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Triveni Engineering & Industries Limited

Good Quarter

Miscleneous	Sharekhan code: TRIVENI	Result Update

Summary

- Triveni Engineering & Industries (TEIL) Q3FY21 results were better than expectations mainly led by a sharp expansion of 609 bps in OPM to 14.3%, resulting in a 3.5x growth in PAT to Rs. 139 crore; revenue grew by 5%.
- Sugar division and distillery division revenues grew by 9% and 7% each; engineering business has almost reached to 7 0% of pre-COVID levels.
- Higher sugar under ethanol blending and export quota of 6 million tonnes would lead to better performance in FY2022 despite higher sugar production. Engineering business is expected to recover strongly with strong order book.
- We have broadly maintained our earnings estimates for FY2022/23. We recommend Buy on the stock with the price target of Rs. 90.

TEIL consolidated revenues grew by 5% to Rs. 1,121.9 crore. Sugar division sales grew by 9% to Rs. 1003.6 crore with strong sales volume growth of 7%. Distillery division revenues rose by 7% to Rs. 108.4 crore. However, engineering business revenues decline by 30% y-o-y. OPM stood at 14.3% as against 8.2% a year ago. For the sugar division, as the export subsidy of Rs. 40 crore was not booked till December 31, 2019 for exports undertaken in Q3FY20, its margins in Q3FY2020 were lower at 3.8% as against 11.6% in Q3FY2021. The sugar division's revenues and PBIT grew by 25% and 33% in 9MFY2021. The profitability of the distillery improved for the first time in Q3 with compared to 24.9% achieved in Q3FY2020. The company expects recovery in the sugar business' recovery rate to be lower by 30 bps as compared to the previous sugar season (sugar production likely to decline by 5%). The company will export 1.82 lakh tonnes in 2020-21 under the Maximum Admissible Export Quantity (MAEQ) programme (0.5 lakh tonnes contracted till January 2021). Though export subsidy is expected at Rs. 6 per kg, higher international sugar prices would keep export realisation at comfortable position. Sugar inventories stood at was 28.2 lakh quintals, valued at Rs. 30.9/kg, as of December. The distillery division received an ethanol supply contract of 9.86 crore litres for 2020-21 (90% of the contract is for B-heavy molasses which can be realised Rs. 57.6/litre). The engineering business' order book is slightly lower than Rs. 1000 crore, which indicates a good recovery in FY2022. Total debt stood at Rs. 550 crore as on December 31, 2020 as against Rs. 1,544 crore as on December 31, 2019. Average cost of debt was lower at 5.66%. The company is planning a capital expenditure of Rs. 250 crore to expand its distillery capacity by 200 KLPD (likely to commence operations in FY2023).

Key positives

- Sugar business' EBIT was higher at Rs. 116.7 crore in Q3FY21 as compared to Rs. 35.3 crore due to sale of sugar produced at lower cost.
- Distillery business' EBIT margins expanded by 251 bps y-o-y in Q3FY2021
- Interest cost fell by 40% in 9MFY2021 to ~Rs. 39 crore.

Key negatives

- Engineering business' revenues decreased by 30% y-o-y in 9MFY2021

Our Call

View - Recommend Buy with PT of Rs. 90 - The government focus on increasing ethanol blending to 20% by FY2025 along with prudent export quota will check excess supply of sugar in the domestic market. Triveni's sugar division is expected to perform steadily with stable pricing in the coming years, while the distillery business to post double-digit growth in revenues and clock improved profitability led by capacity enhancement. This along with stable cash flows and lower debt would strengthen balance sheet in the near term. The stock is currently trading at 4.0x/3.6x its FY2022/23E EPS. We recommend a Buy on the stock with a price target of Rs. 90.

Key risk

A significant decline in sugar prices, a slower recovery or any change in the government policy affecting the industry's fundamentals would e key risks to earnings estimates.

Valuation (consolidated) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	3,152	4,437	5,148	5,318	5,655
OPM (%)	9.8	12.2	11.9	12.5	12.9
Adjusted PAT	196	315	504	563	641
Adjusted EPS (Rs)	8.72	13.51	16.8	18.7	21.2
P/E (x)	8.6	5.6	4.5	4.0	3.6
P/B (x)	1.7	1.4	1.1	0.9	0.7
EV/EBIDTA (x)	11.9	6.3	5.0	4.0	3.1
RoNW (%)	18.8	25.4	25.5	22.9	20.7
RoCE (%)	12.6	17.0	19.3	20.1	20.7

Source: Company; Sharekhan estimates

Note: We now convert Triveni Engineering into a Stock update; it was earlier a 'Viewpoint' under our coverage.

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 75**	
Price Target: **Rs. 90**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

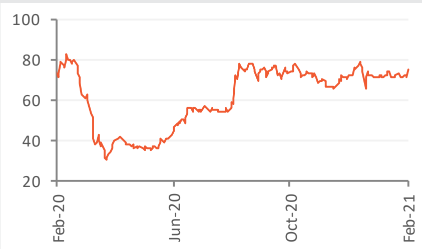
Company details

Market cap:	Rs. 1,813 cr
52-week high/low:	Rs. 88/29
NSE volume: (No of shares)	6.1 lakh
BSE code:	532356
NSE code:	TRIVENI
Free float: (No of shares)	7.6 cr

Shareholding (%)

Promoters	68.4
FII	2.7
DII	3.9
Others	25.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.7	9.2	3.5	-1.5
Relative to Sensex	-0.5	-8.4	-28.4	-25.8

Sharekhan Research, Bloomberg

Revenues grew by 5%; OPM stood at 14.3% in Q3: Revenues grew by 5% to Rs. 1121.9 crore. The sugar division's revenues grew by 9% driven by 7% growth in sugar sales volume while distillery division revenues grew by 7.2%. The engineering division's performance is improving q-o-q. Gross margins improved by 535 bps to 29.2% and OPM improved by 609 bps to 14.3%. This is mainly on account of strong improvement in the sugar division's profitability (improved to Rs. 116.7 crore from Rs. 35.3 crore in Q3FY20). Operating profit grew by 82.6% y-o-y to Rs. 160.5 crore. Interest expenses are down by 35% y-o-y to Rs. 9.2 crore. Strong operating performance and lower interest cost resulted in an adjusted PAT of Rs. 139.1 crore in Q3 as against Rs. 40 crore in Q3FY20.

Sugar volumes grew strongly: Sugar revenues grew by 24% to Rs. 3070.9 crore with strong volume growth of 24.3% to 1537130 tonne in 9MFY2021. Domestic volumes grew by 29.6% and exports grew by 20.1%. Domestic realisations stood almost flat at Rs. 32.8/kg and export realisation grew by ~16% to Rs. 23.0/kg. For 9MFY2021, the sugar business' revenue includes export subsidy of Rs. 57.7 crore pertaining to export sales as against export subsidy of Rs. 93.22 crore in 9MFY2020. Further, an export subsidy of Rs. 40 crore was not booked till December 31, 2019 for exports undertaken in Q3 FY20. Sugar inventory stood at December 31, 2020 was 28.2 lakh quintals, which is valued at Rs. 30.9/kg. Co-generation operations (including incidental co-generation) achieved external sales of Rs. 39.4 crore during 9MFY2021 as against Rs. 31.85 crore in 9MFY20, which is a growth of 24% due to higher number of operating days during the current year.

Sugar Division performance

Particulars	Q3FY21	Q3FY20	y-o-y%	9MFY21	9MFY20	y-o-y%
Sugar dispatches (tonnes)	**25,507.0**	**25,744.0**	**-0.9**	**76,822.0**	**68,960.0**	**11.4**
Domestic	22,492.0	21,672.0	3.8	819.7	659.6	24.3
Exports	47.5	46.8	1.5	46.7	44.1	5.8
Domestic realisation (Rs. /Kg)						
Export realisation (Rs. /Kg)	108.7	101.4	7.2	387.3	292.1	32.6
Gross Revenue (Rs. crore)	27.6	23.2	19.0	23.2	72.6	-68.0
PBIT (Rs. crore)	25.4	22.9	251.0	6.0	24.9	
PBIT margins (%)	11.6	3.8	779	8.7	8.2	55

Source: Company; Sharekhan estimates

Distillery business continues to see robust growth: Revenues grew by 32% y-o-y to Rs. 292 crore driven 24% increase in the sales volume and average realisation grew by 6% in 9MFY2021. PBIT margins of the distillery division in 9MFY2021 is lower than the corresponding period of last year due to much lower raw material (molasses) prices relating to ethanol sold in the previous year. The distillery received contracts of 9.86 crore litres for the supply year 2020-21. The company is planning a capital expenditure of Rs. 250 crore to expand distillery capacity by 200 KLPD (likely to commence operations in FY2023).

Distillery business' performance

Particulars	Q3FY21	Q3FY20	y-o-y%	9MFY21	9MFY20	y-o-y%
Operational details						
Production (KL)	25,507.0	25,744.0	-0.9	76,822.0	68,960.0	11.4
Sales (KL)	22,492.0	21,672.0	3.8	819.7	659.6	24.3
Avg. Realisation (Rs. /ltr)	47.5	46.8	1.5	46.7	44.1	5.8
Financial details						
Gross Revenue (Rs. crore)	108.7	101.4	7.2	387.3	292.1	32.6
PBIT (Rs. crore)	27.6	23.2	19.0	23.2	72.6	-68.0
PBIT margins (%)	25.4	22.9	251.0	6.0	24.9	

Source: Company; Sharekhan estimates

Engineering business - Yet to achieve full recovery

Power transmission business: Revenues declined by 53% y-o-y in Q3FY21 due to the impact of COVID-19 which resulted in scheduled supplies deferred from Q3 to Q4FY21. PBIT margins remained lower at 5.6% vs. 14.0% in Q2FY20 due to higher commodity prices. Overall order book for the segment stood at Rs. 160.9 crore (includes long term orders worth Rs. 55.1 crore) down 15.4% y-o-y. On the order enquiry front, the company saw strong enquiries from the defence segment and is hopeful of concluding some more of them in the coming quarters. Going ahead, the management highlighted the order booking is getting normalized gradually and with the easing of COVID-19 and travel restrictions, both supply of product to the customers and order booking should improve in coming quarters. With a foray into Built-to-print for large global OEMs, the company is expected to see significant growth from this segment in the coming years. Further, TEIL is also exploring new product and geographies to expand which in turn will improves its revenue and profitability.

Water Business: Revenues declined by 16% y-o-y to Rs. 58.9 crore as projects under execution were impacted due to the lockdown and COVID-related issues. PBIT margins declined by 33 bps y-o-y to 8%. Order finalisation has been slow due to the pandemic, the. Overall order book for the segment stood at Rs. 827.5 crore (includes long term O&M orders worth Rs. 467.3 crore) Going ahead, the management indicated that the company participated in a large number of tenders (amount not quantified) which are in various stages of finalisation and is expected to close some of these in the coming quarters. The management expects some subdued activities in new business opportunities in FY21 and the business is gearing up to tackle these issues.

Engineering business' performance Rs cr

Segmental Revenue	Q3FY21	Q3FY20	Y-o-Y (%)
Engineering Business			
Power Transmission	21.3	45.1	-52.8
Water	60.2	70.5	-14.6
Total	81.5	115.6	-29.5
Segmental Results	**Q3FY21**	**Q3FY20**	**Y-o-Y (%)**
Engineering Business			
Power Transmission	5.6	17.3	-67.6
Water	5.2	5.9	-11.9
Total	**10.8**	**23.2**	**-53.4**
EBIT margin (%)	**Q3FY21**	**Q3FY20**	**Y-o-Y (bps)**
Power Transmission	26.3	38.4	-
Water	8.6	8.4	-

Source: Company; Sharekhan Research

Results (consolidated) Rs cr

Particulars (Rs. cr)	Q3FY21	Q3FY20	Y-o-Y (%)	Q2FY21	Q-o-Q (%)
Net revenue	1121.9	1069.3	4.9	1168.4	-4.0
Raw materials	794.6	814.6	-2.5	937.0	-15.2
Employee costs	68.3	63.7	7.2	60.6	12.8
Other expenditure	98.5	103.1	-4.5	93.0	5.9
Total expenditure	961.4	981.4	-2.0	1090.6	-11.8
Operating profit	160.5	87.9	82.6	77.8	106.2
Other income	7.7	6.8	13.3	7.9	-3.3
Interest expenses	9.2	14.0	-34.5	14.1	-34.8
Depreciation	19.8	19.3	2.7	19.7	0.7
Profit Before Tax	139.1	61.3	127.0	52.0	167.6
Tax	0.0	21.4	-100.0	19.9	-100.0
Adjusted PAT	139.1	39.9	248.8	32.1	333.5
Share of profit from associates	6.6	5.3	25.8	4.5	47.6
Adjusted PAT after MI	145.8	45.2	222.7	36.6	298.4
Extra-ordinary items	0.0	0.0	-	0.0	-
Reported PAT	145.8	45.2	222.7	36.6	298.4
Adjusted EPS (Rs.)	3.8	1.8	109.6	1.5	158.7
			bps		**bps**
GPM (%)	29.2	23.8	535	19.8	936
OPM(%)	14.3	8.2	609	6.7	764

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Rise in supply for ethanol manufacturing and exports will mitigate impact of higher output

As per the ISMA's latest estimates for total sugar production for SY2020-21 based on sugarcane production is estimated at 32.2 million. It is further estimated that due to diversion of sugarcane juice and B-heavy molasses, actual sugar production will drop by 2 million tonnes. Therefore, estimated sugar production net of diversion is estimated at 30.2 million tonnes, which is a growth of 10% over the previous sugar season. A revised ethanol policy, recommended increase in MSP by Rs. 2 per kg, quota base sugar distribution and export quota of 6 million tonnes will benefit sugar companies in FY2022 with stable sugar realisation. Increase in the international sugar prices would help the Indian companies to get better export realisation for their produce. The Government is targeting to achieve 20% blending of Ethanol by 2025 which would largely solve the problem of excess sugar over the medium term.

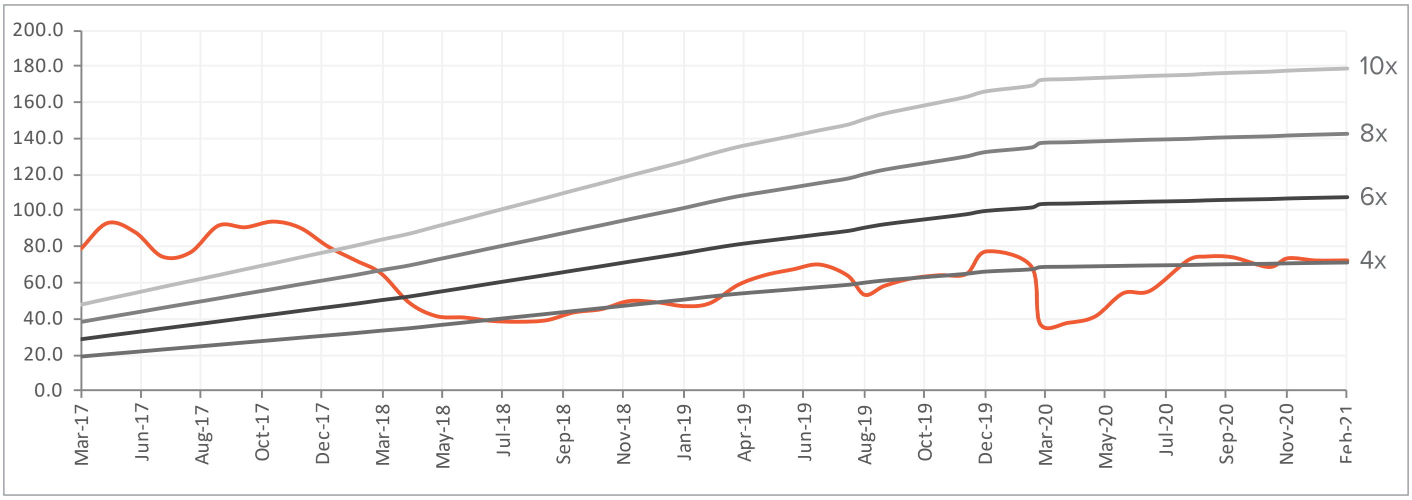
■ Company Outlook – Distillery and engineering business to drive performance in FY2022

TEIL expects a recovery of 30 bps less in the sugar business as compared to the previous sugar season (production to be lower by 5%). The company will export 1.82 lakh tonnes in 2020-21 under the MAEQ programme (0.5 lakh tonnes contracted till January 2021). Though exports subsidy is expected at Rs. 6 per kg, higher international sugar prices would keep export realisation comfortable. Sugar inventory stood at 28.2 lakh quintals as December, valued at Rs. 30.9/kg. The distillery division has received contract of 9.86 crore litres of ethanol supply for year 2020-21 (90% of the contract is for B-heavy molasses which can be realised Rs. 57.6/litre). The order book of engineering business currently stands slightly lower than Rs. 1,000 crore.

■ Valuation – Recommend Buy with PT of Rs. 90

The government focus on increasing ethanol blending to 20% by FY2025 along with prudent export quota will check excess supply of sugar in the domestic market. Triveni's sugar division is expected to perform steadily with stable pricing in the coming years, while the distillery business to post double-digit growth in revenues and clock improved profitability led by capacity enhancement. This along with stable cash flows and lower debt would strengthen balance sheet in the near term. The stock is currently trading at 4.0x/3.6x its FY2022/23E EPS. We recommend a Buy on the stock with a price target of Rs. 90.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBIDTA (x)		RoCE (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Dhampur Sugars	4.7	4.0	4.2	3.8	10.4	15.0
Triveni Engineering	4.5	4.0	5.0	4.0	19.3	20.1

Source: Company, Sharekhan estimates

About company

Triveni Engineering & Industries is the largest integrated sugar manufacturers in India and the market leader in its engineering businesses comprising high speed gears, gearboxes, and water & wastewater treatment solutions. Triveni currently has seven sugar mills in operation at Khatauli, Deoband, Sabitgarh, (in western Uttar Pradesh), Chandanpur, Rani Nangal and Milak Narayanpur (in central Uttar Pradesh) and Ramkola (eastern Uttar Pradesh). While the Company's Gears manufacturing facility is located at Mysuru, the Water & Wastewater treatment business is located at Noida. The Company currently operates three grid connected cogeneration plants and three incidental co-generation plants located across five sugar units and two molasses-based distilleries in U.P. India, located at Muzaffarnagar and Sabitgarh.

Investment theme

The sugar production in India is expected to be lower by 20% in SY2019-20E mainly on account of lesser output anticipated in the state of Maharashtra and Karnataka. This along with prudent export and ethanol blending policy, the sugar inventory is expected to decline in the domestic market. This will help the sugar prices to remain steady and realisation for sugar companies (especially U.P based sugar companies) to improve in FY2020/21. Thus better profitability and lowering inventory will help cash flows of sugar companies to improve significantly in the near term. Triveni being one of the largest sugar manufacturing companies in India will be key beneficiary of improving fundamentals in the sugar sector.

Key Risks

- Any sharp decline in the sugar prices due to significant improvement in global/domestic sugar production would affect the earnings of the sugar companies.
- Any change in the sugar export or ethanol blending policies would affect the business fundamentals of sugar companies.

Additional Data

Key management personnel

Dhruv Sawhney	Executive Director-Chairperson-MD
Sureja Taneja	Group CFO
Tarun Sawhney	Eexcutive Director - MD
Geeta Bhalla	Company Secretary & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Anil Kumar Goel	2.83
2	DSP Blackrock Mutual Fund	2.74
3	Norges Bank	2.21
4	Government Pension Fund Global	1.98
5	IndiaNivesh Capitals Ltd	1.34
6	Dimensional Fund Advisors LPP	0.94
7	Van Eck Associates Corp	0.11
8	ICICI Prudential Asset Management Co Ltd	0.1
9	Investor Education & Protection Fund	0.03
10	Sundaram Asset Management Co Ltd	0.02

Source: Bloomberg (Old data)

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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