Triveni Engineering (TRIENG)

ICICI direct Research

CMP: ₹ 76 | Target: ₹ 100 (32%) | Target Period: 12 months | BUY

February 5, 2021

Company Update

ICICI Securities – Retail Equity Research

Capacity expansion in distillery for sustainable growth

Triveni Engineering (TEL) reported strong Q3FY21 results with sustained domestic sugar & distillery volumes & robust growth in operating profits. Consolidated revenue increased 5% to ₹ 1123.1 crore led by 6.8% growth in sugar segment & 7.2% growth is distillery segment. Sugar volume increased by 6.7% to 2.71 lakh tonnes mainly on account of higher domestic sale quota. The company also exported 14244 tonnes of sugar pending from previous seasons export quota. The company is holding 2.82 lakh tonnes of sugar valued at ₹ 30.9 / kg. Distillery volumes increased by 3.8% to 2.24 crore litre. Distillery realisation was up 1.5% to ₹ 47.8/litre. Engineering businesses continued to remain impacted by pandemic related execution delays. Power transmission sales were down 52.8% to ₹ 21.3 crore mainly due to deferment of supplies from Q3 to Q4. Water business sales was down by 14.7% to ₹ 60.2 crore. Outstanding order book for power transmission & water business was ₹ 160 crore & ₹ 827 crore, respectively. Operating profit increased 82.6% to ₹ 160.5 crore on account of lower sugar inventory valuation at the end of Q2FY21. Led by higher operating profit & lower interest cost, PAT increased to ₹ 94.7 crore as against ₹45.2 crore in corresponding quarter.

Capacity addition in distillery segment

The company announced capacity addition of two new distilleries of 160 KLD & 40 KLD capacity with capex of ₹ 250 crore. The 160 KLD capacity would fungible for sugarcane juice, B-heavy molasses, C-Heavy molasses & grain whereas 40 KLD capacity would be dedicated for grain based ethanol. With this, TEL's total distillery capacity would increase to 520 KLD (~16 crore litres pa). It would be able to commission these plants by January 2022. We believe new capacities would create a sustainable business model where company would be able to switch its production between sugar & ethanol according to demand supply situation. Moreover, this would also eliminate the possibility of building up sugar inventory & in turn working capital debt.

Low sugar recovery to increase cost of production

In the current sugar season, sugar recoveries are expected to be lower by 20-30 bps due to adverse weather conditions at the time of ratoon sugarcane crushing. This would increase the cost of production by ₹0.6 - ₹ 1.0/kg. However, we believe sugar mills in western UP would fare better compared to mills in central & eastern UP. We believe sugar production for TEL would be down by only ~5% & it would be able to take advantage of expected higher domestic sugar prices in FY22E

Valuation & Outlook

The company has been able to reduce its overall debt by ~₹ 1000 crore in last one year. Further, we believe increase in distillery capacities would result in sustainable growth without building up any working capital debt. We value the stock at 1.3x FY22 book value with a revised target price of ₹ 100/share (earlier target price was ₹ 95/share) and maintain **BUY** rating.

TRIVENI ENGINEERING & INDUSTRIES LTD.

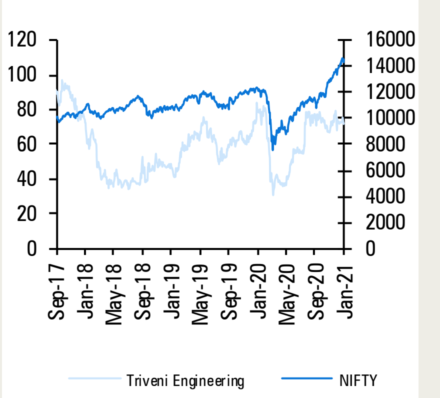
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	1,822.6
Total Debt (FY20)	1,558.2
Cash and Investments (FY19)	32.9
EV	3,347.9
52 week H/L (₹)	85 / 29
Equity capital	24.8
Face value (₹)	1.0

Key Risk

- Any significant decline in sugar recoveries in UP could result in higher cost of production & in turn can impact profitability
- Sugar prices could remain under pressure if any disruption derails government's export program

Price chart



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Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Total Operating Income	3370.2	3151.7	4436.6	4449.6	4682.3	2.7%
EBITDA	273.1	309.0	543.2	610.6	632.0	7.9%
EBITDA Margin %	8.1	9.8	12.2	13.7	13.5	
Net Profit	119.1	216.3	335.1	356.4	407.2	10.2%
EPS (₹)	4.62	8.39	13.52	14.76	17.60	
P/E	16.3	9.0	5.6	5.1	4.3	
RoNW %	12.6	19.0	19.9	23.3	23.7	
RoCE (%)	10.6	11.1	17.6	20.4	21.3	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	
Total Operating Income	1,123.1	1,069.3	5.0	1,168.4	-3.9	Net sales witnessed a growth of 5% on the back of higher sugar & ethanol volumes however sugar realisation was marginally lower
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	794.6	814.6	-2.5	937.0	-15.2	
Employee Expense	68.3	63.7	7.2	60.6	12.8	
Other operating Expenses	98.5	103.1	-4.5	93.0	5.9	
EBITDA	160.5	87.9	82.6	77.8	106.2	Operating profit jumped up 82% mainly on account of lower valuation of inventory cost at the end of Q2FY21
EBITDA Margin (%)	14.3	8.2	607 bps	6.7	763 bps	
Depreciation	19.8	19.3	2.7	19.7	0.7	
Interest	9.2	14.0	-34.5	14.1	-34.8	Interest cost down with signficiant decline in debt levels.
Other Income	7.7	6.8	13.3	7.9	-3.3	
PBT	139.1	61.3	127.0	52.0	167.6	
Tax Outgo	51.1	21.4	138.8	19.9	156.8	
PAT	94.7	45.2	109.6	31.2	203.6	Led by higher operating profit & lower interest cost, net profit increased to ₹94.7 crore from ₹45.2 crore
Key Metrics						
Sugar sales volume (in lakh tonnes)	2.7	2.5	6.7	2.7	1.0	Sugar volume were up by 2.5% on the back of higher domestic sales quota however company exported only small quantity of previous year
Domestic realisation (₹ per kg)	32.8	33.6	-2.3	33.3	-1.5	Sugar prices were muted due to higher domestic quota & early start of crushing
Distillery volumes (in crore litre)	2.2	2.2	3.8	3.4	-34.4	Distillery volumes were up by 3.8%
Distillery realisation (₹ per litre)	47.5	46.8	1.5	44.8	6.1	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			
(₹ Crore)	**Old**	**New**	**change**	**Old**	**New**	**% change**	**Comments**
Net sales	4646.2	4449.6	-4.2	4,810.2	4,682.3	-2.7	We changed our revenue estimates as sugar sales volumes are expected to be lower in FY21E & FY22E
EBITDA	579.3	610.6	5.4	592.4	632.0	6.7	We anticipate higher sugar prices in FY22 & impact of higher distillery prices in Q4FY21
EBITDA Margin (%)	12.5	13.7	125 bps	12.3	13.5	118 bps	
PAT	366.5	356.4	-2.8	399.2	407.2	2.0	We revise income tax estimate for FY21 according to 9MFY21 numbers
EPS (₹)	15.2	14.8	-2.9	17.2	17.6	2.3	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current						Earlier		
	FY17	**FY18**	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY21E**	**FY22E**	**Comments**
Sugar Sold (in tonne)	613,755	761,276	759,067	1,069,545	1,027,140	1,026,089	1,065,307	1,053,642	We changed our sugar volume estimate downwards due to expected decline in sugar production in UP
Sugar Price (₹ per tonne)	38,210	36,765	31,420	30,249	33,059	33,839	33,044	33,666	We changed our sugar realisation estimate for FY22 given sugar inventory would come down significantly after 6 million tonnes of export in the country
Distillery volume	38,078	28,093	51,279	84,551	110,880	117,300	115,500	120,750	We revised our distillery volumes according to 9MFY21 numbers
Distillery price (₹ per KL)	43,562	40,745	41,515	46,100	50,282	53,049	50,762	53,049	
Power Units sold	13.6	18.2	17.5	14.5	16.1	15.5	15.5	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	150.3	105.2	131.5	130.7	159.5	Engineeting businesses are still impacted by post pandemic delays in project executions
Water segment revenue	167.3	160.3	231.4	289.1	245.7	299.8	260.2	317.4	

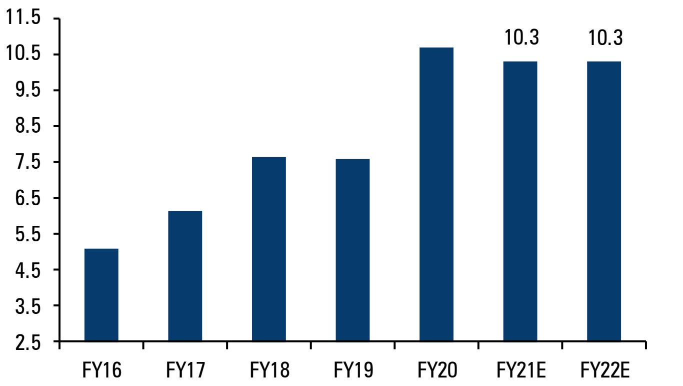
Source: Company, ICICI Direct Research

Conference call Highlights

- Revenue increased 5% to ₹ 1123.1 crore led by 6.8% growth in sugar segment & 7.2% growth in distillery segment. Sugar volumes increased by 6.7% to 2.7 lakh tonnes whereas distillery volumes grew by 3.8% to 2.2 crore litres. Sugar volumes include 0.14 lakh tonnes of export pertaining to previous season. The company fetched the price of ₹ 34.6/ kg (including export subsidy) for exports. It is holding sugar inventory of 2.82 lakh tonnes valued at ₹ 30.9 / kg as on December 2020
- In the sugar season 2020-21, the company started crushing early in current season & it has been able to crush 2.57 million tonnes of sugarcane with the effective recoveries of 10.19% resulted in sugar production of 2.86 lakh tonnes. like to like sugar recoveries are 10.93% as against 11.36% in the corresponding quarter. The company is actively considering variety substitute program to gradually reduce the dependence on sugarcane variety Co-0238
- The reduction is recoveries was mainly on account of adverse climate. Also, longer days of crushing in previous season resulted in inadequate time for ratoon crop for maturity. The full season decline in recoveries can be 20-30 bps given plantation sugar recoveries are relatively better
- The government announced ₹ 6/kg of export subsidy for the sugar season 2020-21. TEL was allocated 1.83 lakh tonnes of export quota and it has already contracted 0.5 lakh tonnes of exports
- As per the latest ISMA estimates, sugar production in the country is likely to be 30.2 million tonnes. UP is likely to witness 17% decline in sugar production due to lower yields & recoveries, higher diversion towards Gur & Khandsari & Sugar mills are likely to sacrifice 0.67 lakh tonnes sugar for ethanol manufacturing through B-heavy molasses / sugarcane juice
- On the ethanol front, OMCs are likely to procure ~325 crore litre of ethanol from sugar mills for 7.7-8.0% ethanol blending during December 2020 to November 2021 and sugar industry has already contracted 248 crore litres of ethanol. The government has advanced the 20% ethanol blending target from 2030 to 2025. TEL has contracted 9.86 crore litres of ethanol, of which 90% is B-heavy
- Distillery volumes in FY21 are likely to be 10.5-11 crore litres. TEL has announced ₹250 crore capex for two new distillery of 160 KLD & 40 KLD. The 160 KLD capacity would be fungible for various feedstock (Molasses, Sugarcane Juice, and Grain) whereas 40 KLD capacity would be grain based. It is likely to commission these plants by January 2022
- Engineering business of the company remained impacted by pandemic delays in execution of projects & hence deferments of order supplies from Q3 to Q4 for high speed gears. Power transmission business outstanding order book stands at ₹160.9 crore. Water business also adversely impacted by pandemic with delays in order finalisations. Outstanding order book stands at ₹ 827 crore which includes ₹ 467 crore of O&M contracts
- The company started producing country liquor in one of its plant to safeguard from the 18% levy obligation. It has approval for producing 52.8 lakh litres of potable alcohol
- The total debt for the company declined by ₹ 994 crore to ₹ 550 crore. The entire debt comprise of concessional interest rates. The cost of debt for the company is 5.7%

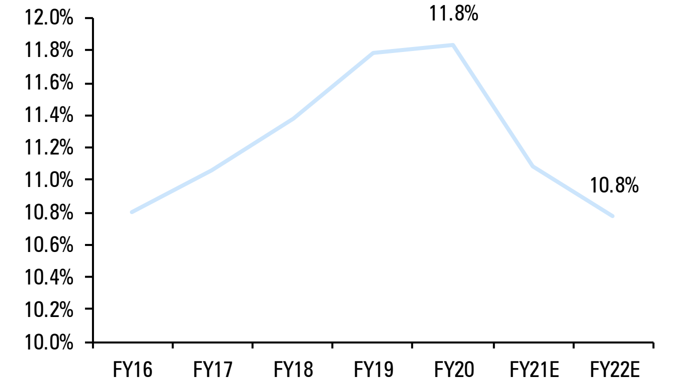
Key metrics

Exhibit 4: Sugar sales volume (in lakh tonne)



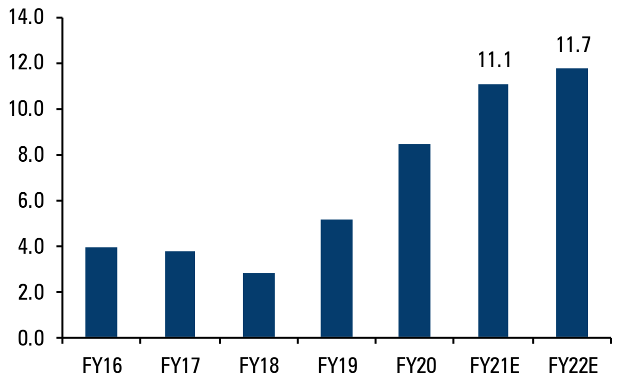
Source: ICICI Direct Research, Company

Exhibit 5: Sugar recovery rate (%)



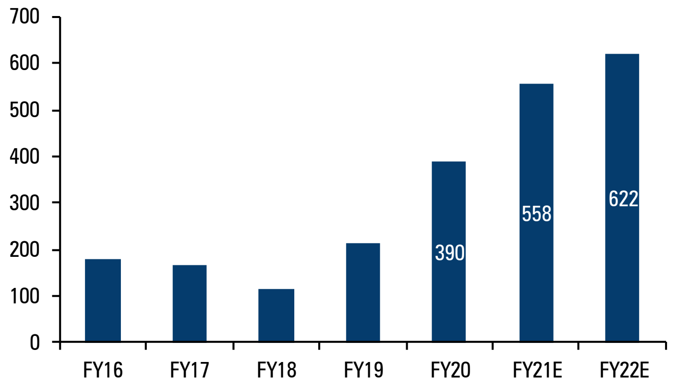
Source: ICICI Direct Research, Company

Exhibit 6: Ethanol volumes (in crore litre)



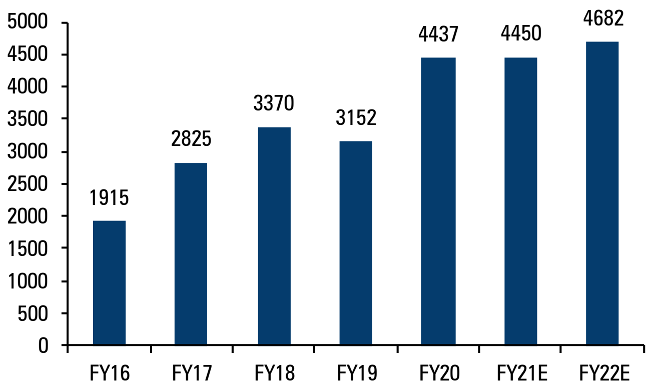
Source: Company, ICICI Direct Research

Exhibit 7: Ethanol sales (₹ crore)



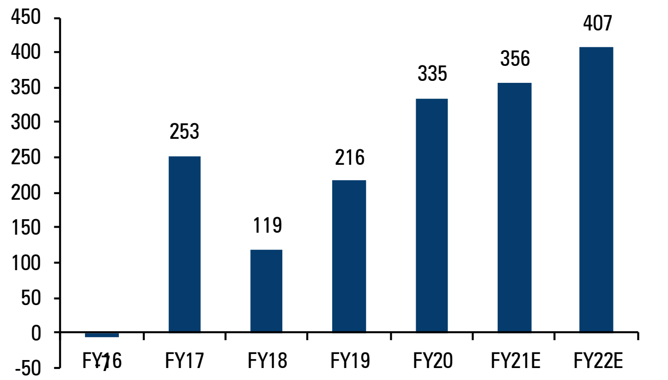
Source: Company, ICICI Direct Research

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	9.0	10.8	19.0	11.1
FY20	4436.6	40.8	13.52	61.2	5.6	5.7	19.9	17.6
FY21E	4449.6	0.3	14.76	9.2	5.1	4.6	23.3	20.4
FY22E	4682.3	5.2	17.60	19.2	4.3	4.1	23.7	21.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	**3,151.7**	**4,436.6**	**4,449.6**	**4,682.3**
Growth (%)	-6.5	40.8	0.3	5.2
Raw Material Expenses	2,231.3	3,251.8	3,204.8	3,385.4
Employee Expenses	223.9	255.8	275.9	290.3
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	358.4	374.6
Total Operating Expenditure	2,842.7	3,893.5	3,839.0	4,050.3
EBITDA	**309.0**	**543.2**	**610.6**	**632.0**
Growth (%)	13.2	75.8	12.4	3.5
Depreciation	57.0	74.9	77.2	85.9
Interest	68.0	79.3	54.9	44.9
Other Income	63.6	36.3	29.0	29.6
PBT	184.1	389.0	478.5	501.1
Exceptional items	0.1	0.0	0.0	0.0
Total Tax	51.5	110.5	167.5	140.6
PAT	**216.3**	**335.1**	**356.4**	**407.2**
Growth (%)	81.5	55.0	6.3	14.3
EPS (₹)	8.4	13.5	14.8	17.6

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/Loss after Tax	267.8	445.6	356.4	407.2
Add: Depreciation	57.0	74.9	77.2	85.9
Add: Interest	68.0	79.3	0.0	0.0
(Inc)/dec in Current Assets	-574.6	-150.9	114.9	285.0
Inc/(dec) in Current Liabilities	290.6	82.2	148.2	-70.9
CF from operating activities	**-167.3**	**510.3**	**477.5**	**722.3**
(Inc)/dec in Investments	18.5	0.3	-4.8	-5.0
(Inc)/dec in Fixed Assets	-238.2	-116.9	-30.0	-250.0
Others	5.0	9.4	0.8	0.0
CF from investing activities	**-214.7**	**-107.2**	**-34.0**	**-255.0**
Issue/(Buy back) of Equity	0.0	-101.3	-0.6	-1.0
Inc/(dec) in loan funds	483.7	-167.8	-300.0	-250.0
Dividend paid & dividend tax	-21.8	-32.9	-96.6	-115.7
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**	**-465.5**	**-466.7**
Net Cash flow	11.0	17.4	-21.9	0.6
Opening Cash	3.7	14.6	32.0	10.1
Cash with bank	4.4	0.8	0.0	0.0
Closing Cash	**19.0**	**32.9**	**10.1**	**10.7**

Source: Company, ICICI Direct Research

Exhibit 13: 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	1,505.4	1,696.9
Total Shareholders funds	1,140.5	1,338.7	1,529.6	1,720.1
Total Debt	1,608.9	1,387.0	1,087.0	837.0
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**	**2882.3**	**2,772.2**	**2,711.7**
Assets				
Gross Block	1,054.0	1,372.9	1,402.9	1,652.9
Less: Acc Depreciation	224.1	298.9	376.1	462.1
Net Block	829.9	1,073.9	1,026.8	1,190.8
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	1,816.9	1,495.7
Debtors	296.0	348.7	309.0	325.2
Cash	19.0	32.9	10.1	10.7
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	686.5	631.6
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	1,499.6	1,270.0
Total Assets	**2,854.5**	**2,882.3**	**2,772.2**	**2,711.7**

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios ₹ crore

	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	8.4	13.5	14.8	17.6
Cash EPS	10.6	16.5	18.0	21.3
BV	44.2	54.0	63.4	74.3
DPS	0.8	3.1	4.0	5.0
Cash Per Share	8.7	12.1	15.6	20.0
Operating Ratios (%)				
EBITDA Margin	9.8	12.2	13.7	13.5
PBT / Net Sales	7.9	9.6	11.4	11.3
PAT Margin	6.9	6.0	8.0	8.7
Inventory days	245	157	149	117
Debtor days	34	29	25	25
Creditor days	74	62	56	49
Return Ratios (%)				
RoE	19.0	19.9	23.3	23.7
RoCE	11.1	17.6	20.4	21.3
Valuation Ratios (x)				
P/E	9.0	5.6	5.1	4.3
EV / EBITDA	10.8	5.7	4.6	4.1
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	1.7	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	0.5
Current Ratio	3.1	2.8	2.9	2.7
Quick Ratio	0.5	0.8	0.9	1.0

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (Sugar)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹) FY20	EPS (₹) FY21E	EPS (₹) FY22E	P/E (x) FY20	P/E (x) FY21E	P/E (x) FY22E	EV/EBITDA (x) FY20	EV/EBITDA (x) FY21E	EV/EBITDA (x) FY22E	P/B FY20	P/B FY21E	P/B FY22E	RoCE (%) FY20	RoCE (%) FY21E	RoCE (%) FY22E
Avadh Sugar (AVASUG)	196	195	Hold	362	44.3	55.2	60.5	4.4	3.5	3.2	7.0	5.8	4.7	0.6	0.5	0.4	10.6	12.3	13.3
Balrampur Chini (BALCHI)	162	190	Buy	3,304	23.6	23.7	29.8	6.9	6.8	5.4	6.9	6.2	5.0	1.4	1.3	1.2	16.1	17.3	20.5
Dhampur Sugar (DHASUG)	170	175	Buy	950	32.5	38.6	43.3	5.2	4.4	3.9	7.0	4.3	3.3	0.7	0.6	0.5	10.4	15.4	17.4
Dwarikesh sugar (DWASUG)	28	31	Hold	527	3.9	5.3	7.1	7.1	5.2	3.9	8.5	4.4	3.7	1.1	1.0	0.8	9.0	17.5	19.3
Triveni Engineering (TRIENG)	76	100	Buy	1,823	13.5	14.8	17.6	5.6	5.1	4.3	5.7	4.6	4.1	1.4	1.2	1.0	17.6	20.4	21.3
Dalmia Bharat Sugar (DALSUG)	142	180	Buy	1,060	23.9	33.4	32.5	5.9	4.2	4.4	6.4	4.2	4.0	0.7	0.6	0.5	11.8	15.4	14.3

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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