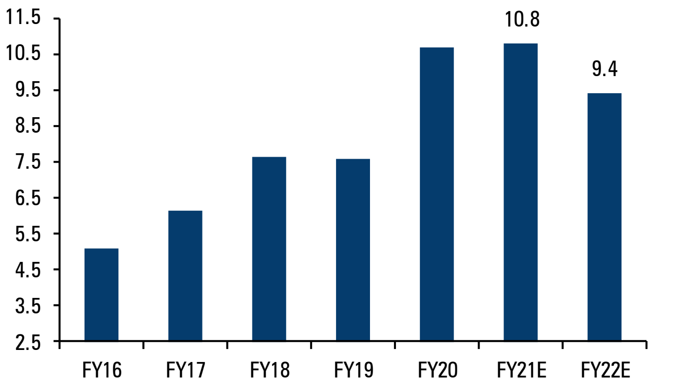
Source: Company, ICICI Direct Research

Conference call Highlights

- Triveni Engineering reported 74.9% growth in sales led by 105.3% growth in sugar segment & 97% growth in distillery segment. Sugar volumes doubled on the back of 1.3 lt of sugar exports during the quarter. Domestic volumes increased 32% to 2.48 lt as UP based sugar mills received higher sales quota with reduction in sugar production in Maharashtra & Karnataka
- Distillery volumes increased 66% aided by commissioning of new 160 KLD capacity in May 2019. Further distillery realisation also increased 23% due to higher sales of B heavy molasses during the quarter
- Power revenue declined 10.3% with reduction in power tariffs in UP earlier in the year. Power volumes were also down from 7.6 crore units to 5.78 crore unit
- In high speed gear business, revenues declined 17.3% in the quarter. This was largely impacted by lower revenues booking at the end of March due to lockdown across country. Current order book is ₹ 152. On a full year basis, the segment revenue grew 15.8%
- Water business saw growth of 8.2%. The improved performance can be attributed to healthy order book, which was at ₹ 995.3 crore including ₹ 482.9 crore towards operations & maintenance
- The company crushed 87.5 lt of sugarcane in the current season with 10.1 lt of sugar production, which is a 7% increase from corresponding quarter. Recovery rate in the season was 11.55% against 11.79% in the corresponding quarter. The lower recovery was mainly due to sugarcane diversion towards B heavy ethanol. On a like to like basis, recovery rate was 11.97% (18 bps higher)
- The company holds 5.7 lt of sugar inventory against 6.2 lt in corresponding quarter. Despite high production, it has been able to reduce inventory by ~45,000 tonnes
- On account of diversion towards B heavy molasses, the company has sacrificed 37000 tonnes of sugar
- Triveni has contracted total 2.7 lt of export in the current crushing season, out of which ~2.5 lt has already been exported. The company has not booked ₹ 57 crore of subsidy of quantities exported during the March quarter
- The total debt of the company as on March 2020 is ₹ 1558.2 crore against ₹ 1725.90 crore as on March 2019. This includes soft loans of ₹ 610.8 crore with interest subvention/subsidised interest rate. Overall cost of debt is 6.3%
- The impact of Covid19 for the industry would be limited to ~1.0 million tonnes (MT) of demand destruction in the last three months. The industry would be able to export 5.0 MT in the current crushing season, out of which 4.2 MT is already contracted as of now
- With lower consumption by 25 MT & export of 5 MT, the industry would be holding ~11.5 MT of sugar by September 2020. In the next crushing season, sugar production is likely to be ~32-32.5 MT
- The higher sugar inventory in the country would warrant continuation of export incentives & hike in MSP. The industry expects ₹ 2/ kg increase in MSP and similar 6 MT of export in the next crushing season

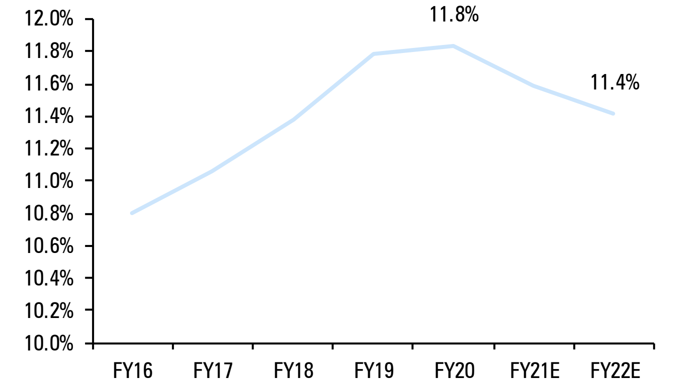
Key Metrics

Exhibit 4: Sugar Sales Volume (in lakh tonne)



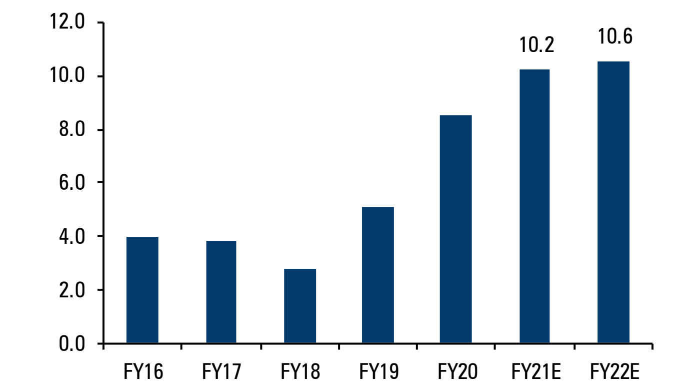
Source: ICICI Direct Research, Company

Exhibit 5: Sugar recovery rate (%)



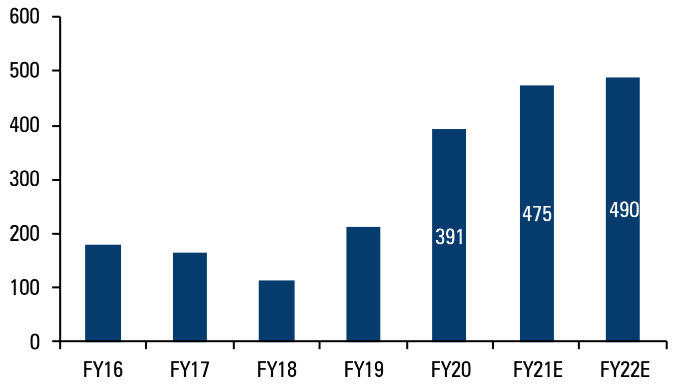
Source: ICICI Direct Research, Company

Exhibit 6: Ethanol volumes (in crore litre)



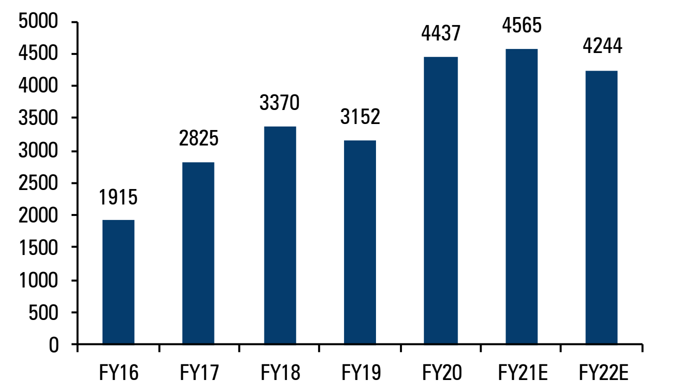
Source: Company, ICICI Direct Research

Exhibit 7: Ethanol sales (₹ crore)



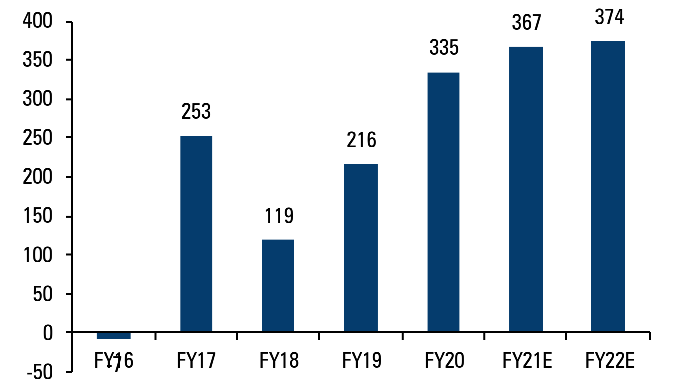
Source: Company, ICICI Direct Research

Exhibit 8: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 9: Net profit trend (₹ crore)



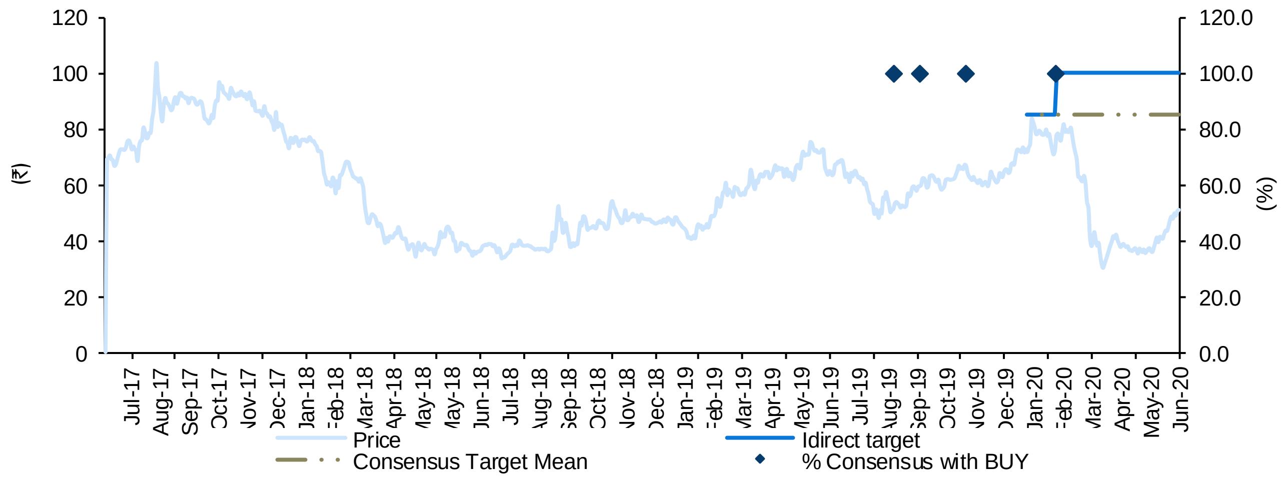
Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	3151.7	-6.5	8.39	81.5	6.4	9.3	19.0	11.1
FY20	4436.6	40.8	13.52	61.2	4.0	4.8	19.9	17.6
FY21E	4565.5	2.9	15.41	14.0	3.5	4.4	23.4	18.1
FY22E	4244.2	-7.0	16.39	6.4	3.3	4.1	20.8	17.7

Source: Company, ICICI Direct Research

Exhibit 11: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change (m)
1	Stfl Trading & Finan	31-Mar-20	32.1	79.6	0.0
2	Sawhney Dhruv Manmoh	31-Mar-20	15.6	38.7	0.0
3	Sawhney Rati	31-Mar-20	7.2	17.9	0.0
4	Sawhney Nikhil	31-Mar-20	5.9	14.7	0.0
5	Sawhney Tarun	31-Mar-20	5.7	14.2	0.0
6	Dsp Blackrock Invest	31-Mar-20	3.3	8.1	8.1
7	Goel Anil Kumar	31-Mar-20	2.4	6.1	-1.0
8	Norges Bank	31-Dec-19	2.0	5.0	0.0
9	Government Pension F	31-Mar-20	2.0	4.8	-0.1
10	Sawhney Manmohan	31-Mar-20	1.8	4.3	0.0

Source: Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	68.2	68.2	68.4	68.4	68.4
FII	3.7	4.2	4.2	4.0	4.1
DII	2.2	2.2	2.2	2.9	3.5
Others	25.9	25.4	25.3	24.7	24.1

Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	**3,151.7**	**4,436.6**	**4,565.5**	**4,244.2**
Growth (%)	-6.5	40.8	2.9	-7.0
Raw Material Expenses	2,231.3	3,251.8	3,339.3	3,059.4
Employee Expenses	223.9	255.8	278.5	284.4
Administrative Expenses	53.2	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Marketing expenses	10.8	0.0	0.0	0.0
Other expenses	376.7	385.9	378.9	339.5
Total Operating Expenditure	2,842.7	3,893.5	3,996.7	3,683.3
EBITDA	**309.0**	**543.2**	**568.7**	**560.9**
Growth (%)	13.2	75.8	4.7	-1.4
Depreciation	57.0	74.9	72.9	74.5
Interest	68.0	79.3	66.4	54.7
Other Income	63.6	36.3	37.0	37.7
PBT	184.1	389.0	429.4	431.7
Exceptional items	0.1	0.0	0.0	0.0
Total Tax	51.5	110.5	121.3	118.3
PAT	**216.3**	**335.1**	**366.5**	**373.6**
Growth (%)	81.5	55.0	9.4	1.9
EPS (₹)	8.4	13.5	15.4	16.4

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/Loss after Tax	267.8	445.6	366.5	373.6
Add: Depreciation	57.0	74.9	72.9	74.5
Add: Interest	68.0	79.3	0.0	0.0
(Inc)/dec in Current Assets	-574.6	-150.9	211.8	-54.1
Inc/(dec) in Current Liabilities	290.6	82.2	148.2	-338.1
CF from operating activities	**-167.3**	**510.3**	**313.1**	**398.2**
(Inc)/dec in Investments	18.5	0.3	-4.8	-5.0
(Inc)/dec in Fixed Assets	-238.2	-116.9	-30.0	-30.0
Others	5.0	9.4	0.8	0.0
CF from investing activities	**-214.7**	**-107.2**	**-34.0**	**-35.0**
Issue/(Buy back) of Equity	0.0	-101.3	-1.0	-1.0
Inc/(dec) in loan funds	483.7	-167.8	-150.0	-210.0
Dividend paid & dividend tax	-21.8	-32.9	-47.6	-45.6
Inc/(dec) in Sec. premium	0.0	-6.5	-90.0	-100.0
Others	-68.9	-77.3	0.0	0.0
CF from financing activities	**393.0**	**-385.7**	**-288.6**	**-356.6**
Net Cash flow	11.0	17.4	-9.5	6.7
Opening Cash	3.7	14.6	32.0	22.6
Cash with bank	4.4	0.8	0.0	0.0
Closing Cash	**19.0**	**32.9**	**22.6**	**29.2**

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet ₹ crore

	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	25.8	24.8	23.8	22.8
Reserve and Surplus	1,114.7	1,313.9	1,542.9	1,770.9
Total Shareholders funds	1,140.5	1,338.7	1,566.7	1,793.7
Total Debt	1,608.9	1,387.0	1,237.0	1,027.0
Long Term Provisions	43.2	47.9	45.9	43.9
Other Non-current Liabilities	61.9	108.7	109.7	110.7
Total Liabilities	**2,854.5**	**2,882.4**	**2,959.3**	**2,975.3**
Assets				
Gross Block	1,054.0	1,372.9	1,402.9	1,432.9
Less: Acc Depreciation	224.1	298.9	371.9	446.4
Net Block	829.9	1,073.9	1,031.0	986.5
Capital WIP	204.8	26.2	26.2	26.2
Intangible assets	0.5	0.9	0.9	0.9
Non Current Investments	124.4	153.3	158.3	163.3
Other non-current assets	70.0	60.6	60.4	60.4
Current Assets				
Inventory	2,118.7	1,912.1	1,712.0	1,768.4
Debtors	296.0	348.7	317.0	294.7
Cash	19.0	32.9	22.6	29.2
Loans & Advances	3.1	3.4	3.4	3.4
Other Current Assets	138.7	433.9	453.9	473.9
Current Liabilities				
Creditors	637.6	756.4	419.2	424.4
Provisions	32.3	31.8	31.8	31.8
Other CL	280.6	375.5	375.5	375.5
Net Current Assets	1,625.0	1,567.4	1,682.5	1,738.0
Total Assets	**2,854.5**	**2,882.4**	**2,959.3**	**2,975.3**

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios ₹ crore

	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	8.4	13.5	15.4	16.4
Cash EPS	10.6	16.5	18.5	19.7
BV	44.2	54.0	65.9	78.7
DPS	0.8	3.1	2.0	2.0
Cash Per Share	8.7	12.1	15.6	19.6
Operating Ratios (%)				
EBITDA Margin	9.8	12.2	12.5	13.2
PBT / Net Sales	7.9	9.6	10.2	11.1
PAT Margin	6.9	6.0	8.0	8.8
Inventory days	245.4	157.3	136.9	152.1
Debtor days	34.3	28.7	25.3	25.3
Creditor days	73.8	62.2	33.5	36.5
Return Ratios (%)				
RoE	19.0	19.9	23.4	20.8
RoCE	11.1	17.6	18.1	17.7
Valuation Ratios (x)				
P/E	6.4	4.0	3.5	3.3
EV / EBITDA	9.4	4.9	4.5	4.2
EV / Net Sales	0.9	0.6	0.6	0.5
Market Cap / Sales	0.4	0.3	0.3	0.3
Price to Book Value	1.2	1.0	0.8	0.7
Solvency Ratios				
Debt/EBITDA	5.2	2.6	2.2	1.8
Debt / Equity	1.4	1.0	0.8	0.6
Current Ratio	3.1	2.8	4.0	4.0
Quick Ratio	0.5	0.8	1.2	1.2

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (Sugar)

Sector / Company	CMP	TP		M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B			RoCE (%)		
	(₹)	(₹)	Rating	(₹ Cr)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Balrampur Chini (BALCHI)	129	170	Buy	3,152	25.2	20.5	17.7	5.1	6.3	7.3	6.6	5.6	6.3	1.4	1.2	1.1	16.3	17.0	14.3
Dhampur Sugar (DHASUG)	130	155	Buy	857	37.8	32.5	37.4	3.4	4.0	3.5	5.4	6.7	5.2	0.7	0.6	0.5	13.7	10.4	12.9
Dwarikesh sugar (DWASUG)	25	38	Buy	471	5.1	3.9	7.0	4.9	6.4	3.5	8.3	8.1	4.3	1.0	1.0	0.8	11.8	9.0	16.8
Triveni Engineering (TRIENG)	54	82	Buy	1,393	8.4	13.5	15.4	6.4	4.0	3.5	9.4	4.9	4.5	1.2	1.0	0.8	11.1	17.6	18.1
Dalmia Bharat Sugar (DALSUG)	105	150	Buy	850	21.6	26.2	31.7	4.8	4.0	3.3	6.7	6.1	4.3	0.6	0.5	0.4	9.8	12.8	13.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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