Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Triveni Engineering & Industries Ltd

Mixed Q2; Strong outlook for the next season

Miscellaneous	Sharekhan code: TRIVENI
Reco/View: Buy ⇔	CMP: Rs. 277
	Price Target: Rs. 340 ↑

↑ Upgrade ⇔ Maintain ↓ Downgrade

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		⇔	

ESG Disclosure Score NEW

ESG RISK RATING 40.15

Updated Oct 08, 2022

Severe Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 6,700 cr
52-week high/low:	Rs. 374 / 186
NSE volume: (No of shares)	8.6 lakh
BSE code:	532356
NSE code:	TRIVENI
Free float: (No of shares)	7.7 cr

Shareholding (%)

Promoters	68.3
FII	6.2
DII	6.0
Others	19.5

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	1.3	22.1	-2.3	34.7
Relative to Sensex	-3.8	18.1	-14.6	33.7

Sharekhan Research, Bloomberg

Summary

- Triveni Engineering & Industries Limited (TEIL) delivered mixed operating performance in Q2 with revenue growing in double digits by 27% y-o-y to Rs. 1,471.6 crore, while EBITDA margin declined by 620 bps y-o-y to 3.1%, which resulted in a 55.8% y-o-y decline in adjusted PAT to Rs. 24.1 crore.
- Outlook for the sugar season 2022-2023 is strong with the company expecting sugar production to be higher compared to UP's expected production increase of 4%; recovery rate to be higher due to modernisation of three sugar units; realisation to be higher due to increased sales of refined sugar and pharma grade sugar.
- Ethanol capacity to expand to 1,110 KLPD by the end of FY2024 from 660 KLPD currently. Ethanol sales for FY2023/FY2024/FY2025 is expected to be at 16.0 crore litre, 20.5 crore litre, and 31.8 crore litre, respectively.
- TEIL's stock price is currently trading at 21.3x and 14.8x its FY2023E and FY2024E earnings. We maintain our Buy recommendation on the stock with a revised PT of Rs. 340.

Triveni Engineering & Industries Limited's (TEIL's) revenue grew by 27% y-o-y to Rs. 1,471.6 crore on account of 45.2% y-o-y growth in the distillery segment's revenue to Rs. 412.3 crore, 22.6% y-o-y growth in the core sugar business to Rs. 1,051.9 crore and a 27% y-o-y increase in the engineering business's revenue to Rs. 129.4 crore. Gross margin and EBITDA margin decreased by 648 bps and 620 bps y-o-y, respectively, to 17.7% and 3.1%. The sugar division registered EBIT loss of Rs. 25 crore, affected by lower contribution due to increased cost of sugar production in SS 2021-2022 owing to a significant increase in SAP. Further, increased cost due to higher wage board arrears of ~Rs. 5 crore and an increase in levy molasses obligation by 2% also impacted profitability. Thus, the company's EBIDTA and PBT was down by 58% and 80%, respectively, in Q2FY2023. The company has commissioned new grain-based distillery of 60 KLPD in Muzaffnagar and has increased the capacity of existing distilleries at Muzaffarnagar and Milak Narayanpur by 40 KLPD each (from 160 KLPD to 200 KLPD), thereby increasing the company's overall distillation capacity to 660 KLPD. Further, the company has proposed new dual feedstock facility of 450 KLPD at Rani Nangal and Sabitgarh, UP, with an investment of Rs. 460 crore. Its distillation capacity will stand augmented at 1,110 KLPD by Q3FY2024.

Key positives

- Sugar business revenue grew by 26% y-o-y, driven by 23% growth in sugar sales volume.
- Distillery gross revenue grew by 45% y-o-y to Rs. 413 crore, led by 23% y-o-y growth in sales volume.
- Engineering business' revenue grew by 27% y-o-y; order book is strong at Rs. 1,825 crore for the year ahead.
- The Board of Directors has declared buyback of 2.3 crore shares for an aggregate amount of Rs. 800 crore at a price of Rs. 350 per share (28% premium to the existing market price).

Key negatives

- Sugar and distillery business margins were impacted by higher cost of production in Q2.

Management Commentary

- The company is expecting sugar production for the current season to be higher compared to Uttar Pradesh's expected production increase of 4% for SS 2022-2023. The company has commenced sugarcane crushing at six sugar units and the sugar unit at Ramkola is scheduled to commence during the second week of November 2022. De-bottlenecking and modernisation plans at three of its sugar units have been completed. This should help the recovery rate to be higher compared to the previous year.
- Post the government's announcement of allowance of 6mn tonne of sugar in SY 2022-2023, sugar prices are trading in upwards of Rs. 36 per kg and are likely to further improve. TEIL has export quota of 2,05,000 tonnes, out of which the company has already contracted around 50% at premium prices. Further, with an increase in refined sugar capacity (to 60% from 40% earlier) and doubling of pharmaceutical grade sugar production capacity, the sugar realisations for SY 2022-23 are expected to be higher for TEIL.
- Management expects the sugar division's margins to be higher as it will export the entire quota in the current fiscal, which will help to achieve higher realisation in H2FY2023.
- Management has indicated that post capacity additions/enhancement, distillery production is expected to come in at 16-17 crore litre for FY2023, 24 crore litre in FY2024, and with increased capacity to 1,100 KLPD, the capacity will increase to 32 crore litre by FY2025.
- TEIL has divested its entire 21.85% stake in Triveni Turbine Limited for net consideration of Rs. 1,593 crore, unlocking significant value for the shareholder. Rs. 800 crore will be utilised for buyback and rest of the funds will be utilised for future growth prospects. Consolidated debt on books has reduced to Rs. 721 crore from Rs. 1,568 crore through internal accruals.

Revision in estimates – We have reduced our earnings estimates for FY2023 to factor in lower-than-earlier expected EBIDTA margin, while we have broadly maintained them for FY2024. We have introduced FY2025E earnings estimates, which include incremental revenue from ethanol capacity expansion to 1,100 KLPD.

Our Call

View: Maintain Buy with a revised PT of Rs. 340 – With higher capacity utilisation in the expanded distillery facility and improved order book in engineering, TEIL is well poised to achieve strong double-digit earnings growth over FY2022-FY2025. Further, the company is focusing on enhancing shareholders' value by unlocking value in non-core investments. The stock trades at 21.3x/14.8x its FY2023E/FY2024E EPS (13.2x/9.5x its FY2023E/FY2024E EV/EBITDA). Structural change in the sugar industry, strong growth prospects of the distillery business, and lean balance sheet will help 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. 340.

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.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenue	4,703	4,694	5,410	6,051	7,142
OPM (%)	11.9	13.5	10.5	12.6	14.0
Adjusted PAT	293	372	305	443	625
Adjusted EPS (Rs.)	12.2	17.8	13.0	18.7	26.3
P/E (x)	22.8	15.5	21.3	14.8	22.8
P/B (x)	4.3	3.5	1.9	1.7	4.3
EV/EBIDTA (x)	13.8	13.1	13.2	9.5	13.8
RoNW (%)	20.3	24.8	11.5	12.1	20.3
RoCE (%)	17.7	17.9	10.7	11.9	17.7

Source: Company; Sharekhan estimates

** Return ratios drop in FY2023 due to higher one-time gain of Rs. 1,410 crore towards stake sell of Triveni Turbine Limited gets added to reserves, which will be utilised for buyback and future growth prospects.*

Strong 27% y-o-y revenue growth; Margin down by 620 bps y-o-y

TEIL's revenue grew by 27.4% y-o-y to Rs. 1,471.6 crore on account of 45.2% y-o-y growth in the distillery revenue to Rs. 412.9 crore, 26.3% y-o-y growth in the core sugar business to Rs. 1,007.7 crore and 26.8% y-o-y increase in the engineering business's revenues to Rs. 129.4 crore. Gross margin and EBITDA margin decreased by 648 bps and 620 bps y-o-y to 17.7% and 3.1%, respectively, impacted by weak operating performance by all businesses. The sugar division posted EBIT loss of Rs. 25 crore due to higher cane prices, increased transfer prices, and lower recovery. The distillery business's EBIT declined by 2.4% y-o-y, while EBIT for the engineering business grew marginally by 2.3% y-o-y. The impact of strong revenue growth was mitigated by declining margins, which led to a 57.7%/55.8% y-o-y decline in EBITDA/adjusted PAT to Rs. 45.4 crore/Rs. 24.1 crore, respectively. The company has divested its entire stake of 21.85% in the associate company, Triveni Turbine Limited (TTL), and income of Rs. 1401.2 crore has been recognized in Q2FY2023. Reported PAT for the quarter stood at Rs. 1,387.7 crore. For H1FY2023, revenue grew by 25% y-o-y to Rs. 2,833.1 crore, while adjusted PAT declined by 41.6% y-o-y to Rs. 82.2 crore and EBITDA margin declined by 571 bps y-o-y to 5.6%. TEIL's total debt reduced to Rs. 720.7 crore (net of FD of Rs. 148 crore made from operational surplus) as on September 30, 2022, from Rs. 1,568 crore as on March 31, 2022.

Sugar business: Volume-led revenue growth; Margins impacted by multiple factors

In Q2FY2023, sugar business's revenue grew by 26.3% y-o-y to Rs. 1,007.7 crore, with sales volume growing by 22.6% y-o-y. Domestic realisation increased by 1.6% y-o-y to Rs. 35.4/kg. The segment reported a loss of Rs. 25 crore against a profit of Rs. 28.3 crore in Q2FY2022. During the quarter, profitability was impacted by lower contribution due to increased cost of sugar produced in SS 2021-2022 owing to a significant increase in sugarcane price (SAP), which could only be partially offset by increased sugar realisation price. Further, higher cost due to increased wage board arrears of ~Rs. 5 crore and increase in levy molasses obligation by 2% also impacted profitability. Sugar inventory as on September 30, 2022, was 20.81 lakh quintals, which is valued at around Rs. 32/kg. Co-generation operations (including incidental co-generation) achieved external sales of Rs. 16.91 crore during H1FY2023 as against Rs. 14.23 crore in H1FY2022, an increase of 19%. There were no operations in Q2FY2023, being the off-season.

Sugar business performance

Particulars	Q2FY23	Q2FY22	y-o-y %
Sugar dispatches (tonne)			
Domestic	2,59,895	2,11,941	22.6
Total	**2,59,895**	**2,11,941**	**22.6**
Domestic realisation (Rs. /Kg)	35.4	34.9	1.6
Gross Revenue (Rs. crore)	**1,008**	**798**	**26.3**
PBIT (Rs. crore)	-25.0	28.3	-
PBIT margins (%)	**-2.5**	**3.5**	-

Source: Company, Sharekhan Research

Distillery business – Volume and realisation led growth; Margins declined y-o-y

Distillery business's net revenue grew by 45.2% y-o-y to Rs. 412.9 crore in Q2FY2023, driven by sales volume growth of 23.3% y-o-y, while realisations grew by 12.8% y-o-y to Rs. 58.1/litre. Ethanol produced from B-heavy constitutes 70% of the sales volume in Q2FY2023 against 73% in Q2FY2022. The business's PBIT margin decreased by 557 bps y-o-y to 11.4% impacted due to increased transfer price of B-heavy molasses, initial stabilisation period of newly commissioned capacities, and relatively lower margin with grain as feedstock. The sale of ethanol produced from grain accounted for 24% of total sales volumes in Q2FY2023. Sales volume of IMIL was 5.97 lakh cases in Q2FY2023.

Distillery business's performance

Particulars	Q2FY23	Q2FY22	y-o-y %
Operational details			
Production (KL)	43,070	27,341	57.5
Sales (KL)	45,709	37,066	23.3
Avg. Realisation (Rs./ltr)	58.1	51.5	12.8
Financial details			
Gross revenues (Rs. crore)	413	284	45.2
PBIT (Rs. crore)	47.2	48.3	-2.4
PBIT margins (%)	11.4	17.0	-557

Source: Company, Sharekhan Research

Power transmission business - Revenue growth at 12% y-o-y; Margins declined by 380 bps y-o-y

Revenue increased by 12.4% y-o-y in Q2FY2023 to Rs. 61.1 crore. The segment's EBIT margin contracted by 380 bps y-o-y to 34.5%. In Q2FY2023, new order booking grew by 19.3% y-o-y to Rs. 59.9 crore, while closing order book was up 52.2% y-o-y to Rs. 245.2 crore. Management has guided that though there have been some challenges with supply chain disruptions in H1FY2023, the issues are expected to normalise in Q3FY2023. The outstanding order book as on September 30, 2022, of Rs. 245.2 crore included long duration orders of Rs. 105.4 crore.

Water business – Robust revenue growth; Business expected to pick up momentum

The water business's revenue grew by 43.1% y-o-y to Rs. 68.3 crore in Q2FY2023. TEIL is expecting robust order booking in the coming quarters and is well placed in certain bids being evaluated and has visibility of bids of substantial value, which are expected to be floated during the year. The outstanding order book as on September 30, 2022, stood at Rs. 1,579.4 crore, which includes Rs. 939.5 crore towards O&M contracts for a longer time period. Water business's PBIT margin declined by 220 bps y-o-y to 6.5%.

Engineering business's performance

Particulars	Q2FY23	Q2FY22	Y-o-Y (%)
Segmental Revenue (Rs. crore)			
Power Transmission	61.12	54.36	12.4
Water	68.25	47.68	43.1
Total	**129.37**	**102.04**	**26.8**
Segmental Results (Rs. crore)			
Power Transmission	21.1	20.83	1.3
Water	4.47	4.17	7.2
Total	**25.57**	**25.00**	**2.3**
EBIT margin (%)			**Y-o-Y (BPS)**
Power Transmission	34.5	38.3	-380
Water	6.5	8.7	-220

Source: Company, Sharekhan Research

Divestment of shareholding in Triveni Turbine completed in Q2

TEIL has divested its entire stake of 21.85% in the associate company, Triveni Turbine Limited (TTL), and accordingly exceptional income of Rs. 1,401.2 crore has been recognised. Share of profit from TTL has been considered up to September 20, 2022, and thereafter, it ceases to be an associate company. Net divestment proceeds received from the transaction of Rs. 1,593 crore are held in fixed deposits with various banks. The company plans to utilise Rs. 800 crore out of the proceeds for the buyback and the rest of the funds will be utilised for future growth prospects.

Buyback approved by the Board

The Board of the company has approved a proposal to buyback from equity shareholders of the company up to 2,28,57,142 equity shares at a price of Rs. 350 per share for an aggregate amount not exceeding Rs. 800 crore, through tender offer on proportionate basis.

Debt reduction as compared to FY2022-end

The company's total debt on a standalone basis as on September 30, 2022, is Rs. 646.7 crore (net of Fixed Deposits (FD) of Rs. 148 crore made from operational surplus) as against Rs. 1,503.7 crore as on March 31, 2022, comprising term loans of Rs. 372.4 crore with almost all loans on interest subvention or at a subsidised interest rate. On a consolidated basis, total debt is at Rs. 720.7 crore (net of FD of Rs. 148 crore made from operational surplus) as on September 30, 2022, as against Rs. 1,568 crore as on March 31, 2022. The above debt position is without considering net divestment proceeds of Rs. 1,593 crore held in fixed deposits with various banks. Overall, the average cost of funds is at 5.16% during Q2FY2023 as against 5.09% in Q2FY2022.

Results (Consolidated) Rs cr

Particulars	Q2FY23	Q2FY22	Y-o-Y (%)	Q1FY23	Q-o-Q (%)
Revenues	**1,471.6**	**1,155.0**	**27.4**	**1,361.5**	**8.1**
Raw materials	1,211.3	875.8	38.3	1,062.0	14.1
Employee costs	84.2	65.8	28.0	78.0	7.9
Other expenditure	130.8	106.2	23.2	107.6	21.5
Total expenditure	1,426.2	1,047.8	36.1	1,247.6	14.3
Operating profit	**45.4**	**107.3**	**-57.7**	**113.9**	**-60.2**
Other income	11.7	8.6	35.5	9.9	18.8
Interest expenses	17.2	12.1	41.5	21.7	-20.7
Depreciation	23.4	20.3	15.4	21.8	7.4
Profit Before Tax	16.5	83.5	-80.2	80.3	-79.4
Tax	-7.6	29.0	-	22.2	-
Adjusted PAT (before associates)	**24.1**	**54.5**	**-55.8**	**58.1**	**-58.5**
Share of profit from associates	8.0	38.0	-79.0	8.4	-4.9
Adjusted PAT	32.1	92.5	-65.3	66.4	-51.8
Extra-ordinary items	1,355.7	0.0	-	0.0	-
Reported PAT	**1,387.8**	**92.5**	**-**	**66.4**	**-**
EPS (Rs.)	57.4	3.8	-	2.7	-
			Bps		Bps
GPM (%)	17.7	24.2	-648	22.0	-431
OPM (%)	3.1	9.3	-620	8.4	-528
NPM (%)	1.6	4.7	-308	4.3	-263
Tax rate (%)	-45.9	34.7	-	27.7	-

Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector view - Rise in supply for ethanol manufacturing to drive growth**

As per ISMA's latest estimates for SY2022-SY2023, total sugarcane production is estimated at 35.5 million tonne (net of diversion to ethanol). Diversion to ethanol will be ~4.5 million tonne. With consumption expected at 27 million tonne, surplus sugar in the next season is expected at 6-7 million tonne. Average blending percentage in the country stands at 9.82% till April 24, 2022, which is expected to improve in the next sugar season. Sugar realisation is expected to be stable with the government expected to take care of surplus inventory by allowing exports of sugar or higher diversion for ethanol production. The government is targeting to achieve 20% blending of ethanol by 2024-2025 (10% ethanol blending by marketing year 2021-2022), which would largely solve the problem of excess sugar over the medium term.

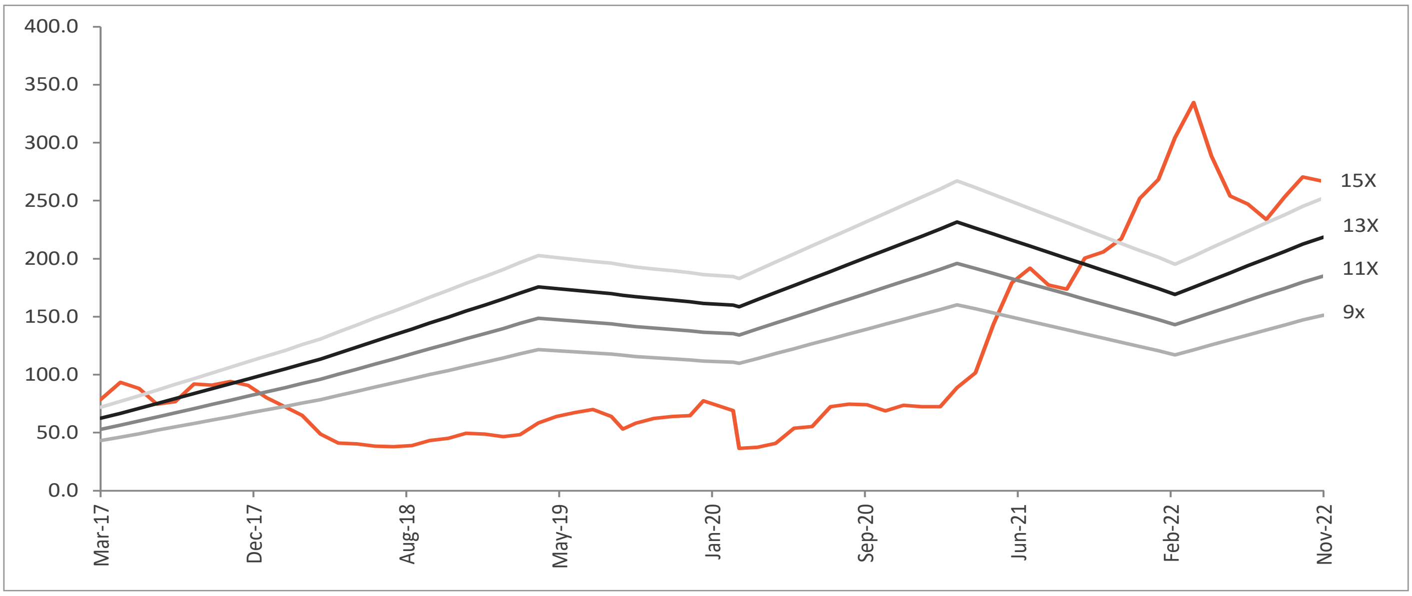
■ **Company outlook - Capacity expansion in the distillery business improves the growth outlook**

Management expects higher sugarcane availability and crush (with increased sugarcane output) in the coming season, which is expected to be aided by a normal monsoon season as forecasted. Realisations are expected to stay high on a y-o-y basis. With capacity expansions, distillery production is expected to increase to 16 crore litre in FY2023 and 22 crore litre in FY2024 (30-32 crore litre by FY2025). The engineering business has a strong order book of close to Rs. 1,900 crore. Profitability is expected to improve because 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. 340**

With higher capacity utilisation in the expanded distillery facility and improved order book in engineering, TEIL is well poised to achieve strong double-digit earnings growth over FY2022-FY2025. Further, the company is focusing on enhancing shareholders' value by unlocking value in non-core investments. The stock trades at 21.3x/14.8x its FY2023E/FY2024E EPS (13.2x/9.5x its FY2023E/FY2024E EV/EBITDA). Structural change in the sugar industry, strong growth prospects of the distillery business, and lean balance sheet will help maintain strong growth momentum in the medium to long term. We maintain our Buy recommendation on the stock with a revised PT of Rs. 340.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Balrampur Chini	14.6	13.6	10.9	16.8	16.5	18.4	16.8	16.5	18.4
Dhampur Sugar	9.7	10.5	8.1	7.8	8.7	7.0	11.2	11.9	13.4
Triveni Engineering	15.5	21.3	14.8	13.1	13.2	9.5	17.9	10.7	11.9

Source: Company; Sharekhan Research

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 UP) 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 strong growth for the distillery business, which 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 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
Geeta Bhalla	Company Secretary & Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	DSP investment managers Pvt Ltd	4.56
2	Goel Anil Kumar	2.69
3	Nippon Life India Asset Management Company	1.76
4	Devabhaktuni Manohar	1.05
5	Dimensional Fund Advisors LP	0.78
6	Capital Securities Investment Trust	0.15
7	Blackrock Inc	0.12
8	State Street Corp	0.08
9	Goldman Sachs Group Inc	0.06
10	American Century Companies	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

Sharekhan

by BNP PARIBAS

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