

Distillery capex completion to drive profits...

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 520 KLD & co-generation power of 100 MW. It also has power transmission & waste water management 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

Q4FY22 Results: TEL reported strong earnings growth led by higher distillery sales.

- Sales were down 7.8% YoY as TEL has not exported sugar in current season
- EBITDA was at ₹ 174.7 crore, up 6.3% YoY, with margins at 16.3%
- PAT was at ₹ 109.2 crore, up 28.4% YoY, led by higher profit from associates & lower tax provisioning

What should investors do? TEL's share price has gone up 2.8x in the last five years (from ₹ 90 in May 2017 to ₹ 251 in May 2022).

- We expect 36% volume CAGR in distillery to boost earnings with CAGR of 19% during FY22-24E
- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value the stock at ₹ 350, valuing the business at 14x FY24 PE

Key triggers for future price performance:

- With distillery capex, TEL would be able to increase its ethanol volumes 1.9x to 22 crore litre by FY24. Distillery sales to see 40.7% CAGR to ₹ 1262.2 crore in FY22-24E, which would be 26% of total revenues
- Sugar segment profitability would improve with better realisation and the company's strategy of not exporting sugar due to benign domestic sugar prices. We estimate sugar realisation of ₹ 36 /kg in FY23-FY24
- The company is expected to generate ₹ 1530 crore of operating cash flow in the next two years, which would be utilised for ~₹ 500 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 with highest sugar recovery and abundant sugarcane availability. It is increasing its distillery capacity to 3x in the next three years
- We value the stock at ₹ 145/share with BUY recommendation



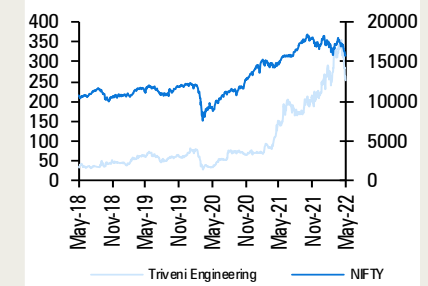
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	6,078.9
Total Debt (FY22)	1,559.8
Cash and Investments (FY22)	23.3
EV	7,615.3
52 week H/L (₹)	374 / 137
Equity capital	24.2
Face value (₹)	1.0

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	68.4	68.4	68.4	68.4
FII	2.6	3.0	4.5	5.3
DII	5.3	5.1	5.2	4.7
Others	23.7	23.5	21.9	21.6

Price Chart



Recent event & key risks

- It announced capex of ₹ 210 crore for power transmission business & modernisation of sugar plants
- Key Risk:** (i) Dip in global prices could adversely impact domestic prices as well (ii) Decline in sugarcane crushing & recoveries

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Key Financial Summary

Key Financials	FY20	FY21	FY22	5 Year CAGR (FY17-FY22)	FY23E	FY24E	CAGR (FY22-24E)
Total Operating Income	4436.6	4674.2	4291.0	8.7%	4927.3	5221.5	10.3%
EBITDA	543.2	558.2	634.4	4.0%	747.3	904.3	19.4%
EBITDA Margin %	12.2	11.9	14.8		15.2	17.3	
Net Profit	335.1	294.6	424.1	10.9%	489.9	600.6	19.0%
EPS (₹)	13.52	12.18	17.54	12.3%	20.26	24.84	19.0%
P/E	18.6	20.6	14.3		12.4	10.1	
RoNW %	19.9	18.9	22.4		21.7	22.3	
RoCE (%)	17.6	19.4	15.8		18.2	22.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q4Y22 Results: Distillery volumes to grow ~1.9x by FY24

- TEL saw a sales decline of 7.8% to ₹ 1070 crore (net of excise) on the back of 14.7% de-growth in sugar segment sales. Sugar volumes were down 12.2% given the company chose not to export any sugar in current season as domestic sugar prices were remunerative for UP sugar millers
- Sugar volumes dipped 12.2% to 1.98 lakh tonnes (lt) but sugar realisation was up 8.2% to ₹ 34.99/kg. Sugar prices have been benign in last eight months as industry wide sugar inventories are coming down consistently
- Distillery sales witnessed growth of 81.4% to ₹ 283.7 crore on the back of higher ethanol volume & diversion towards B-heavy ethanol. Ethanol sales volume recorded growth of 23.8% to 2.7 crore litre. Distillery realisation was flat at ₹ 56.8/litre. B-heavy ethanol contributed 93% of total ethanol produced during the quarter. IMIL sales volume grew 4.7x compared to corresponding quarter
- Power transmission business & water business revenue saw growth of 26% & 25%, respectively, in Q4FY22. The outstanding order book for power transmission & water business was at ₹ 221.3 crore & ₹ 1512.8 crore, respectively, as on March 2022.
- Operating profit saw growth of 6.3% to ₹ 174.7 crore adversely impacted by lower sugar sales & increase in cost of production (due to hike in sugarcane prices & lower gross recoveries)
- Interest cost increased 16.9% to ₹ 14.6 crore given larger requirement of working capital as the company has not exported any sugar in the current season. Moreover, nearing completion of capacity expansion related to distillery led to increase in term debt as well
- Profit after tax increased 28.4% to ₹ 109.2 crore mainly on account of lower tax provisioning & higher profits from associates. The company declared a dividend of ₹ 2/share
- Sugarcane crushing is down 2% to 82 lakh tonnes (till May 13, 2022) with gross recoveries of 11.67%. Crushing is still continuing in three out of seven plants for TEL. The company expects similar crushing as last year & ~20-25 bps decline in sugar recovery the current season
- The company is holding 5.15 lakh tonne of sugar valued at ₹ 32.7/kg as on March 31, 2022. It expects to exhaust the current season sugar inventories by December-2022
- Co-generation sale was down 9% to ₹ 62.4 crore due to late start of crushing. Moreover, sugar millers are preferring to sell bagasse rather than producing saleable power
- Ethanol sales volumes grew 23.8% to 2.7 crore litre in Q4. B-heavy ethanol constitutes 93% of the sales volume in Q4 as against 99% sales volume in corresponding quarter. However, on an annual basis, B-heavy ethanol constitutes 83% of the total volumes as against 55% last year
- In a newly established IMIL business, sales volume was at 5.5 lakh cases. The company is utilising levy molasses quota for manufacturing of IMIL
- TEL commissioned a 160 KLD multi-feed distillery at its Milak Natrayanpur Plant on April 4, 2022. It ran the new plant on sugarcane juice for 15 days in April. It has expanded its Sabitgarh distillery capacity by 40 KLD taking the company's total distillery capacity to 520 KLD. Further expansion of 140 KLD capacity at different plants would commence by July 2022

- The company has also announced capex of ₹ 130 crore for the modernisation at three of its plants, which would enhance the existing crushing capacity by de-bottlenecking. With this capex, the company would be able to reduce the number of days of crushing from 2022-23 season onwards. Further, it has also announced ₹ 80 crore capex for expansion of its power transmission business, which would be commissioned by March-2023
- Sugarcane area under cultivation is likely to increase 1.5% in the next season. However, sugarcane area for TEL is likely to increase by 5%. Moreover, it expects 8% increase in planting for the company. In its grain based distillery (60 KLD likely to get commissioned by July 2022), the company is likely to procure grain from FCI.
- The total debt for the company has increased by ₹ 560 crore on account of faster payment to the farmers, higher working capital requirement due to absence of exports & increase in term loan with capex nearing completion. Its total debt stands at ₹ 1503.8 crore. With the significant increase in domestic quota, sugar inventories are likely to get liquidated in the next six to seven months, which would considerably reduce the debt for the company
- The company has decided to divest 21.85% equity holding in Triveni Turbine for value unlocking & monetisation of non-core assets. The proceeds from the divestment would be utilised for expansion of business & shareholder pay-out

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
Balrampur Chini (BALCHI)	411	600	Buy	8633	-3.2	12.8	31.6	36.6	14.8	15.8	19.6	21.4	18.0	16.0	12.1	8.9	3.2	2.9	2.6	2.3	16.4	19.1	20.3	26.8
Dalmia Bharat Sugar (DALISUG)	408	660	Buy	3300	39.9	24.2	12.6	14.8	17.6	18.5	20.5	20.4	12.2	9.8	8.7	7.6	1.5	1.5	1.3	1.2	13.3	14.4	15.7	16.7
Triveni Engineering (TRIENG)	251	350	Buy	6079	-9.9	43.9	15.5	22.6	11.9	14.8	15.2	17.3	20.6	14.3	12.4	10.1	3.9	3.2	2.7	2.3	19.4	15.8	18.2	22.1
Dwarikesh sugar (DWASUG)	113	145	Buy	2119	24.5	69.6	15.7	47.7	10.9	14.7	14.2	18.7	23.2	13.7	11.8	8.0	3.4	2.9	2.3	1.9	14.4	20.6	20.3	30.0
Avadh Sugar (AVASUG)	619	890	Buy	1237	-12.4	60.3	53.9	21.3	9.6	11.0	13.1	13.8	15.9	9.9	6.5	5.3	1.8	1.5	1.3	1.0	11.5	12.5	17.8	22.0

Source: Company, ICICI Direct Research

Despite expected higher sugar production in India at 35.5 MT, sugar inventories are likely to come down by 1.5 MT by September 2022 due to expected record exports of 9.5 MT. We believe sugar prices would move up by ₹ 1-2 / kg in the next few months & average sugar realisation for FY23 would be higher by ₹ 1/kg. Though Triveni has not exported any sugar in current season, it would be able to divert addition sugarcane towards ethanol production from next season given expected completion of capex by July 2022. Further, it is likely to get higher domestic quota (48% higher in April-May 2022), which would result in liquidation of excess sugar inventories in the next six to seven months. Triveni is divesting its stake in Triveni Turbine, which would result in additional cash flow to the tune of ₹ 1000-1200 crore. We believe the company would pay one-time dividend in FY23. We remain positive on sugar sector and Triveni Engineering. We maintain our BUY recommendation and target price of ₹ 350 / share, valuing it at 14x FY24E PE.

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	
Total Operating Income	1,070.0	1,160.1	-7.8	1,115.7	-4.1	Net sales declined 7.8% on account of lower sugar sales given the company has not exported any sugar in the current season
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	639.0	786.8	-18.8	711.2	-10.1	
Employee Expense	93.7	76.6	22.2	75.5	24.1	
Other operating Expenses	162.6	132.4	22.9	126.2	28.8	
EBITDA	174.7	164.3	6.3	202.8	-13.9	Operating profit grew 6.3% on account of higher ethanol volumes in Q4
EBITDA Margin (%)	16.3	14.2	216 bps	18.2	-185 bps	
Depreciation	20.3	20.0	1.5	20.5	-0.9	
Interest	14.6	12.5	16.9	12.2	20.2	Interest cost increased with the rise of working capital debt given the company is holding high inventory at the end of March-2022
Other Income	3.0	10.4	-71.6	7.0	-57.5	
PBT	136.1	142.9	-4.8	177.2	-23.2	
Tax Outgo	34.2	48.7	-29.7	54.9	-37.6	
PAT	109.2	85.0	28.4	130.1	-16.1	Net profit increased due to lower tax provisioning & increase in profit from associates
Key Metrics						
Sugar sales volume (in lakh tonnes)	2.0	2.7	-28.8	2.2	-12.2	Sugar volumes decline due to absence of exports during the quarter
Domestic realisation (₹ per kg)	35.0	32.3	8.2	36.5	-4.0	Domestic sugar realisation increased by 8.2% with continuous dip in industry wide sugar inventories
Distillery volumes (in crore litre)	2.7	2.2	23.8	2.7	0.8	Distillery volumes increased by 23.8% aided by expansion in IMIL volumes
Distillery realisation (₹ per litre)	56.8	57.3	-0.9	55.2	2.9	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E			Comments
	Old	New	% change	Old	New	% change	
Net sales	4,835.4	4,927.3	1.9	5,168.2	5,221.5	1.0	Change in revenue estimates with expected increase in domestic sales quota
EBITDA	746.9	747.3	0.1	889.3	904.3	1.7	
EBITDA Margin (%)	15.4	15.2	-28 bps	17.2	17.3	11 bps	
PAT	501.1	489.9	-2.2	605.1	600.6	-0.7	We cut our profit estimates due to higher depreciation provisioning given the company announced capex for modernisation
EPS (₹)	21.6	20.3	-6.2	26.7	24.8	-7.0	We were estimating regular buy-backs according to one historic precedence. However, we are not estimating any buybacks now

Source: ICICI Direct Research

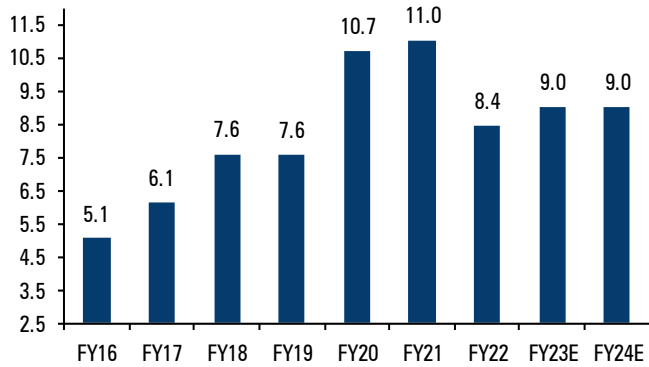
Exhibit 4: Assumptions

	Current				Earlier				Comments
	FY19	FY20	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Sugar Sold (in tonne)	759,067	1,069,545	1,103,233	844,159	902,824	902,824	889,108	889,454	Slight increased in sugar volumes estimates
Sugar Price (₹ per tonne)	31,420	30,249	31,364	34,874	36,000	36,200	35,972	36,300	Slight change in sugar realisation estimates
Distillery volume	51,279	93,889	103,637	117,837	179,100	217,800	177,600	221,100	Small change in distillery volumes
Distillery price (₹ per KL)	41,515	41,515	52,204	54,130	57,378	57,952	56,733	57,300	Small change in distillery realisation
Power Units sold	17.5	14.5	21.1	18.9	20.0	19.2	18.7	19.2	Change in power volume estimates
Price per unit (₹ per units)	5.2	3.1	3.2	3.3	3.4	3.4	3.4	3.4	
Gear/Gear box revenue	129.3	150.3	126.3	184.6	212.3	233.5	181.6	199.8	We are estimate strong recovery in engineering business
Water segment revenue	231.4	289.1	233.6	243.3	292.0	312.5	308.4	330.0	

Source: ICICI Direct Research

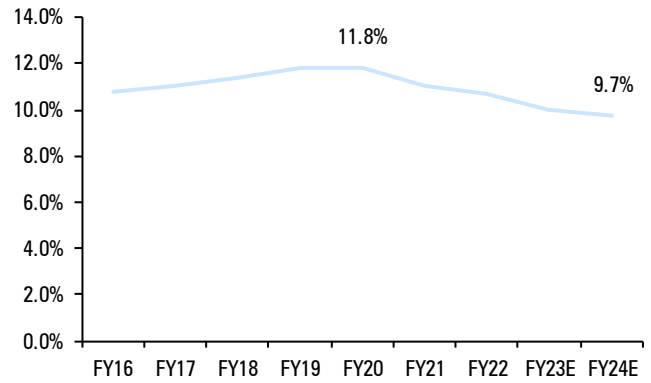
Key metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



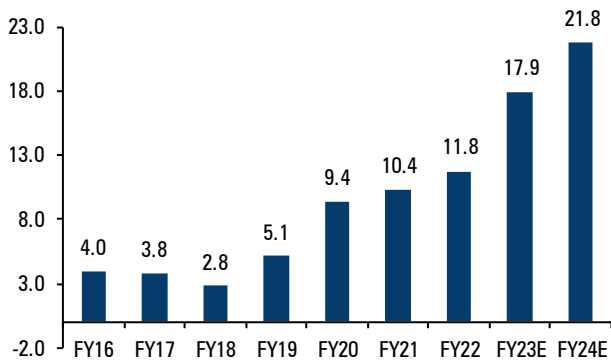
Source: ICICI Direct Research, Company

Exhibit 6: Sugar recovery rate (%)



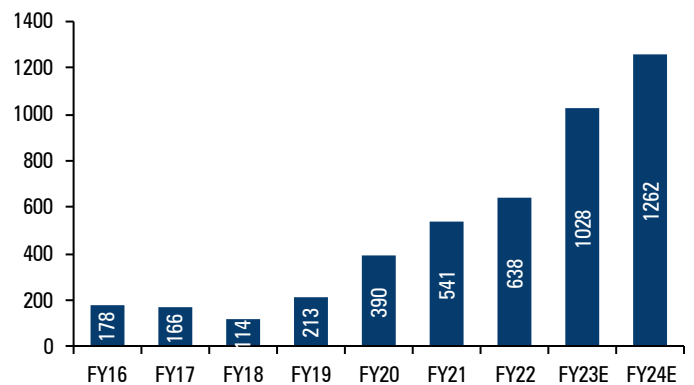
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



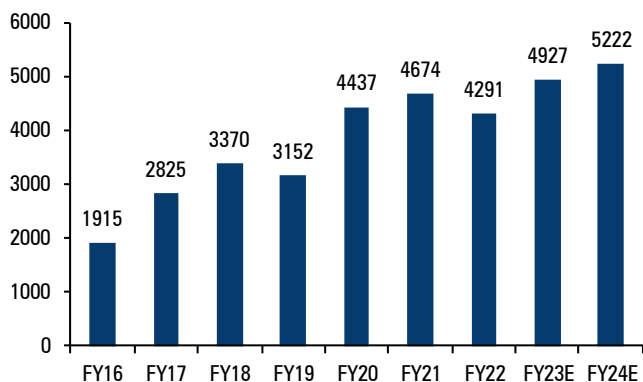
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



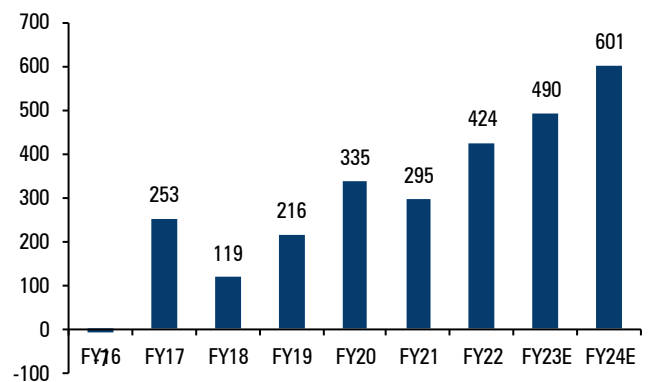
Source: Company, ICICI Direct Research

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	4674.2	5.4	12.2	-9.9	20.6	12.3	18.9	19.4
FY22	4291.0	-8.2	17.5	43.9	14.3	11.9	22.4	15.8
FY23E	4927.3	14.8	20.3	15.5	12.4	9.8	21.7	18.2
FY24E	5221.5	6.0	24.8	22.6	10.1	7.6	24.6	22.1

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Income	4,674.2	4,291.0	4,927.3	5,221.5
Growth (%)	0.0	-8.2	14.8	6.0
Raw Material Expenses	3,436.1	2,859.2	3,431.1	3,523.5
Employee Expenses	270.8	302.7	320.3	339.4
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	494.7	428.7	454.3
Total Operating Expenditure	4,116.0	3,656.5	4,180.0	4,317.2
EBITDA	558.2	634.4	747.3	904.3
Growth (%)	2.8	13.7	17.8	21.0
Depreciation	79.1	80.7	96.1	105.1
Interest	51.6	54.5	56.9	53.7
Other Income	30.4	22.2	25.1	20.1
PBT	458.6	514.6	619.3	765.5
Exceptional items	-0.7	6.7	0.0	0.0
Total Tax	165.2	149.7	156.1	192.9
PAT	294.6	424.1	489.9	600.6
Growth (%)	-12.1	43.9	15.5	22.6
EPS (₹)	12.2	17.7	20.3	24.8

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/Loss after Tax	459.8	573.8	489.9	600.6
Add: Depreciation	79.1	80.7	96.1	105.1
Add: Interest & Others	49.3	14.5	0.0	0.0
(Inc)/dec in Current Assets	396.7	-421.6	93.8	37.8
(Inc)/dec in Current Liabilities	-131.3	-269.0	140.3	-32.8
CF from operating activities	790.8	-173.4	820.1	710.7
(Inc)/dec in Investments	2.1	2.3	0.4	0.0
(Inc)/dec in Fixed Assets	-89.2	-293.5	-400.0	-100.0
Others	-21.0	33.5	4.6	0.0
CF from investing activities	-107.9	-256.8	-400.0	-105.0
Issue/(Buy back) of Equity	-65.0	0.0	0.0	0.0
(Inc)/dec in loan funds	-564.6	573.9	-280.0	-433.4
Dividend paid & dividend tax	0.0	-72.5	-145.1	-169.3
(Inc)/dec in Sec. premium	-7.1	-5.9	0.0	0.0
Others	-51.5	-53.4	0.0	0.0
CF from financing activities	-703.7	442.1	-425.1	-602.7
Net Cash flow	-20.8	12.0	-5.0	3.0
Opening Cash	32.0	11.3	23.3	18.2
Cash with bank	1.3	4.6	0.0	0.0
Closing Cash	12.6	27.9	18.2	21.3

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet				
	₹ crore			
	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	24.2	24.2	24.2	24.2
Reserve and Surplus	1,531.5	1,888.7	2,233.5	2,664.8
Total Shareholders funds	1,555.7	1,912.9	2,257.7	2,689.0
Total Debt	870.5	1,559.8	1,279.8	846.4
Long Term Provisions	51.8	33.5	31.5	29.5
Other Non-current Liabilities	154.5	150.3	151.3	152.3
Total Liabilities	2632.4	3656.4	3720.2	3717.1
Assets				
Gross Block	1,437.0	1,521.9	1,921.9	2,021.9
Less: Acc Depreciation	378.0	458.8	554.9	660.0
Net Block	1,059.0	1,063.1	1,367.0	1,361.9
Capital WIP	22.2	256.5	256.5	256.5
Intangible assets	1.9	2.3	2.3	2.3
Non Current Investments	157.8	205.5	210.5	215.5
Other non-current assets	166.4	212.4	212.0	212.0
Current Assets				
Inventory	1,733.8	2,036.9	1,847.7	1,769.5
Debtors	208.4	266.8	342.2	362.6
Cash	12.6	27.9	18.2	21.3
Loans & Advances	21.0	7.0	27.0	47.0
Other Current Assets	236.9	219.1	219.1	219.1
Current Liabilities				
Creditors	624.3	350.8	632.2	651.2
Provisions	37.3	48.3	48.3	48.3
Other CL	325.9	242.0	102.0	51.2
Net Current Assets	1225.1	1916.6	1671.8	1668.9
Total Assets	2,632.4	3,656.4	3,720.2	3,717.1

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	12.2	17.5	20.3	24.8
Cash EPS	15.5	20.9	24.2	29.2
BV	64.3	79.1	93.4	111.2
DPS	0.0	5.0	6.0	7.0
Cash Per Share	15.6	19.0	22.9	27.3
Operating Ratios (%)				
EBITDA Margin	11.9	14.8	15.2	17.3
PBT / Net Sales	9.8	12.0	12.6	14.7
PAT Margin	6.3	10.0	9.9	11.5
Inventory days	135	173	137	124
Debtor days	16	23	25	25
Creditor days	49	30	47	46
Return Ratios (%)				
RoE	18.9	22.4	21.7	22.3
RoCE	19.4	15.8	18.2	22.1
Valuation Ratios (x)				
P/E	20.6	14.3	12.4	10.1
EV / EBITDA	12.3	11.9	9.8	7.6
EV / Net Sales	1.5	1.8	1.5	1.3
Market Cap / Sales	1.3	1.4	1.2	1.2
Price to Book Value	3.9	3.2	2.7	2.3
Solvency Ratios				
Debt/EBITDA	1.6	2.5	1.7	0.9
Debt / Equity	0.6	0.8	0.6	0.3
Current Ratio	2.7	4.6	3.3	3.3
Quick Ratio	0.6	0.9	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)	411	600	Buy	8,633	22.8	25.8	33.9	46.3	18.0	16.0	12.1	8.9	13.3	11.8	9.6	6.9	3.2	2.9	2.6	2.3	16.4	19.1	20.3	26.8
Dalmia Bharat Sugar (DALSUG)	408	660	Buy	3,300	33.4	41.5	46.7	53.6	12.2	9.8	8.7	7.6	8.5	7.9	6.4	5.5	1.5	1.5	1.3	1.2	13.3	14.4	15.7	16.7
Triveni Engineering (TRIENG)	251	350	Buy	6,079	12.2	17.5	20.3	24.8	20.6	14.3	12.4	10.1	12.3	11.9	9.8	7.6	3.9	3.2	2.7	2.3	19.4	15.8	18.2	22.1
Dwarikesh sugar (DWASUG)	113	145	Buy	2,119	4.9	8.2	9.5	14.1	23.2	13.7	11.8	8.0	12.6	8.4	7.7	5.0	3.4	2.9	2.3	1.9	14.4	20.6	20.3	30.0
Avadh Sugar (AVASUG)	619	890	Buy	1,237	38.8	62.2	95.7	116.1	15.9	9.9	6.5	5.3	9.4	8.0	5.3	3.9	1.8	1.5	1.3	1.0	11.5	12.5	17.8	22.0

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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