

Distillery expansion, surging sugar prices to drive PAT

About the stock: Triveni Engineering (TEL) is one of the largest sugar companies in India with sugar crushing capacity of 60,000 TCD, distillery capacity of 320 KLD & co-generation power of 100 MW. It also has power transmission & waste water business contributing 10% to revenues.

- The company is increasing its distillery capacity from current 11 crore litre per annum to 22 crore litre per annum by FY24 to utilise B-heavy, grain & sugarcane juice route to produce ethanol

Q1FY22 Results: TEL reported healthy earnings growth in Q1FY22.

- Sales were down 9.2% YoY, due to lack of exports & lower domestic quota
- EBITDA was at ₹ 149.6 crore, down 3.9% YoY, with margins at 13.5%
- PAT was at ₹ 92.3 crore (up 10.2 % YoY) with lower tax provisioning

What should investors do? TEL's share price has gone up 3.2x in the last five years (from ₹ 55 in August 2016 to ₹ 178 in August 2021).

- We expect 2.1x increase in distillery volumes to boost earnings with CAGR of 24.2% during FY21-24E
- We continue to maintain our BUY rating on the stock

Target Price and Valuation: We maintain our target price on the stock at ₹ 270, valuing the business at 13x FY23 PE

Key triggers for future price performance:

- With distillery capex, TEL would be able to increase its ethanol volumes 2.1x to 22 crore litre by FY24. Distillery sales may witness 35% CAGR to ₹ 1248.6 crore in FY21-24E, which would be 25% of total revenues
- Sugar segment profitability would improve with surging domestic & global sugar prices. We estimate sugar realisation of ₹ 34-36 /kg in FY22-24
- The company is expected to generate more than ₹ 1500 crore of operating cash flow in the next three years, which would be utilised for ~₹ 400 crore capex, debt reduction & buybacks, dividends

Alternate Stock Idea: We also like Dwarikesh Sugar in our sugar coverage.

- The company is one of the most efficient companies with highest sugar recovery & abundant sugarcane availability. It is increasing its distillery capacity to 3x in the next three years
- We value the stock at ₹ 110/share with BUY recommendation



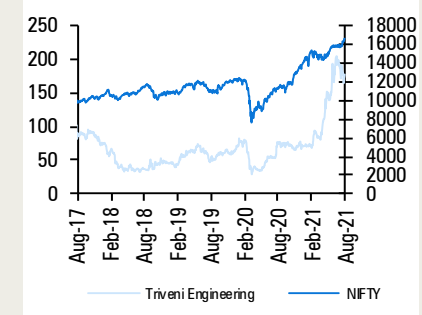
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	4,294.4
Total Debt (FY21)	958.0
Cash and Investments (FY21)	11.3
EV	5,241.1
52 week H/L (₹)	209 / 62
Equity capital	24.2
Face value (₹)	1.0

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	68.4	68.4	68.4	68.4
FII	2.6	3.0	2.8	2.6
DII	3.5	3.8	4.1	5.3
Others	25.5	24.8	24.7	23.7

Price Chart



Recent event & key risks

- The company would increase distillery capacity to 660 KLD from current 320 KLD
- Key Risk:** (i) Any delay in distillery capacity expansion (ii) any irrational increase in sugarcane prices

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Key Financial Summary

Key Financials	FY20	FY21	5 Year CAGR (FY16-FY21)	FY22E	FY23E	FY24E	CAGR (FY21-24E)
Total Operating Income	4436.6	4703.4	19.7%	4688.7	4883.5	4982.6	1.9%
EBITDA	543.2	558.2	34.9%	610.4	741.9	820.7	13.7%
EBITDA Margin %	12.2	11.9		13.0	15.2	16.5	
Net Profit	335.1	294.6	NC	396.2	497.2	564.2	24.2%
EPS (₹)	13.52	12.18	NC	16.73	21.45	24.88	26.9%
P/E	13.1	14.6		10.6	8.3	7.1	
RoNW %	19.9	18.9		22.4	24.0	23.5	
RoCE (%)	17.6	19.4		19.8	23.3	25.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q1FY22 Results: Surging domestic & global sugar prices to boost profits

- Sugar sales were down 19.6% in Q1 due to 26% dip in volumes given domestic quota was lower. Moreover, base quarter included higher exports on account of re-allocation of exports. The company sold 2.14 lakh tonnes (lt) of sugar during the quarter. Co-generation sales de-grew 21% to ₹ 14.2 crore on the back of lower sugarcane crushing in the quarter
- Domestic sugar realisation was up 3.6% to ₹ 33.4/kg with sugar prices improving in April 2021 factoring in summer demand before prices dipping due to second wave of pandemic. The company is holding 4.5 lt of sugar valued at ₹ 29.5/kg. Current sugar prices for crystal sugar is ₹ 36/kg while refined sugar it is ₹ 37/kg for the company
- In the 2020-21 sugar season, the company crushed merely 2.2% lower sugarcane at 85.4 lt given sugarcane availability in base quarter was high due to reduced diversion towards *Gur* & *Khandsari*. The company produced 9.37 lt of sugar against 10 lt in the corresponding quarter
- Gross recoveries were down 11 bps to 11.86%. However, the company diverted sugarcane equivalent of 75,000 tonnes of sugar towards ethanol production during the season. TEL is least impacted by lower availability of sugarcane due to red-rot
- Distillery sales increased 83.4% to ₹ 227.6 crore given the company started selling IMIL in Q3FY21 to utilise levy molasses quota. Net of excise, revenues were up 23.2% to ₹ 152.9 crore. Distillery volumes increased 8.8% to 2.7 crore litre whereas distillery realisation increased 11% to ₹ 54/litre on the back of high proportion of B-heavy ethanol. The company produced 75% of ethanol from B-heavy process compared to 48% in corresponding quarter. It sold 3.09 lakh cases of IMIL during the quarter
- TEL has contracted for 10.27 crore litre of ethanol with OMCs. It is expanding its distillery capacity from current 320 KLD (11 crore litre per annum) to 660 KLD (22 crore litre per annum) in the next one year with capex of ₹ 350 crore. The company expects distillery volumes of 12.5 crore litre in FY22 & ~17-18 crore litre in FY23. The company would also add small sugarcane crushing capacity
- Power transmission business (gear manufacturing) saw 58% growth to ₹ 28.3 crore on a low base. The sales were still at sub-par levels due to second wave of Covid-19. The outstanding order book as on June 30, 2021 was at ₹ 165.8 crore including long duration orders of ₹ 65.2 crore executable in next two years
- Water business declined 17.3% to ₹ 43.7 crore despite low base on the back of low availability of industrial oxygen & paucity of labour in Q1 due to second wave of Covid-19. During the quarter, the company secured a new order of capital work of ₹ 170 crore & O&M for 15 years. Outstanding order book was at ₹ 1580 crore (including ₹ 993 crore O&M) as on June 2021
- The company expects single digit increase in area under sugarcane in its catchment area. Moreover, it expects higher sugarcane yields for the 2021-22 sugar season. TEL has introduced new sugarcane varieties in 7-8% in its sugarcane areas to reduce the dependency on Co-0238
- With the sharp increase global sugar prices, 2 million tonnes of exports are expected under open general licence (OGL) for the 2021-22 sugar season. The company would not be looking to export until domestic prices remain higher compared to global sugar prices (net of freight). Current domestic sugar prices are ₹ 36/kg for crystal sugar and ₹ 37/kg for refined sugar prices. TEL believes domestic sugar prices would remain at current levels for the rest of the year
- The debt level for the company is expected to remain at similar levels in FY22. However, cost of debt is 5.3% for the company

Exhibit 1: Peer Comparison

Sector / Company	CMP	TP	M Cap	EPS growth (%)				EBITDA margins (%)				PE (x)				P/B (x)				RoCE (%)				
	(₹)	(₹)		Rating	(₹ Cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E
Balrampur Chini (BALCHI)	343	515	Buy	7202	-3.2	16.2	30.7	27.1	14.8	16.2	18.0	18.7	15.2	13.1	10.0	7.9	2.8	2.5	2.2	1.9	16.4	18.6	20.4	23.0
Dalmia Bharat Sugar (DALSUG)	420	650	Buy	3400	39.9	17.2	19.3	18.7	17.5	20.6	20.9	20.6	12.6	10.7	9.0	7.6	1.6	1.6	1.4	1.2	13.3	14.7	15.5	16.8
Triveni Engineering (TRIENG)	178	270	Buy	4294	-9.9	37.3	28.2	16.0	11.9	13.0	15.2	16.5	14.6	10.6	8.3	7.1	2.8	2.4	2.0	1.7	19.4	19.8	23.3	25.1
Dwarikesh sugar (DWASUG)	70	110	Buy	1312	24.5	44.9	20.2	53.9	10.9	12.3	15.4	20.2	14.0	9.7	8.0	5.2	2.2	1.9	1.6	1.3	14.4	18.7	19.6	27.2

Source: Company, ICICI Direct Research

Triveni Engineering is one of the most efficient sugar companies in India with third largest sugarcane crushing capacities. The company is increasing its distillery capacity by 2.1x in next one year to produce ethanol through B-heavy molasses, Sugarcane Juice & grains. Moreover, TEL would be a beneficiary of higher global sugar prices given it is holding large sugar inventories and is capable of exporting white sugar (fetches better realisations). With the negligible impact of lower sugarcane yields, recovery rates, higher export potentials & sustainable distillery operations, we believe the company would witness stronger operating profit growth. Moreover, strong free cash flows would help it further reduce debt levels & increase shareholder’s pay-out (dividend, buy-backs) in the next two to three. We maintain our BUY recommendation and target price of ₹ 270/share, valuing it at 13x FY23E PE.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	
Total Operating Income	1,111.5	1,223.8	-9.2	1,188.1	-6.4	Net sales witnessed de-growth of 9.2% due to lower sugar volumes given low domestic & exports quota in the current season
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	719.7	917.7	-21.6	786.8	-8.5	
Employee Expense	67.8	65.2	3.9	76.6	-11.6	
Other operating Expenses	99.7	85.3	16.9	132.4	-24.7	Higher overhead spends with increasing distillery volumes
EBITDA	149.6	155.6	-3.9	164.3	-8.9	
EBITDA Margin (%)	13.5	12.7	74 bps	13.8	-37 bps	Operating margins improved with higher distillery sales of B-heavy ethanol
Depreciation	19.8	19.7	0.5	20.0	-1.1	
Interest	15.6	15.9	-1.3	12.5	25.1	
Other Income	3.6	4.4	-17.7	10.4	-65.2	
PBT	117.8	124.5	-5.4	142.9	-17.6	
Tax Outgo	31.6	45.4	-30.4	48.7	-35.2	Lower tax provisioning given the company would be moving to the new tax rate
PAT	92.3	83.8	10.2	85.0	8.6	Net profit increased by 10.2% on account of dip in tax provisioning
Key Metrics						
Sugar sales volume (in lakh tonnes)	2.1	2.9	-25.4	2.7	-21.9	Sugar volumes declined by 25.4% mainly on account of lower domestic & export quota
Domestic realisation (₹ per kg)	33.4	32.2	3.6	32.3	3.3	
Distillery volumes (in crore litre)	2.7	2.5	8.8	2.2	26.0	Distillery volumes increased by 8.8% with increasing utilisation of newer capacities
Distillery realisation (₹ per litre)	54.0	48.6	11.0	57.3	-5.8	Distillery realisation increased by 11% on account of higher proportion of B-heavy ethanol

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			FY24E			Comments
	Old	New	% change	Old	New	% change	Old	New	% change	
Net sales	4624.3	4,688.7	1.4	4,816.7	4,883.5	1.4	4,943.1	4,982.6	0.8	We change our domestic realisation estimates upwards and also incorporate excise duty from alcoholic beverage business
EBITDA	607.0	610.4	0.6	718.6	741.9	3.2	816.5	820.7	0.5	
EBITDA Margin (%)	13.1	13.0	-11 bps	14.9	15.2	27 bps	16.5	16.5	-5 bps	
PAT	394.5	396.2	0.4	480.6	497.2	3.4	561.9	564.2	0.4	
EPS (₹)	16.7	16.7	0.4	20.7	21.4	3.4	24.8	24.9	0.4	

Source: ICICI Direct Research

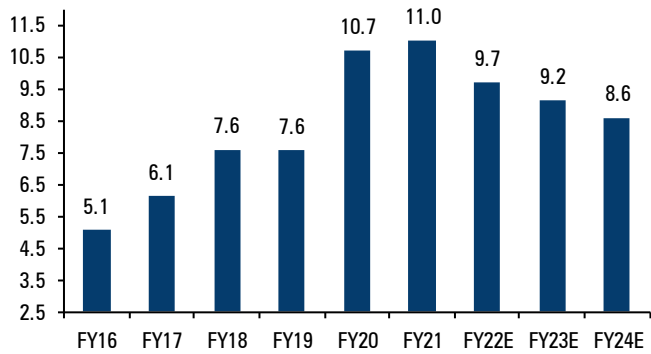
Exhibit 4: Assumptions

	Current						Earlier			Comments
	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
Sugar Sold (in tonne)	759,067	1,069,545	1,103,233	971,611	915,779	861,295	971,611	915,779	861,295	
Sugar Price (₹ per tonne)	31,420	30,249	32,763	34,315	34,847	35,175	33,652	34,118	34,716	We change our sugar realisation estimates
Distillery volume	51,279	84,551	103,637	130,200	184,200	221,100	130,200	184,200	221,100	
Distillery price (₹ per KL)	41,515	46,100	48,920	54,856	55,366	56,474	54,856	55,366	56,474	
Power Units sold	17.5	14.5	21.1	15.5	17.5	17.5	15.5	17.5	17.5	
Price per unit (₹ per units)	5.2	3.1	3.2	3.3	3.3	3.4	3.3	3.3	3.4	
Gear/Gear box revenue	129.3	150.3	130.1	169.1	186.0	197.2	169.1	186.0	197.2	
Water segment revenue	231.4	289.1	246.9	308.6	339.5	356.4	308.6	339.5	356.4	

Source: ICICI Direct Research

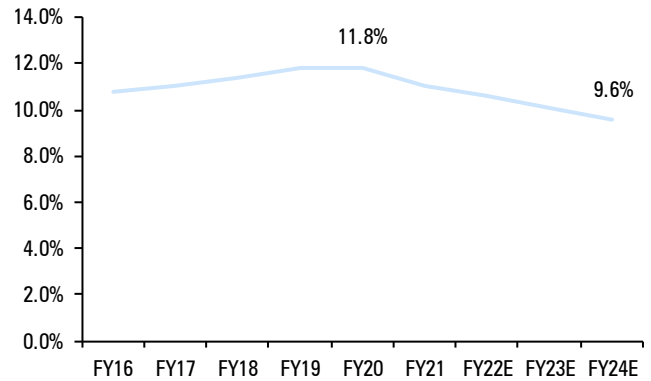
Key metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



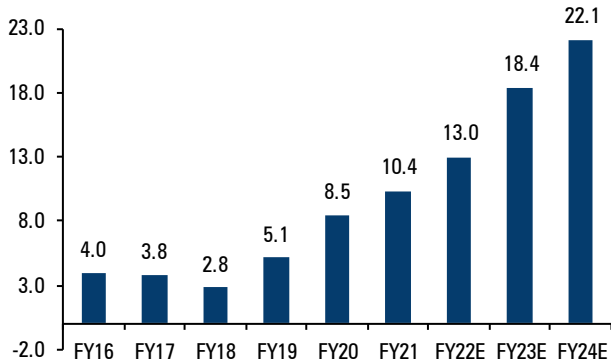
Source: ICICI Direct Research, Company

Exhibit 6: Sugar recovery rate (%)



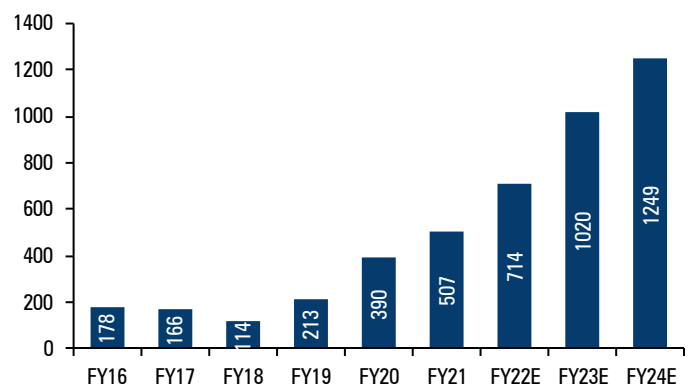
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



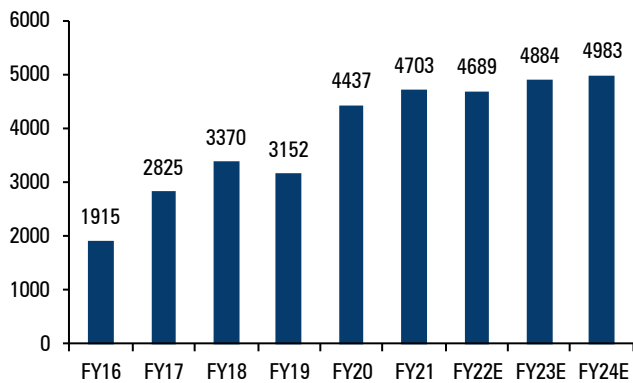
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



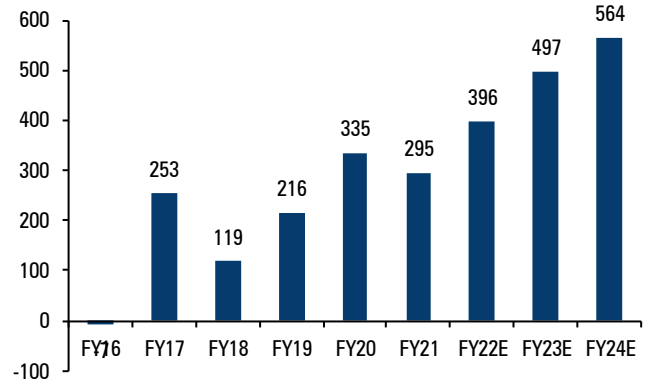
Source: Company, ICICI Direct Research

Exhibit 9: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 10: Net profit trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 11: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY21	4703.4	6.0	12.2	-9.9	14.6	9.1	18.9	19.4
FY22E	4688.7	-0.3	16.7	37.3	10.6	8.3	22.4	19.8
FY23E	4883.5	4.2	21.4	28.2	8.3	6.5	24.0	23.3
FY24E	4982.6	2.0	24.9	16.0	7.1	5.6	25.3	25.1

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total Operating Income	4,703.4	4,688.7	4,883.5	4,982.6
Growth (%)	0.0	-0.3	4.2	2.0
Raw Material Expenses	3,436.1	3,315.0	3,340.7	3,305.2
Employee Expenses	270.8	286.0	297.9	308.9
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Marketing expenses	0.0	0.0	0.0	0.0
Other expenses	409.1	375.1	390.7	418.5
Total Operating Expenditure	4,145.1	4,078.3	4,141.6	4,161.9
EBITDA	558.2	610.4	741.9	820.7
Growth (%)	2.8	9.4	21.5	10.6
Depreciation	79.1	88.8	95.0	96.6
Interest	51.6	45.9	34.2	20.3
Other Income	30.4	31.0	27.9	25.1
PBT	458.6	506.8	640.6	729.0
Exceptional items	-0.7	0.0	0.0	0.0
Total Tax	165.2	127.7	161.4	183.7
PAT	294.6	396.2	497.2	564.2
Growth (%)	-12.1	34.5	25.5	13.5
EPS (₹)	12.2	16.7	21.4	24.9

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/Loss after Tax	459.8	396.2	497.2	564.2
Add: Depreciation	79.1	88.8	95.0	96.6
Add: Interest & Others	49.3	0.0	0.0	0.0
(Inc)/dec in Current Assets	396.7	-5.4	76.3	-84.8
Inc/(dec) in Current Liabilities	-131.3	21.3	-134.5	-53.7
CF from operating activities	790.8	500.9	533.9	522.2
(Inc)/dec in Investments	2.1	0.3	0.0	0.0
(Inc)/dec in Fixed Assets	-89.2	-270.0	-120.0	-30.0
Others	-21.0	1.3	0.0	0.0
CF from investing activities	-107.9	-273.4	-125.0	-35.0
Issue/(Buy back) of Equity	-65.0	-0.5	-0.5	-0.5
Inc/(dec) in loan funds	-564.6	-40.0	-200.0	-243.4
Dividend paid & dividend tax	0.0	-59.2	-69.5	-79.4
Inc/(dec) in Sec. premium	-7.1	0.0	0.0	0.0
Others	-51.5	0.0	0.0	0.0
CF from financing activities	-703.7	-224.2	-394.5	-472.8
Net Cash flow	-20.8	3.3	14.4	14.4
Opening Cash	32.0	11.3	14.5	28.9
Cash with bank	1.3	0.0	0.0	0.0
Closing Cash	12.6	14.5	28.9	43.3

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet				
	₹ crore			
	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	24.2	23.7	23.2	22.7
Reserve and Surplus	1,531.5	1,744.0	2,047.1	2,382.4
Total Shareholders funds	1,555.7	1,767.7	2,070.3	2,405.1
Total Debt	870.5	830.5	630.5	387.1
Long Term Provisions	51.8	49.8	47.8	45.8
Other Non-current Liabilities	154.5	155.5	156.5	157.5
Total Liabilities	2632.4	2803.4	2905.1	2995.5
Assets				
Gross Block	1,437.0	1,707.0	1,827.0	1,857.0
Less: Acc Depreciation	378.0	466.8	561.8	658.4
Net Block	1,059.0	1,240.2	1,265.2	1,198.6
Capital WIP	22.2	22.2	22.2	22.2
Intangible assets	1.9	1.9	1.9	1.9
Non Current Investments	157.8	162.8	167.8	172.8
Other non-current assets	166.4	166.1	166.1	166.1
Current Assets				
Inventory	1,733.8	1,602.0	1,492.2	1,550.2
Debtors	208.4	325.6	339.1	346.0
Cash	12.6	14.5	28.9	43.3
Loans & Advances	21.0	41.0	61.0	81.0
Other Current Assets	236.9	236.9	236.9	236.9
Current Liabilities				
Creditors	624.3	646.6	653.1	666.2
Provisions	37.3	37.3	37.3	37.3
Other CL	325.9	325.9	185.9	120.1
Net Current Assets	1225.1	1210.1	1281.8	1433.7
Total Assets	2,632.4	2,803.4	2,905.1	2,995.5

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	12.2	16.7	21.4	24.9
Cash EPS	15.5	20.5	25.5	29.1
BV	64.3	74.6	89.3	106.0
DPS	0.0	2.5	3.0	3.5
Cash Per Share	15.6	19.7	24.2	29.0
Operating Ratios (%)				
EBITDA Margin	11.9	13.0	15.2	16.5
PBT / Net Sales	9.7	10.8	13.1	14.6
PAT Margin	6.3	8.5	10.2	11.3
Inventory days	135	125	112	114
Debtor days	16	25	25	25
Creditor days	48	50	49	49
Return Ratios (%)				
RoE	18.9	22.4	24.0	23.5
RoCE	19.4	19.8	23.3	25.1
Valuation Ratios (x)				
P/E	14.6	10.6	8.3	7.1
EV / EBITDA	9.1	8.3	6.5	5.6
EV / Net Sales	1.1	1.1	1.0	0.9
Market Cap / Sales	0.9	0.9	0.9	0.9
Price to Book Value	2.8	2.4	2.0	1.7
Solvency Ratios				
Debt/EBITDA	1.6	1.4	0.8	0.5
Debt / Equity	0.6	0.5	0.3	0.2
Current Ratio	2.7	2.6	2.8	3.0
Quick Ratio	0.6	0.7	0.8	0.9

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (Sugar)

Sector / Company	CMP	TP	M Cap	EPS (₹)				P/E (x)				EV/EBITDA (x)				P/B				RoCE (%)				
	(₹)	(₹)		Rating	(₹ Cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E
Balrampur Chini (BALCHI)	343	515	Buy	7,202	22.8	26.5	34.7	44.1	15.0	12.9	9.9	7.8	11.8	10.5	8.4	6.8	2.8	2.5	2.2	1.9	16.4	18.6	20.4	23.0
Dalmia Bharat Sugar (DALSUG)	420	650	Buy	3,400	33.4	39.2	46.7	55.5	12.6	10.7	9.0	7.6	8.9	7.8	6.8	5.7	1.6	1.6	1.4	1.2	13.3	14.7	15.5	16.8
Triveni Engineering (TRIENG)	178	270	Buy	4,294	12.2	16.7	21.4	24.9	14.6	10.6	8.3	7.1	9.1	8.3	6.5	5.6	2.8	2.4	2.0	1.7	19.4	19.8	23.3	25.1
Dwarikesh sugar (DWASUG)	70	110	Buy	1,312	4.9	7.0	8.5	13.0	14.3	9.9	8.2	5.3	9.1	6.9	5.6	3.8	2.2	1.9	1.6	1.3	14.4	18.7	19.6	27.2
Dhampur Sugar (DHASUG)	306	500	Buy	2,035	34.4	44.9	53.1	57.6	8.9	6.8	5.8	5.3	6.4	5.4	4.3	3.9	1.3	1.1	1.0	0.8	14.8	16.8	19.1	18.9
Avadh Sugar (AVASUG)	449	685	Buy	899	38.8	66.5	94.9	106.7	11.6	6.8	4.7	4.2	8.0	5.8	3.8	2.8	1.3	1.1	0.9	0.8	11.5	14.7	20.6	23.3

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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