

Ethanol volumes, MSP to drive earnings...

Triveni Engineering (TEL) posted robust revenue growth of 32.2% driven by 43.4% growth in sugar business & 50.2% growth in distillery business. The strong sugar sales growth was aided by 17.6% volume growth. The company received higher domestic sales quota of 2.09 lakh tonnes (lt) (vs. 1.59 lt in June 2019) in Q1. Despite aggressive exports in Q4, TEL further exported 78000 tonnes sugar in the current quarter. It was allocated 94210 tonnes of sugar in the process of re-allocating quantities to those millers who were interested in exporting additional sugar. Sugar realisation was down 2% with fall in sugar prices in April/May impacted by muted demand due to lockdown. The healthy growth in distillery segment was led by 23.9% growth in ethanol volumes with ramping up of new capacity utilisation. Ethanol realisation was also up 14.5% led by higher proportion of B heavy ethanol. However, within engineering business, gears sales were down 44% & water business was down 23% mainly due to halt in business activity during lockdown & lack of manpower availability. Operating profit increased 71% with higher sales. Net profit increased 145.9% to ₹ 83.8 crore driven by higher operating profit and 54% dip in interest cost.

Distillery volumes, MSP increase to drive earnings growth

With the first year of operation of new 100 KLD distillery, the company was able to sell 8.5 crore litre of ethanol/ENA in FY20. With the ramping up of utilisation, we expect 24% increase in ethanol offtake by OMCs. Moreover, with higher proportion of B heavy ethanol, distillery realisation would also improve. We expect distillery revenue to grow at 14.4% CAGR to ₹ 512 crore. This coupled with expected hike in MSP by ₹ 2/kg would lead to earnings growth of 11.7% CAGR to ₹ 418.5 crore by FY22E.

Subdued engineering operations; recovery only in FY22

The engineering business has been negatively impacted by Covid induced lockdowns. We believe the gear & water business would be under pressure in FY21E with lack of manpower availability in water business and delay in various project implementations impacting gear business. However, we believe the capex cycle would pick up in FY22. This is expected to result in a recovery in both businesses to FY20 levels.

Valuation & Outlook

With the 2.57 lt of sugar exports in sugar season 2019-20, the company has been able to reduce sugar inventory by ~1 lt in the last year. This has led to strong cash flow generation & ₹ 600 crore of debt (including working capital) reduction. We believe aggressive export, sugar sacrifice towards B heavy ethanol would further reduce sugar inventories by March 2021. We expect operating cash flow generation of ~₹ 900 crore in next two years. We value the stock at 1.4x FY21 book value with a revised target price of ₹ 95/share and **BUY** recommendation.

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Total Operating Income	3370.2	3151.7	4436.6	4491.1	4499.0	0.7%
EBITDA	273.1	309.0	543.2	586.4	613.0	6.2%
EBITDA Margin %	8.1	9.8	12.2	13.1	13.6	
Net Profit	119.1	216.3	335.1	387.1	422.3	12.3%
EPS (₹)	4.62	8.39	13.52	16.04	18.25	
P/E	16.9	9.3	5.8	4.9	4.3	
RoNW %	12.6	19.0	19.9	24.1	22.4	
RoCE (%)	10.6	11.1	17.6	19.6	20.4	

Source: Company, ICICI Direct Research



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	1,933.6
Total Debt (FY20)	1,387.0
Cash and Investments (FY19)	32.9
EV	3,287.8
52 week H/L (₹)	88 / 29
Equity capital	24.8
Face value (₹)	1.0

Key Highlights

- Sugar business witnessed 43.4% sales growth aided by 17.6% volume growth & higher sales of bagasse
- Distillery sales up 50.2% driven by 29.3% growth in ethanol offtake by OMCs & 14.9% increase in realisation growth aided by higher proportion of B heavy ethanol
- Maintain BUY rating on stock with revised target price of ₹ 95 per share

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Exhibit 1: Variance Analysis

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Total Operating Income	1,223.8	925.4	32.2	1,494.0	-18.1	Revenues witnessed growth of 32.2% led by 43.4% growth in sugar sales & 50.2% growth in distillery business
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	917.7	681.4	34.7	1,107.1	-17.1	Gross margins contracted due to diversion towards B heavy molasses & decline in sugar prices in April & May due to lower demand from bulk buyers during lockdown
Employee Expense	65.2	59.4	9.8	76.0	-14.1	
Other operating Expenses	85.3	93.6	-8.9	124.5	-31.5	
EBITDA	155.6	91.0	71.0	186.4	-16.5	Operating profit grew 71% to ₹ 155.6 crore with led by strong growth in revenues
EBITDA Margin (%)	12.7	9.8	288 bps	12.5	24 bps	
Depreciation	19.7	17.9	9.7	18.6	5.9	
Interest	15.9	34.7	-54.3	15.1	5.1	Interest cost declined 54% due to strong cash flow generation & reduction in working capital requirement
Other Income	4.4	6.6	-33.2	7.5	-41.1	
PBT	124.5	45.0	176.8	160.3	-22.3	
Tax Outgo	45.4	12.9	252.9	26.6	70.5	
PAT	83.8	34.1	145.9	137.6	-39.1	Net profit increased on higher operating profit & lower interest cost. However, income tax provisioning was higher during the quarter
Key Metrics						
Sugar sales volume (in lakh tonnes)	2.9	2.4	17.6	3.8	-24.1	Sugar volumes increased 17.6% on the back of higher domestic sales quota & sustainable exports
Domestic realisation (₹ per kg)	32.2	32.9	-2.0	32.7	-1.5	Sugar realisation was down 2% due to a dip in demand from bulk buyers in April & May
Distillery volumes (in crore litre)	2.5	1.9	29.3	1.9	34.9	Distillery volumes were higher due to capacity addition in April last year
Distillery realisation (₹ per litre)	48.6	42.5	14.5	53.1	-8.4	Distillery realisation was higher due to increasing proportion of B Heavy ethanol

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	change	Old	New	% change	
Net sales	4565.5	4491.1	-1.6	4,244.2	4,499.0	6.0	We maintain our estimate in FY21 factoring in higher sugar prices due to MSP increase but also factor in loss of sales in engineering business impacted by lower manpower availability & reduced business activity due to Covid related lockdowns. We expect higher sugar prices in FY22
EBITDA	568.7	586.4	3.1	560.9	613.0	9.3	With increase in sugar prices & higher distillery volumes, we change our operating profit numbers
EBITDA Margin (%)	12.5	13.1	60 bps	13.2	13.6	41 bps	
PAT	366.5	387.1	5.6	373.6	422.3	13.0	Our net profit numbers changes factoring in lower interest cost
EPS (₹)	15.4	16.0	4.1	16.4	18.2	11.3	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current					Earlier			Comments
	FY17	FY18	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Sugar Sold (in tonne)	613,755	761,276	759,067	1,069,545	1,050,051	996,077	1,077,496	941,077	We change our sugar volume estimates considering export quota spilling over FY22
Sugar Price (₹ per tonne)	38,210	36,765	31,420	32,406	33,147	33,861	32,491	32,724	We change our sugar price estimates factoring in increase in MSP prices
Distillery volume	38,078	28,093	51,279	84,859	105,600	110,400	102,400	105,600	We marginally increase our distillery volumes estimates
Distillery price (₹ per KL)	43,562	40,745	41,515	46,100	46,381	46,381	46,381	46,381	
Power Units sold	13.6	18.2	17.5	14.5	16.1	17.5	16.8	17.5	
Price per unit (₹ per units)	5.6	5.9	5.2	3.1	3.2	3.3	3.2	3.3	
Gear/Gear box revenue	88.0	107.3	129.3	154.2	123.4	150.5	157.3	176.2	We change our engineering business estimates downwards impacted by lower business activity due to multiple lockdowns
Water segment revenue	167.3	160.3	231.4	305.0	256.2	312.6	289.8	347.7	

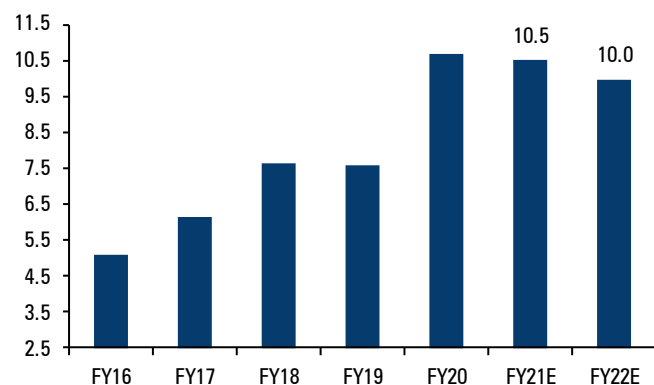
Source: Company, ICICI Direct Research

Conference call Highlights

- Triveni Engineering reported a strong set of numbers with 32.2% revenue growth led by 43.4% growth in sugar revenues and 50.2% growth in distillery sales. The company booked its entire export subsidy (except ₹ 5.8 crore) during the quarter
- The robust sugar sales growth was led by 17.6% increase in sugar volumes with higher domestic sales quota. The company sold 2.09 Lt of sugar vs. 1.59 Lt in corresponding quarter. It exported 0.78 Lt in Q1 vs. 0.85 Lt in the corresponding quarter. Domestic sugar realisation was down 2% to ₹ 32.2/kg due to muted demand in April, May during the lockdown
- Distillery volumes increased 29.3% with higher ethanol offtake. The company commissioned 100 KLD capacity in May 2019. The utilisation was steadily ramped up subsequently. Distillery realisation was up 14.5% to ₹ 48.6/litre due to higher proportion of B heavy ethanol
- The company is holding sugar inventory of 5.45 Lt at ₹ 28.5/kg against 6.39 Lt at ₹ 29.9/kg. With the current monthly sales quota of 0.75–0.8 Lt and small amount of left over exports, the company would exhaust current year inventories by January 2021, which is 2.5 months of inventory at the time of start of new crushing season against industry average of approximately five months
- The company crushed 9.5% higher sugarcane in 2019-20 sugar season with 7.4% increase in sugar production to 10.1 Lt. Recovery rate was 11.54% (down 24 bps due to diversion towards B heavy molasses). On a like to like basis, the recovery rate was up 18 bps for the entire season
- Gear business sales declined 44% due to halt in project implementations during lockdown. The current order book is at ₹ 157.6 crore. The order intake is expected to be muted in FY21
- Water business saw 23% dip in revenues due to slower execution of existing projects with lack of manpower availability. The current order book is at ₹ 947.1 crore with ₹ 477.6 crore towards operations & maintenance. Due to pandemic, new order inflows (largely from government projects) are expected to stay slow in FY21
- With the ramping up of distillery capacity utilisation, the company expects to sell 10.5 crore litre of ethanol/ENA in FY21E & 11.0 crore litre in FY22E with 350 days of distillery operations
- The total debt as on June 2020 was at ₹ 1246.7 crore, which is ₹ 600 crore lower compared to June 2019. This includes ₹ 596 crore of term loan (of which ₹ 467 crore is concessional loans) and rest ₹ 650 crore is working capital debt. The average cost of debt is 6.6%
- Levy molasses quota for country liquor has been reduced to 17% from 18.5% last year by UP government
- The company has ventured into hand sanitisers to leverage its ENA capacity considering strong demand scenario currently. Moreover, it has started manufacturing country liquor to eliminate its levy molasses liability
- The company is also contemplating new line of businesses in the extension of sugar or ethanol value chain. This could be announced in the next three to six months.
- TEL is yet to receive ₹ 354 crore export subsidy from central government and some power business dues from the Uttar Pradesh government
- The company has announced a buyback of 62 lakh shares at a price of ₹ 105/share

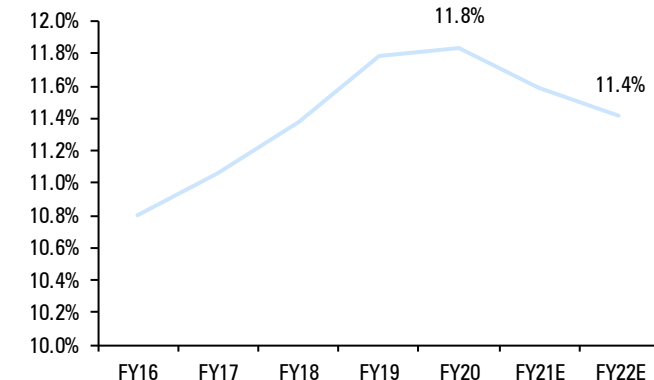
Key Metrics

Exhibit 4: Sugar sales volume (in lakh tonne)



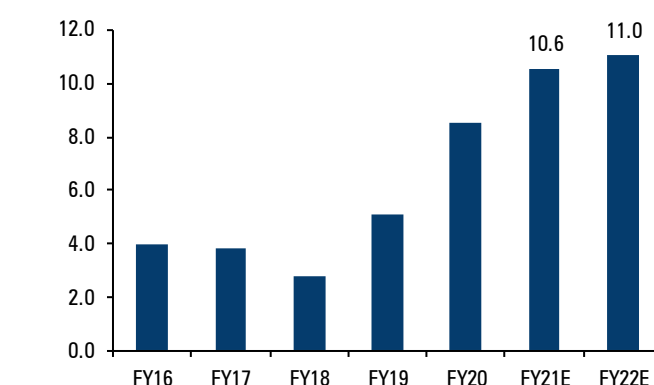
Source: ICICI Direct Research, Company

Exhibit 5: Sugar recovery rate (%)



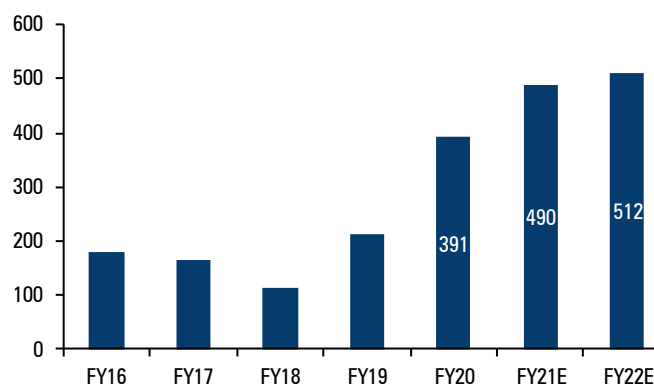
Source: ICICI Direct Research, Company

Exhibit 6: Ethanol volumes (in crore litre)



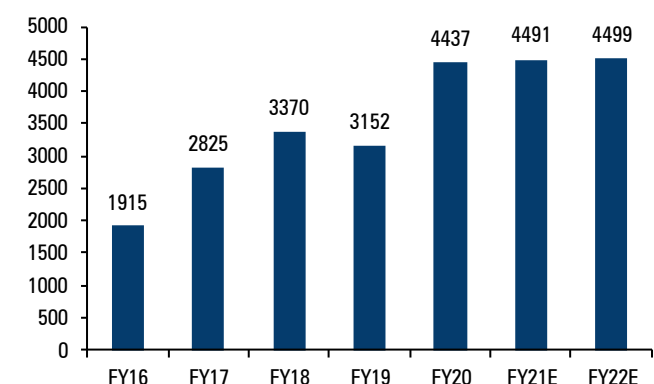
Source: Company, ICICI Direct Research

Exhibit 7: Ethanol sales (₹ crore)



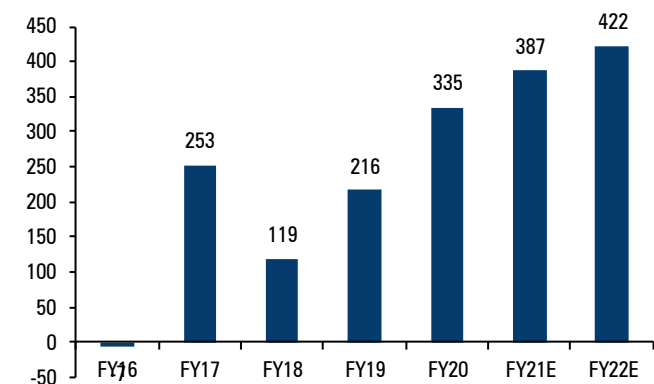
Source: Company, ICICI Direct Research

Exhibit 8: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 9: Net profit trend (₹ crore)

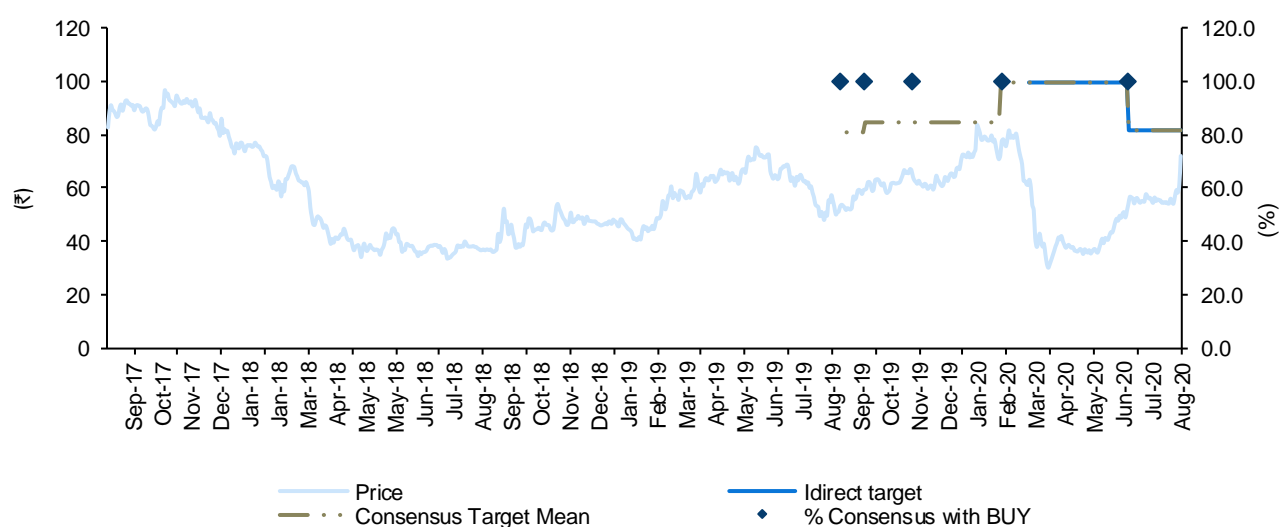


Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY19	3151.7	-6.5	8.39	81.5	9.3	11.2	19.0	11.1
FY20	4436.6	40.8	13.52	61.2	5.8	5.9	19.9	17.6
FY21E	4491.1	1.2	16.04	18.6	4.9	5.0	24.1	19.6
FY22E	4499.0	0.2	18.25	13.8	4.3	4.3	22.4	20.4

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	Saraogi Vivek	31-Mar-20	16.3	35.9	0.0
2	Saraogi Sumedha	31-Mar-20	10.5	23.0	0.0
3	Aadi Financial Advis	23-May-19	4.9	10.7	-0.8
4	Reliance Capital Tru	31-Mar-20	4.1	9.1	9.1
5	L&T Mutual Fund	31-May-20	3.8	8.3	0.0
6	Saraogi Kamal Nayan	30-Dec-19	3.2	7.1	0.0
7	Meenakshi Mercantile	31-Mar-20	3.1	6.8	0.0
8	Udaipur Cotton Mills	31-Mar-20	2.7	5.9	0.0
9	Dimensional Fund Adv	30-Apr-20	2.6	5.8	-0.2
10	Vanguard Group	31-May-20	2.2	4.8	1.4

Source: Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	68.2	68.4	68.4	68.4	68.4
FII	4.2	4.2	4.0	4.1	2.5
DII	2.2	2.2	2.9	3.5	6.2
Others	25.4	25.3	24.7	24.1	23.0

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	4,491.1	4,499.0
Growth (%)	-6.5	40.8	1.2	0.2
Raw Material Expenses	2,231.3	3,251.8	3,257.9	3,224.6
Employee Expenses	223.9	255.8	274.0	301.4
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	372.8	359.9
Total Operating Expenditure	2,842.7	3,893.5	3,904.6	3,885.9
EBITDA	309.0	543.2	586.4	613.0
Growth (%)	13.2	75.8	8.0	4.5
Depreciation	57.0	74.9	72.9	74.5
Interest	68.0	79.3	56.3	41.8
Other Income	63.6	36.3	37.0	37.7
PBT	184.1	389.0	457.2	496.8
Exceptional items	0.1	0.0	0.0	0.0
Total Tax	51.5	110.5	128.5	134.7
PAT	216.3	335.1	387.1	422.3
Growth (%)	81.5	55.0	15.5	9.1
EPS (₹)	8.4	13.5	16.0	18.2

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	387.1	422.3
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	182.4	38.9
Inc/(dec) in Current Liabilities	290.6	82.2	148.2	-170.5
CF from operating activities	-167.3	510.3	472.0	457.0
(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	-0.6	-1.0
Inc/(dec) in loan funds	483.7	-167.8	-330.0	-260.0
Dividend paid & dividend tax	-21.8	-32.9	-48.3	-46.3
Inc/(dec) in Sec. premium	0.0	-6.5	-68.2	-100.0
Others	-68.9	-77.3	0.0	0.0
CF from financing activities	393.0	-385.7	-447.2	-407.3
Net Cash flow	11.0	17.4	-9.2	14.7
Opening Cash	3.7	14.6	32.0	22.9
Cash with bank	4.4	0.8	0.0	0.0
Closing Cash	19.0	32.9	22.9	37.6

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet ₹ crore				
	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	25.8	24.8	24.1	23.1
Reserve and Surplus	1,114.7	1,313.9	1,584.5	1,860.5
Total Shareholders funds	1,140.5	1,338.7	1,608.6	1,883.6
Total Debt	1,608.9	1,387.0	1,057.0	797.0
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	2,882.3	2,821.2	2,835.2
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	1,746.5	1,687.1
Debtors	296.0	348.7	311.9	312.4
Cash	19.0	32.9	22.9	37.6
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	586.9	509.3
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	1567.3	1,544.4	1,597.9
Total Assets	2,854.5	2,882.3	2,821.2	2,835.2

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios ₹ crore				
	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	8.4	13.5	16.0	18.2
Cash EPS	10.6	16.5	19.1	21.5
BV	44.2	54.0	66.6	81.4
DPS	0.8	3.1	2.0	2.0
Cash Per Share	8.7	12.1	15.4	19.3
Operating Ratios (%)				
EBITDA Margin	9.8	12.2	13.1	13.6
PBT / Net Sales	7.9	9.6	11.0	11.9
PAT Margin	6.9	6.0	8.6	9.4
Inventory days	245	157	142	137
Debtor days	34	29	25	25
Creditor days	74	62	48	41
Return Ratios (%)				
RoE	19.0	19.9	24.1	22.4
RoCE	11.1	17.6	19.6	20.4
Valuation Ratios (x)				
P/E	9.3	5.8	4.9	4.3
EV / EBITDA	11.2	5.9	5.0	4.3
EV / Net Sales	1.1	0.7	0.6	0.6
Market Cap / Sales	0.6	0.4	0.4	0.4
Price to Book Value	1.8	1.4	1.2	1.0
Solvency Ratios				
Debt/EBITDA	5.2	2.6	1.8	1.3
Debt / Equity	1.4	1.0	0.7	0.4
Current Ratio	3.1	2.8	3.2	3.5
Quick Ratio	0.5	0.8	1.0	1.1

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (Sugar)

Sector / Company	CMP	TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B			RoCE (%)		
	(₹)	(₹)			FY20	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Balrampur Chini (BALCHI)	142	190	Buy	3,007	23.6	27.0	30.6	6.0	5.3	4.6	6.4	4.8	4.1	1.2	1.1	1.0	16.1	20.3	21.7
Dhampur Sugar (DHASUG)	141	160	Buy	851	32.5	35.9	40.1	4.3	3.9	3.5	6.7	5.0	4.0	0.6	0.5	0.5	10.4	13.3	14.5
Dwarikesh sugar (DवासUG)	30	38	Buy	471	3.9	6.8	7.0	7.7	4.4	4.3	8.1	4.3	4.0	1.0	0.8	0.7	9.0	16.6	16.5
Triveni Engineering (TRIENG)	78	95	Buy	1,934	13.5	16.0	18.2	5.7	4.8	4.3	5.9	5.0	4.3	1.4	1.2	1.0	17.6	19.6	20.4
Dalmia Bharat Sugar (DALSUG)	143	160	Buy	1,004	23.9	26.8	28.4	6.0	5.3	5.0	8.1	7.2	5.9	0.7	0.6	0.5	11.8	11.9	12.1

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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