



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

Updated Dec 08, 2022

40.15

Severe Risk

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

Source: Morningstar

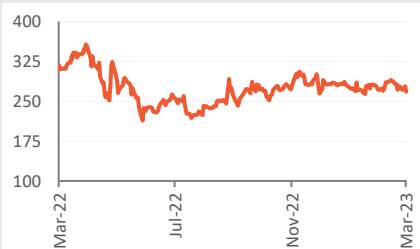
Company details

Market cap:	Rs. 5,866 cr
52-week high/low:	Rs. 374 / 211
NSE volume: (No of shares)	8.0 lakh
BSE code:	532356
NSE code:	TRIVENI
Free float: (No of shares)	8.5 cr

Shareholding (%)

Promoters	61.0
FII	7.1
DII	8.1
Others	23.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.2	-1.7	7.7	-13.6
Relative to Sensex	2.1	3.4	7.0	-14.0

Sharekhan Research, Bloomberg

Triveni Engineering & Industries Ltd

In a sweet spot; growth drivers in place

Miscellaneous

Sharekhan code: TRIVENI

Reco/View: Buy



CMP: Rs. 268

Price Target: Rs. 340



Upgrade



Maintain



Downgrade

Summary

- We re-iterate a Buy on Triveni Engineering & Industries Ltd (TEIL) with an unchanged PT of Rs. 340. Drivers are in place to deliver strong double digit earnings growth; stock attractively valued at 20.1x/14.8x/11.2x its FY2023E/24/25E EPS makes its better pick in the sugar space.
- Distillery business' capacity to expand to 1,110 KLPD by end of FY24 from 660KLPD currently. Ethanol production to increase to 32 crore litre in FY2025 from 18 crore litre in FY2023.
- Power transmission business revenues are expected to grow by 25-30% and consistent improvement in the margins on back of large initiatives created by the government in the domestic market and revival of industrial cycle.
- TEIL's sugar crop (fewer weather vagaries), doubling of distillery capacity and strong order booking in the engineering business will aid PAT to grow by 35% over FY2023-25E.

Triveni Engineering & Industries (TEIL) business is relatively in the sweet spot as the company's sugar production is expected to be better as compared to other UP-based sugar companies due to its large presence in western Uttar Pradesh (saw lesser impact of weather vagaries) and addressed issue relating to de-bottlenecking and modernisation in three of its sugar units. Thus, sugar production is expected to increase by 7-8% in FY2023. On the other hand, a likely drop in Maharashtra sugar production will lead to lower than expected inventory at the end of the year. This will help sugar realisations continue to rise in the coming quarters. The distillery business' capacity would expand to 1,110 KLPD by end of FY24 from 660KLPD currently. Ethanol production to increase to 32 crore litres in FY2025 from 18 crore litres in FY2023. This will help in improving profitability and generate high cash flows in the coming years. Stock has corrected by 28% from its high providing good opportunity to invest.

- Doubling of ethanol capacity to boost profitability:** TEIL's ethanol capacity is expected to expand to 1,110 KLPD by Q4FY2024 from 660 KLPD currently. The management has indicated that post capacity additions/enhancement, distillery production is expected to come in at 18 crore litre for FY2023 and 32 crore litre in FY2025. With higher revenues, the ethanol business revenues can grow at CAGR of 47% over FY2022-25. Higher operating leverage and expected hike in realisation due to rising demand for bio-fuels might lead to consistent improvement in the profitability of distillery business in the coming years.
- Sugar business to perform better despite late start:** A large part of TEIL's sugar crop is located in western UP, which was lesser impacted by abrupt weather conditions. This along with modernisation of factories and debottlenecking in three of the sugar units will help TEIL's sugar production to rise 7-8% in FY2023 and same is expected to be higher in FY2024. Further with expected reduction in production in Maharashtra, inventory at the end of Sugar 2022-23 is expected to be at 34-35 million tonnes. This would help sugar realisations to remain higher for sugar companies in the coming quarters. We expect TEIL's Q4FY2023 performance to be much better due to likely improvement in sugar production.
- Engineering biz strong outlook with strong growth prospects in power transmission biz:** Power transmission business (40% of TEIL's engineering business) registered strong revenue growth of 29% yoy in 9MFY2023. The outstanding order book as on December 31, 2022 stood at Rs262.7 crore including long duration orders of Rs. 120 crore. Following the expiration of High Speed Licence Agreement with Lufkin Gears LLC in January 2023, the company will pursue the high-speed high-power segment independently, and is confident of enhancing market share in its identified target markets. Further GOI's Make-in-India initiatives has led to new opportunities particularly in the defence sector and will help TEIL to participate in many indigenous development projects with likely improvement in market share. Moreover, increase in industrial capex in sectors like power, steel, refineries, cement, textiles, sugar and mining should also stimulate growth for industrial gearboxes. Thus, business is well-poised to achieve around 25-30% revenue growth and EBITD margins should also consistently improve driven by reduction in prices of key raw materials like steel, aluminium; etc from peak levels.

Our Call

View: Maintain Buy with an unchanged PT of Rs. 340: TEIL is well poised to achieve strong double-digit earnings growth over FY2022-FY2025 with higher capacity utilisation in the expanded distillery facility, improved production for the sugar business, and better order book in engineering. The company has utilised large part of cash generated from stake sale in Triveni Turbine by utilising it for a Rs. 1600-crore buyback. It has maintained its thrust on its key businesses through sustained investment in operating efficiency and capacity expansion. With expected higher contribution from distillery business, the return ratios will consistently improve in the coming years. Post correction of ~28% from its high, the stock is trading at attractive valuation of 20.1x/14.8x/11.2x its FY2023E/FY2024E/FY2025E EPS. We maintain our Buy recommendation on the stock with an unchanged 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)

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenue	4,703	4,694	5,911	6,479	7,649
OPM (%)	11.9	13.5	9.0	11.5	12.2
Adjusted PAT	293	372	312	427	571
Adjusted EPS (Rs.)	12.2	17.8	13.3	18.1	24.0
P/E (x)	22.0	15.0	20.1	14.8	11.2
P/B (x)	4.2	3.4	1.8	1.6	1.5
EV/EBIDTA (x)	13.4	12.8	14.0	9.9	7.7
RoNW (%)	20.3	24.8	11.7	11.6	13.9
RoCE (%)	17.7	17.9	10.8	11.5	14.3

Source: Company; Sharekhan estimates

TEIL's revenues and PAT expected to grow at CAGR of 14% and 35% over FY2023-25E

TEIL's sugar crop being less vulnerable to weather vagaries, doubling of distillery capacity and strong order booking in engineering business will aid TEIL's revenues and PAT clock a CAGR of 14% and 35% over FY2023-25E. Consolidated OPM is expected to improve to 12.2% in FY2025E from 9.0% in FY2023E. However higher than expected contribution from ethanol business and a strong growth in the engineering business provides scope of further expansion in OPM than estimated.

Sugar business – strong outlook

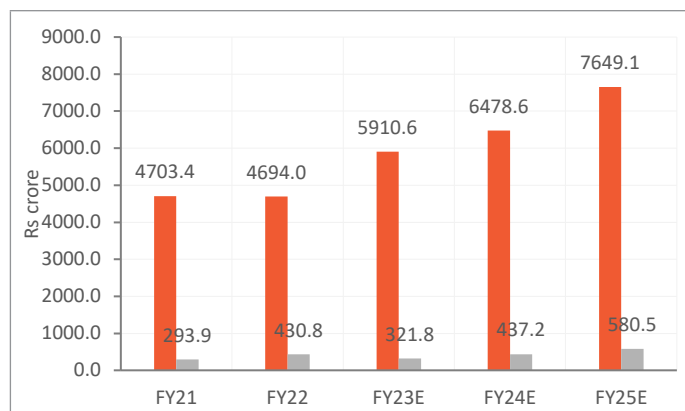
Current sugar season started with a fall in recoveries across Uttar Pradesh (UP) for ratoon crop due to late rains in October 2022. However, in view of conducive weather conditions, the catch-up in recovery was good and Oct-Feb sugar production was slightly higher compared to last year in Uttar Pradesh. TEIL has tried to mitigate the impact of weather vagaries through de-bottlenecking and modernisation of three of its units resulting in a 25% increase in cane crushing in Q3FY2023. Overall, the company is expecting sugar production to be higher by 7-8% on a y-o-y basis for the current fiscal and the same is expected to be higher in the next season, as the company is spending about Rs. 90 crore towards process change at Milak Narayanpur and modernisation and debottlenecking of the plant. Profitability of the sugar business is lower as the cost of sugar sold pertaining to the previous season includes the effect of sugarcane price hikes for SS 2021-2022 and higher cost of sugar produced in the current season due to transitory lower recoveries. However, with an expected improvement in sugar recovery in the coming months and likely export sales of remaining quota, EBIDTA margins will improve in Q4FY2023. Further, the company is expecting sugar prices to rise with narrowing demand-supply gap in the domestic and international market.

Distillery business will be boost by capacity expansion

TEIL's ethanol capacity is expected to expand to 1,110 KLPD by Q4FY2024 from 660 KLPD currently. Management has indicated that post capacity additions/enhancement, distillery production is expected to come in at 18 crore litre for FY2023 and 32 crore litre in FY2025. With expanded revenues Ethanol business revenues can grow at CAGR of 47% over FY2022-25. Higher operating leverage and expected hike in realisation due to rising demand for bio-fuels might lead to consistent improvement in the profitability of distillery business in the coming years.

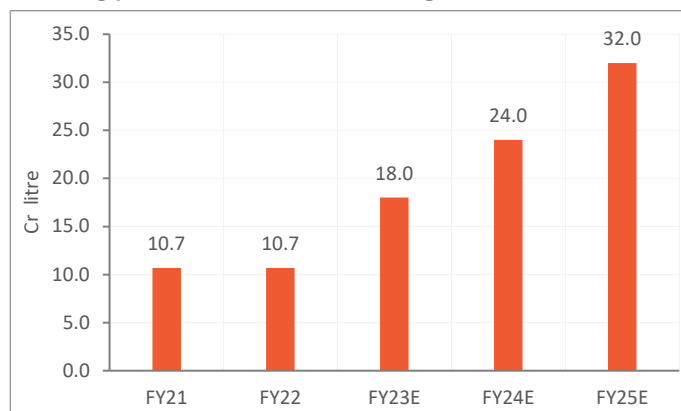
Financials in charts

Trend in revenues and PAT



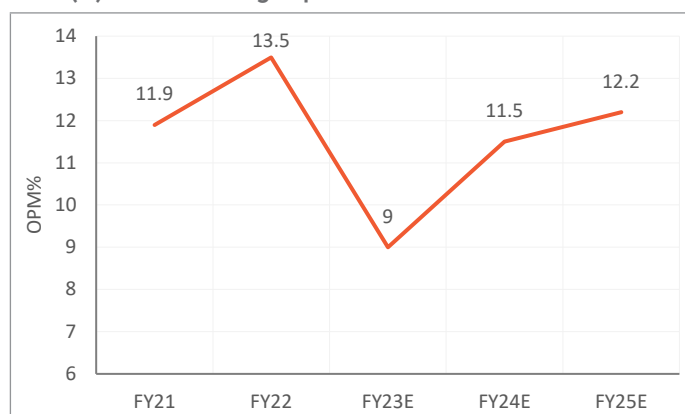
Source: Company, Sharekhan Research

Distillery production to double in two years



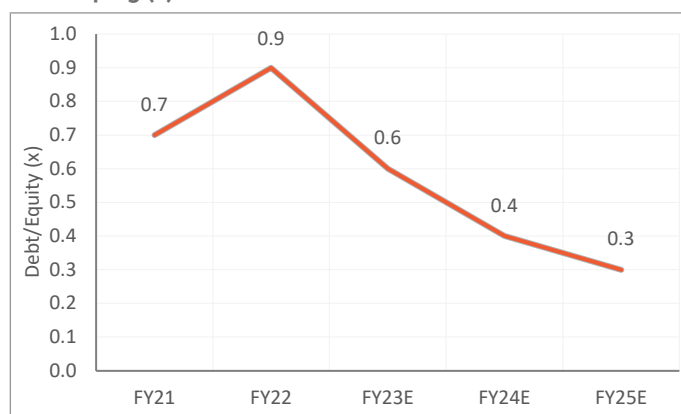
Source: Company, Sharekhan Research

OPM (%) to consistently improve



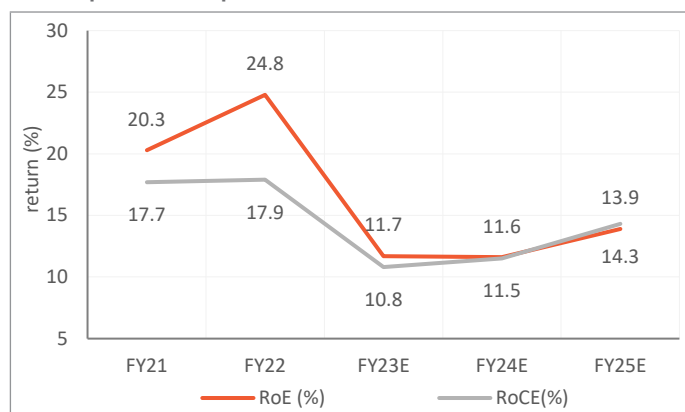
Source: Company, Sharekhan Research

Debt/Equity (x) to reduce ahead



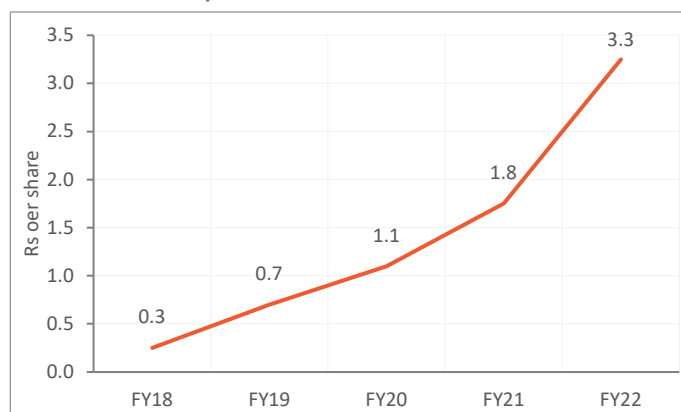
Source: Company, Sharekhan Research

Return profile to improve ahead



Source: Company, Sharekhan Research

Trend in dividend per share



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Rise in supply for ethanol manufacturing to drive growth

As per the ISMA's latest estimates for SY2022-SY2023, total sugarcane production is estimated at 36.5 million tonnes (net of diversion to ethanol). Diversion to ethanol will be ~4.5 million tonne. With consumption expected at 27.5 million tonnes, surplus sugar (available for export) in SY2022-SY2023 is expected at ~9 million tonne. India achieved 10% average blending percentage in June 2022, which is expected to improve in the ongoing 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, which would largely solve the problem of excess sugar over the medium term.

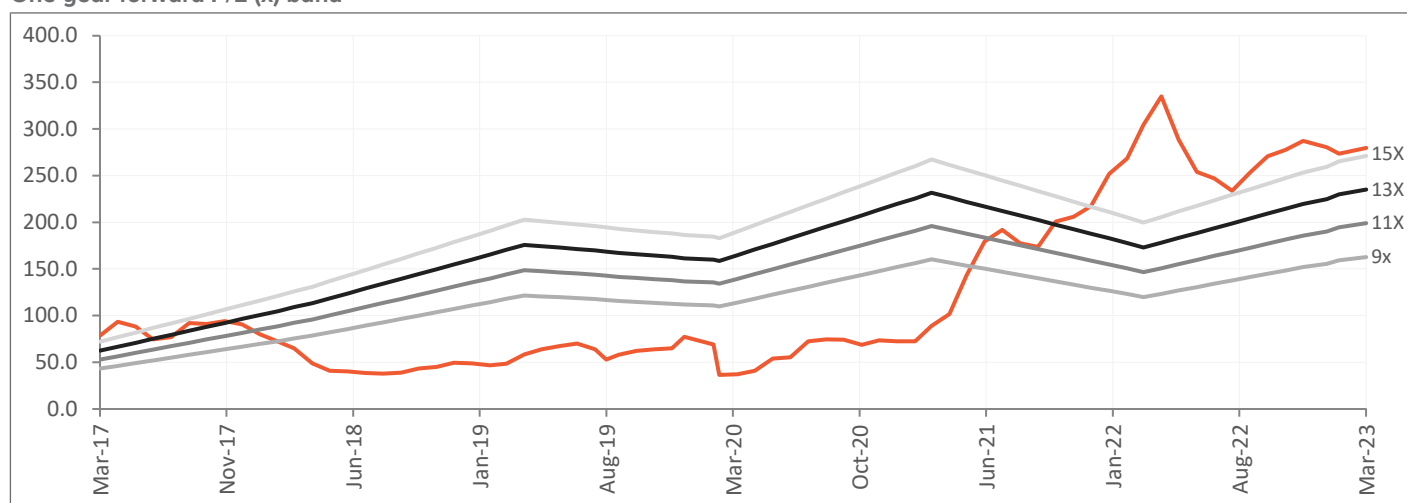
■ Company Outlook – Capacity expansion in the distillery business improves the growth outlook

The 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 litres in FY2023 and 21 crore litre in FY2024 (30-32 crore litre by FY2025). The engineering business has a strong order book of close to Rs. 1,800 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 a sustained improvement in EBITDA margin in the coming years.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 340

TEIL is well poised to achieve strong double-digit earnings growth over FY2022-FY2025 with higher capacity utilisation in the expanded distillery facility, improved production for the sugar business, and better order book in engineering. The company has utilised large part of cash generated from stake sale in Triveni Turbine by utilising it for a Rs. 1600-crore buyback. It has maintained its thrust on its key businesses through sustained investment in operating efficiency and capacity expansion. With expected higher contribution from distillery business, the return ratios will consistently improve in the coming years. Post correction of ~28% from its high, the stock is trading at attractive valuation of 20.1x/14.8x/11.2x its FY2023E/FY2024E/FY2025E EPS. We maintain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 340.

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	16.1	33.2	14.1	12.6	23.3	11.1	15.3	7.5	17.3
Triveni Engineering	15.0	20.1	14.8	12.8	14.0	9.9	17.9	10.8	11.5

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 UP), Chandanpur, Rani Nangal, and Milak Narayanpur (Central UP) and Ramkola (Eastern UP). 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 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 cyclicity 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 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 ~9% in FY2023 to ~12% in FY2025. 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.

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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	DSP investment managers Pvt. Ltd.	4.98
2	Goel Anil Kumar	2.69
3	Nippon Life India Asset Management Company	1.33
4	Devabhaktuni Manohar	1.05
5	Dimensional Fund Advisors LP	0.78
6	Mahindra Manulife Investment Mgmt.	0.57
7	Aware Super Pty Ltd.	0.2
8	Blackrock Inc.	0.11
9	Vic Super Pty Ltd.	0.09
10	State Street Corp.	0.08

Source: Bloomberg (Old data)

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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 deteriorating 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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