Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Triveni Engineering & Industries Ltd

No sugar exports affected Q4; distillery biz offers hope

Miscellaneous	Sharekhan code: TRIVENI		
Reco/View: Buy ↔	CMP: Rs. 251	Price Target: Rs. 325 ↓	

↑ Upgrade ↔ Maintain ↓ Downgrade

Stock Update | Result Update

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

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

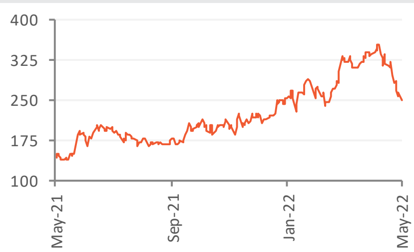
Company details

Market cap:	Rs. 6,078 cr
52-week high/low:	Rs. 374 / 137
NSE volume: (No of shares)	12.7 lakh
BSE code:	532356
NSE code:	TRIVENI
Free float: (No of shares)	7.6 cr

Shareholding (%)

Promoters	68.4
FII	7.1
DII	4.7
Others	19.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-25.6	-7.7	22.0	74.6
Relative to Sensex	-16.4	1.2	34.7	65.9

Sharekhan Research, Bloomberg

Summary

- Triveni Engineering & Industries' (TEIL's) operating performance in Q4FY2022 was affected as no export sale took place in Sugar Season 2021-22. Overall revenues stood flat y-o-y at Rs. 1,192.1 crore. EBITDA margins improved by 83 bps y-o-y to 14.7%.
- The absence of exports also dragged sugar business' revenues by 14.7% y-o-y to Rs. 846.81 crore; distillery business' revenues grew by 27% y-o-y to Rs. 161.6 crore.
- Ethanol capacity expansion of 200 KLPD came on-stream in April 2022 (enhanced distillery capacity to 520 KLPD). Steady sugar sales led by higher realisation, higher revenues from the distillery business, and recovery in the engineering business (order book of Rs. 1,735 crore) would drive earnings in the near term.
- Stock trades at 13.6x and 11.6x its FY2023E and FY2024E earnings, respectively. We maintain Buy with a revised PT of Rs. 325.

Triveni Engineering & Industries Ltd's (TEIL's) revenues stood flat y-o-y at Rs. 1,192.1 crore affected by lower sugar sales volumes owing nil exports in Q4FY2022. The sugar business' revenues decreased by 14.7% y-o-y to Rs. 846.81 crore. Distillery business' net revenues grew by 25.8% y-o-y to Rs. 161.6 crore. However, higher contribution of B-heavy molasses led to lower y-o-y margins by 324 bps y-o-y to 18.9%. The company commenced operations of its new multi-feed distillery with a capacity of 160 KLPD at its Milak Narayanpur sugar mill in U.P. Engineering business performed well with power transmission and water business growing by over 25% y-o-y each in Q4. TEIL gross margins improved by 473 bps y-o-y and the EBITDA margin improved by 83 bps y-o-y to 14.7%. The operating profit grew by 6.3% y-o-y to Rs. 174.7 crore. TEIL is planning to divest entire 21.83% stake in Triveni Turbines at price of ~Rs. 171 per share, which will lead to an additional cash flow of ~Rs. 1,210 crore, which the company will utilised for future growth plans and reward shareholders with a higher dividend payout.

Key positives

- Sugar business' PBIT margin grew 378 bps y-o-y to 14.5% led by higher sugar realisation.
- Distillery business net revenues grew 26% y-o-y, driven by higher sales volume of 24% y-o-y.
- Engineering business revenues grew by 25% y-o-y; strong order book of Rs. 1,735 crore the year ahead.

Key negatives

- Sugar sales volumes decreased by 29% y-o-y mainly on no exports and lower monthly allocation.
- Distillery business' margins decreased by 324 bps y-o-y to 18.9%.

Management Commentary

- With domestic consumption expected to increase in the post covid era to 27-28 million tonne and sugar exports of 9.5 million tonnes, domestic inventory at the end of the year is expected to reduce to 6.6 million tonnes from 8.2 million tonnes last year. This will keep domestic sugar prices firm in the coming years.
- TEIL's sales are expected to be flat or slight lower on y-o-y basis due to expected lower sugar production during the year.
- The company's ethanol capacity has enhanced to 520 KLPD in April 2022 from 320 KLPD. It will further expand by 140 KLPD to 660 KLPD by July 2022. With the expanded capacity the company is likely to produce 18 crore litres of ethanol in FY2023 and 22 crore litres in FY2024.
- Outstanding order book for the power transmission business is Rs. 221.3 crore and order book for the water business is Rs. 1,513 crore. Recovery in domestic economy and fundamentals of various sectors will further improve growth prospects for the engineering business.
- The company is planning to do a capital expenditure of Rs. 130 crore for modernisation of sugar plants to improve the yield per day and Rs. 80 crore for power transmission business. These will have payback period of 3 years and will help in generating higher return ratios.

Revision in estimates – We have reduced our earnings estimates for FY2023 and FY2024 to factor in lower sales volume in the sugar business than earlier estimated.

Our Call

View: Maintain Buy with a revised PT of Rs. 325 – With higher capacity utilisation in the expanded distillery facility and improved order book in engineering, TEIL is well poised to achieve strong earnings growth of ~18% over FY2021-FY2024. Further the company is focusing on enhancing shareholders' value by unlocking value in the non-core investments. Stock currently trades at 13.6x/11.6x its FY2023E/FY2024E EPS (10.4x/8.8x its FY2023E/FY2024E EV/EBITDA). Structural change in the sugar industry, strong growth prospects of distillery business, and lean balance sheet will help to maintain strong growth momentum in the medium to long term. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 325.

Key Risks

Any significant decrease in sugar production or slow recovery in the engineering business would act as a key risk to our earnings estimates.

Valuations (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	4,703	4,694	5,036	5,613
EBITDA margin (%)	11.9	13.5	14.4	14.8
Adjusted PAT	293	372	438	515
Adjusted EPS (Rs.)	12.2	17.8	18.5	21.7
P/E (x)	20.7	14.1	13.6	11.6
P/B (x)	3.9	3.2	2.7	2.2
EV/EBITDA (x)	12.7	12.2	10.4	8.8
RoNW (%)	20.3	24.8	21.3	20.9
RoCE (%)	17.7	17.9	17.3	18.7

Source: Company; Sharekhan estimates

Q4 revenue growth flat; better mix boosts profitability

TEIL's gross revenue stood flat y-o-y at Rs. 1,192 crore due to lower sugar sales volume by 29% y-o-y in Q4FY2022, as no exports took place during Sugar Season 2021-22. Sugar business' revenue decreased by 14.7% y-o-y to Rs. 846.8 crore. However, excluding export sales in Q4FY2021, the sugar business revenues grew by 17% y-o-y with 14% growth in volumes and 8% growth in sugar realisations. The distillery business' net revenues grew by 25.8% y-o-y to Rs. 161.6 crore. Engineering business performed well with power transmission and water business growing by 25.7% and 25.2% y-o-y, respectively in Q4FY2022. TEIL's gross margins improved by 473 bps y-o-y to 36.2% and the EBITDA margin improved by 83 bps to 14.7%. The operating profit grew by 6.3% y-o-y to Rs. 174.7 crore. Lower incidence of tax led to 37.4% y-o-y growth in the adjusted PAT to Rs. 115.9 crore. Reported PAT (including exceptional items) grew by 28.4% y-o-y during the quarter to Rs. 109.2 crore. For full year FY2022, revenue stood flat at Rs. 4,694 crore as sugar sales volume were lower by 23% y-o-y as no exports took place in respect of Sugar Season 2021-22. Gross margin improved by 418 bps y-o-y to 30.5% while EBITDA margin increased by 165 bps y-o-y to 13.5% led by lower raw material cost and better operating efficiencies. Operating profit grew by 13.6% y-o-y to Rs. 634.4 crore. Adjusted profit grew by 27% y-o-y to Rs. 371.6 crore and reported PAT (including the exceptional item) grew by 43.9% y-o-y to Rs. 424.1 crore. Total debt at FY2022-end is Rs. 1,503.7 crore higher than Rs. 943.7 crore at FY2021-end on account of higher sugar inventory levels and faster cane price payment. The board recommended a final dividend of Rs. 2 per share on equity shares of Re. 1 for FY2022. Including the final dividend, total dividend for FY2022 stands at Rs. 3.25 per equity share.

Sugar business: No exports during SS 2021-22 impacted business performance

In Q4FY2022, sugar business' revenues declined by 14.7% y-o-y to Rs. 846.8 crore due to lower volumes by 28.6% to 1,95,953 tonne, in the absence of exports. Domestic realisation increased by 8.2% y-o-y to Rs. 34.9/kg. Segment PBIT was reported at Rs. 122.4 crore, up 15.6% y-o-y, led by higher realisations and efficiencies. In full year FY2022, sugarcane crushed stood lower by 4% y-o-y to 6.61 million tonnes, which led to a 7% decrease in sugar production to 6,98,674 tonne. Sugar revenue declined by 14.5% y-o-y to Rs. 3,473.9 crore due to lower volumes by 23.5% to 8,44,159 tonne, mainly as exports were lower by 83% y-o-y coupled with lower monthly allocations. Gross recovery lower is lower at 11.59% against 11.7% in Sugar Season 2021-21 due to delayed start of the season due to the excessive rainfall especially in the month of October 2021. Domestic realisation increased by 7.1% y-o-y to Rs. 35.0/kg. Segment PBIT was reported at Rs. 386.5 crore, registering a growth of 3.2% y-o-y, on account of higher realisation and efficiencies. The sugar inventory as on Mar 31, 2021 was 51.49 lakh quintals, which is valued at around Rs. 32.7/kg. TEIL approved the modernization of three of the existing sugar units at Khatauli, Deoband and Sabitgarh, all in Uttar Pradesh at a total cost of about Rs. 130 crore, which shall be completed by October 2022.

TEIL estimates the country's sugar production at 35.6 million tonnes after diversion of 3.4 million tonnes to ethanol in Sugar Season 2021-22. The increased production during the season, will be largely absorbed by higher levels of exports of 9.5 million tonnes. Closing inventories at end of SS 2021-22 are expected to be lower than the previous closing by ~1.5 million tonnes. It augurs well for sugar prices. However, additional diversion to ethanol and exports are expected to take care of the additional production (over-consumption) so that the closing inventories remain at reasonable levels. It is estimated that crush level during the ongoing season will be almost at the same level as last year but the gross recoveries (including sugar diverted to ethanol) could be lower by about 20-25 bps y-o-y. Recoveries had been impacted due to excessive late rains and due to severe heat conditions since March 2022.

Co-generation operations (including incidental co-generation) achieved external sales of Rs. 62.38 crore during FY2022 as against Rs. 68.35 crore in FY2021, falling by 9% y-o-y due to lower operating days.

Sugar division's performance

Particulars	Q4FY22	Q4FY21	y-o-y %	FY2022	FY2021	y-o-y %
Sugar dispatches (tonnes)						
Domestic	1,95,953	1,71,368	14.3	8,06,093	8,79,568	-8.4
Exports	-	1,02,934	-	38,066	2,23,665	-83.0
Total	**1,95,953**	**2,74,302**	**-28.6**	**8,44,159**	**11,03,233**	**-23.5**
Domestic realisation (Rs./MT)	34,994	32,330	8.2	35,020	32,703	7.1
Export realisation (Rs./MT)	-	25,959	-	25,785	24,381	5.8
Gross Revenue (Rs. crore)	846.8	992.2	-14.7	3,473.9	4,063.1	-14.5
PBIT (Rs. crore)	122.4	105.9	15.6	386.5	374.5	3.2
PBIT margins (%)	**14.5**	**10.7**	**378**	**11.1**	**9.2**	**191**

Source: Company; Sharekhan Research

Distillery business – Capacity addition to aid growth

Distillery business's net revenue grew by 25.8% y-o-y to Rs. 161.6 crore in Q4FY2022, driven by sales volume growth of 23.8% y-o-y, while realisation stood flat. Distillery realisation was impacted by the commencement of the Indian Made Indian Liquor (IMIL) business. During the current quarter, the company produced 93% ethanol from B-heavy molasses as compared to 99% in Q4FY2021. Sales volume of IMIL was 5.45 lakh cases in Q3FY2022. PBIT grew by 7.4% y-o-y to Rs. 30.6 crore (margins decreased by 324 bps y-o-y). For full year FY2022, the distillery business' net revenue grew by 29.9% y-o-y to Rs. 668.5 crore, driven by higher sales volumes and improved realisations due to product mix and increase in price. Sales volume growth came in at 13.7% y-o-y, while realisation grew by 10.7%. During FY2022, the company produced 83% ethanol from B-heavy molasses as compared to 55% in FY2021. Sales volume of Indian Made Indian Liquor (IMIL) was 17.61 lakh cases during the year. PBIT grew by 47.8% y-o-y to Rs. 149.4 crore (margins improved by 270 bps y-o-y). On April 4, 2022, TEIL commenced operations of its new distillery with a capacity of 160 KLPD at its sugar mill at Milak Narayanpur in District Rampur U.P., which has the flexibility to operate with multiple feedstocks. The company has also enhanced operations at Sabitgarh from 160-200 KLPD. With these developments, the current distillation capacity of the company is at 520 KLPD. TEIL plans to further expand capacity through addition of grain-based facility of 60 KLPD to be set up at the existing distillery complex at Muzaffarnagar (U.P.) taking the distillation capacity to 580 KLPD within Q1FY2023 and further expansion of distillation capacity of the existing and upcoming distilleries to 660 KLPD by July 2022 through low capital cost incidental expansion / debottlenecking. The management has indicated that post these capacity additions/enhancement, the distillery production is expected to come in at 18 crore litres for FY2023 (up from ~11 crore litres in FY2022) while for FY2024, the production is expected to rise up to 22 crore litres.

Distillery business' performance

Particulars	Q4FY22	Q4FY21	y-o-y %	FY2022	FY2021	y-o-y %
Operational details						
Production (KL)	28,736	30,209	-4.9	1,07,604	1,07,027	0.5
Sales (KL)	26,818	21,668	23.8	1,17,837	1,03,637	13.7
Avg. Realisation (Rs/ltr)	56.8	57.3	-0.9	54.1	48.9	10.7
Financial details						
Net revenues (Rs crore)	161.6	128.5	25.8	668.5	514.6	29.9
PBIT (Rs crore)	30.6	28.5	7.4	149.4	101.1	47.8
PBIT margins (%)	18.9	22.2	-324	22.3	19.6	270

Source: Company; Sharekhan Research

Power transmission revenue growth at 25.7% y-o-y; Margin impacted during the quarter

Revenues increased by 25.7% y-o-y in Q4FY2022 to Rs. 66.6 crore, aided by strong 24% y-o-y growth in order booking during the quarter. The segment's EBIT margin declined by 136 bps y-o-y to 36.2% in Q4FY2022. For the whole of FY022, revenue grew by 41.9% y-o-y to Rs. 184.6 crore, aided by strong 59% y-o-y growth in order booking during the year. The segment's EBIT margin improved by 334 bps y-o-y to 34.8% in FY2022 aided by better cost control measures and operating leverage stemming from higher revenues. The outstanding order book as on March 31, 2021, stood at Rs. 221.3 crore, including long duration orders of Rs. 111.8 crore executable over a couple of years. The business has been focusing on business opportunities from defence and is actively participating in many indigenous development projects. It has also partnered with global original equipment manufacturers (OEMs) for precision manufacturing of components on Built-to-Print basis. Strong economic recovery is likely to lead to increased demand from sectors such as steel, cement, oil and gas, thermal, and fertiliser, which bode well for this business. The company has approved the expansion of power transmission business at a total cost of about Rs. 80 crore, which shall be completed by March 2023.

Water business – Growth momentum continued

Water business's revenue grew by 25.2% y-o-y to Rs. 101.5 crore in Q4FY2022. The business is gaining faster momentum and is getting recognition in a high potential market as a supplier of superior-quality products and services at competitive costs. EBIT margin for the quarter was down by 662 bps to 8.7%. For full year FY2022, the water business reported revenue of Rs. 270.2 crore, up by 3.6% y-o-y, led by strong 79% y-o-y growth in order booking. EBIT margin for the segment increased by 123 bps y-o-y to 11.5% due to better cost control and efficient project execution. Outstanding order book as of March 31, 2022, stood at Rs. 1,512.8 crore, which includes Rs. 939.92 crore towards O&M contracts for a longer period of time. TEIL is expecting robust order bookings in FY2023 as it is well placed in certain bids being evaluated and has visibility of bids of substantial value which are expected to be floated during FY2023.

Engineering business performance — Rs cr

Segmental Revenue	Q4FY22	Q4FY21	Y-o-Y (%)	FY2022	FY2021	Y-o-Y (%)
Engineering Business						
Power Transmission	66.6	53.0	25.7	184.6	130.1	41.9
Water	101.5	81.1	25.2	270.2	260.7	3.6
Total	**168.1**	**134.1**	**25.4**	**454.8**	**390.8**	**16.4**
Segmental Results	**Q4FY22**	**Q4FY21**	**Y-o-Y (%)**	**Q4FY22**	**Q4FY21**	**Y-o-Y (%)**
Engineering Business						
Power Transmission	24.1	19.9	21.1	64.2	40.9	57.0
Water	8.8	12.4	-29.0	31.0	26.7	16.1
Total	**32.9**	**32.3**	**1.9**	**95.2**	**67.6**	**40.8**
EBIT margin (%)	**Q4FY22**	**Q4FY21**	**Y-o-Y (BPS)**	**Q4FY22**	**Q4FY21**	**Y-o-Y (BPS)**
Power Transmission	36.2	37.5	-136	34.8	31.4	334
Water	8.7	15.3	-662	11.5	10.2	123

Source: Company; Sharekhan Research

Debt stays high, expected to decline in near term

TEIL's total debt on a standalone basis as on Mar 31, 2022 is Rs. 1503.74 crore as against Rs. 943.66 crore as on March 31, 2021. It comprises term loans of Rs. 395.83 crore and almost all the loans are with interest subvention or at subsidized interest rate. The total debt as on March 31, 2022 is higher than March 31, 2021 on account of higher sugar inventory levels and faster cane price payment. Overall cost of funds is at 5.00% during FY2022 as against 6.05% in FY2021. On a consolidated basis, the total debt is at Rs. 1567.96. crore as against Rs. 994.02 crore as on Mar 31, 2021 including term loans of Rs. 460.05 crore. The management has stated that as the sugar inventory is liquidated, the debt levels are expected to decline.

Divestment of shareholding in Triveni Turbine

On May 9, 2022, the board has decided to divest the company's entire shareholding in Triveni Turbine Ltd (TTL), aggregating to 21.85% of the equity share capital of TTL to unlock value for stakeholders, timely monetisation of non-core-assets, unbundling of businesses, and enabling the long-term succession planning and facilitation of focused management for the company. The floor price for the transaction is fixed at Rs. 171 per share and accordingly the company will receive ~Rs. 1,210 crore from the transaction. Proceeds from the divestment of equity shares of TTL are intended to be utilized for the growth and expansion for business as well as for rewarding shareholders of the company. As indicated by the management, the promoters might sell some shares of TEIL to buy stake in TTL.

Results (Consolidated) Rs cr

Particulars	Q4FY22	Q4FY21	Y-o-Y (%)	Q3FY22	Q-o-Q (%)
Revenues	**1,192.1**	**1,188.1**	**0.3**	**1,235.4**	**-3.5**
Raw materials	761.1	814.8	-6.6	830.9	-8.4
Employee costs	93.7	76.6	22.2	75.5	24.1
Other expenditure	162.6	132.4	22.9	126.2	28.8
Total expenditure	1,017.4	1,023.8	-0.6	1,032.6	-1.5
Operating profit	**174.7**	**164.3**	**6.3**	**202.8**	**-13.9**
Other income	3.0	10.4	-71.6	7.0	-57.5
Interest expenses	14.6	12.5	16.9	12.2	20.2
Depreciation	20.3	20.0	1.5	20.5	-0.9
Profit Before Tax	142.8	142.3	0.4	177.2	-19.4
Tax	34.2	48.7	-29.7	54.9	-37.6
Adjusted PAT (before associates)	**108.6**	**93.5**	**16.1**	**122.3**	**-11.3**
Share of profit from associates	7.3	-9.2	-179.9	7.8	-5.9
Adjusted PAT	115.9	84.3	37.4	130.1	-10.9
Extra-ordinary items	-6.7	0.7	-	0.0	-
Reported PAT	**109.2**	**85.0**	**28.4**	**130.1**	**-16.1**
EPS (Rs.)	4.5	3.5	28.4	5.4	-16.1
			Bps		**Bps**
GPM (%)	36.2	31.4	473	32.7	341
OPM (%)	14.7	13.8	83	16.4	-176
NPM (%)	9.1	7.9	123	9.9	-80
Tax rate (%)	24.0	34.3		31.0	

Source: Company, Sharekhan Research

Outlook and Valuation

Sector View – Rise in supply for ethanol manufacturing to drive growth

As per the ISMA's latest estimates for SY2021-SY2022, total sugarcane production is estimated at 35.0 million. It is further estimated that due to diversion of sugarcane juice and B-heavy molasses, actual sugar production will drop by 3.4 million tonnes. Therefore, estimated sugar production net of diversion is estimated at 31.6 million tonne. The state government of Uttar Pradesh announced the State Advised Price (SAP) for the SS 2021-2022 at Rs. 250/quintal, higher than the last season. Accordingly, now the early variety of sugarcane will cost Rs. 350 a quintal. A revised ethanol policy, likely minimum support price (MSP) revision, quota-based sugar distribution, and export quota of 9 million tonne will benefit sugar companies in FY2022/FY2023 with stable sugar realisation. Increased international sugar prices would help Indian companies to get better export realisation for their produce. The average blending percentage in the country stands at 9.82% till Apr 24, 2022. The government is targeting to achieve 20% blending of ethanol by 2025 (10% ethanol blending by marketing year 2021-2022), which would largely solve the problem of excess sugar over the medium term.

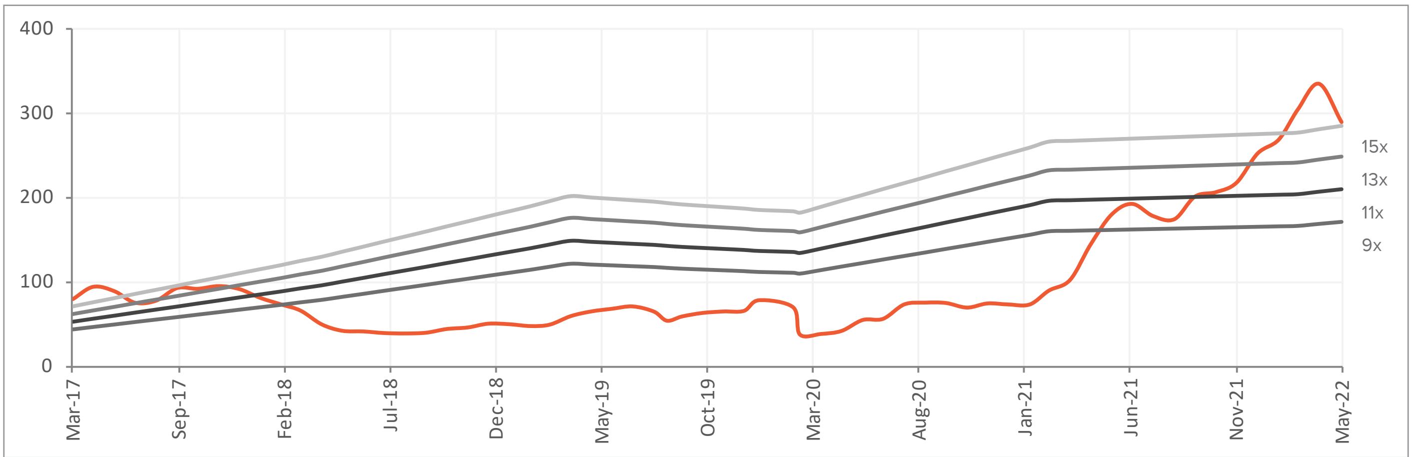
Company Outlook – Capacity expansion in distillery business improves growth outlook

Management expects a higher sugarcane availability and crush (with increased sugarcane output) in the coming season, which is expected to be aided by a normal monsoon as forecasted. Realisations are expected to remain high on a y-o-y basis. With capacity expansion, distillery production is expected to increase to 18 crore litre in FY2023 and 22 crore litre in FY2024. Power transmission and water business have strong order book of Rs. 221 crore and Rs. 1,513 crore, respectively. Profitability is expected to improve on the back of cost control measures and better operating efficiencies. Thus, the company is well poised to report steady revenue growth with sustained improvement in EBITDA margin in the coming years.

Valuation – Maintain Buy with a revised PT of Rs. 325

With higher capacity utilisation in the expanded distillery facility and improved order book in engineering, TEIL is well poised to achieve strong earnings growth of ~18% over FY2021-FY2024. Further the company is focusing on enhancing shareholders' value by unlocking value in the non-core investments. Stock currently trades at 13.6x/11.6x its FY2023E/FY2024E EPS (10.4x/8.8x its FY2023E/FY2024E EV/EBITDA). Structural change in the sugar industry, strong growth prospects of distillery business, and lean balance sheet will help to maintain strong growth momentum in the medium to long term. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 325.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Balrampur Chini	16.7	13.2	11.4	13.3	10.6	9.0	16.5	19.0	20.2
Dhampur Sugar	7.5	5.9	4.8	6.0	4.9	3.9	15.4	17.6	19.8
Triveni Engineering	14.1	13.6	11.6	12.2	10.4	8.8	17.9	17.3	18.7

Source: Company, Sharekhan estimates

About company

TEIL is the largest integrated sugar manufacturer in India and the market leader in its engineering businesses comprising high-speed gears, gearboxes, and water and wastewater treatment solutions. TEIL 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 and wastewater treatment business is located at Noida. The company currently operates six co-generation power plants located across five sugar units and two molasses-based distilleries in UP, located at Muzaffarnagar and Sabitgarh. The company has a multi-feed distillery at Milak Narayanpur. TEIL manufactures Indian Made Indian Liquor (IMIL) at its Muzaffarnagar distillery.

Investment theme

TEIL will be one of the key beneficiaries of improving fundamentals of the sugar industry in India with the government focusing on reducing the cyclicality in the industry to achieve stable realisation and better profitability in the coming years. Expansion in distillery capacity will drive the strong growth for distillery business will add-on to overall profitability. Further, increased MSPs and higher international sugar prices will keep sugar realisation stable despite higher sugar production. This will help EBITDA margin to improve from ~13% in FY2022 to ~15% in FY2024. Higher profitability along with stable working capital management will help cash flows to improve in the coming years. Thus, the balance sheet is expected to strengthen further in the coming years. Return ratios are expected to consistently improve and stand close to 19-20% in FY2024.

Key Risks

- Any significant increase in global sugar production would impact the export realisation.
- Any change in sugar export or ethanol blending policies would affect business fundamentals.

Additional Data

Key management personnel

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

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	DSP investment managers Pvt Ltd	3.26
2	Goel Anil Kumar	2.69
3	Nippon Life India Asset Management Company	1.31
4	Devabhaktuni Manohar	1.05
5	Dimensional Fund Advisors LP	0.78
6	Blackrock Inc	0.10
7	Teachers Insurance and Annuity Association of America	0.05
8	Artico Partners AG	0.04
9	State Street Corp	0.03
10	American Century Cos Inc	0.03

Source: Bloomberg

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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