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Triveni Engineering & Industries Ltd.

Industry	Sugar
CMP	₹76.15
M Cap (bn)	₹18.88bn
Buy Range	₹75-80
Target	₹105-115
Recommendation	BUY

Highlights

- Posted robust revenue growth of 32.2% driven by 43.4% growth in sugar business & 50.2% growth in distillery business in Q1FY21.
- The strong sugar sales growth was aided by 17.6% volume growth. The company sold 209,572 tonnes of sugar compared to 159,328 tonnes YoY. It exported 78,174 tonnes compared to 85,331 tonnes YoY.
- Sugar inventory of 545,000 tonnes at ₹28.5/kg against 639,000 tonnes at ₹29.9/kg last year. With the current monthly sales quota of 75,000–80,000 tonnes and small amount of left over exports, the company would exhaust current year inventories by Jan'21, which is 2.5 months of inventory at the time of start of new crushing season against industry average of approximately five months.
- The company had crushed 9.5% higher sugarcane in 2019-20 sugar season (SS) with 7.4% increase in sugar production to 1.01mn tonnes. Recovery rate was 11.54% (down 24 bps due to diversion towards B-Heavy molasses).
- Distillery volumes increased 29.3% to 26,929 kilo litre (KL) with higher ethanol offtake enabled topline growth of 50.2% YoY to ₹1240.8mn. The utilisation was steadily ramped up subsequently. Distillery realisation was up 14.5% to ₹48.6/litre due to higher proportion of B-Heavy ethanol.
- With the ramping up of distillery capacity utilisation for B-Heavy ethanol, distillery realisation would also improve, the company expects to sell 105mn litre of ethanol/ENA in FY21 & 110mn litre in FY22 with 350 days of distillery operations.
- According to ISMA, the production in the sugar season 2019-20 is expected to be 27.2 MT while for sugar season 2020-21 (Oct'20-Sep'21) to be at 31.3 MT. The Cabinet Committee of Economic Affairs (CCEA) has approved a 4% hike in the Fair and Remunerative Price (FRP) of sugarcane from ₹2,750/t to ₹2,850/t for SS21 for a basic 10% recovery rate as expected by the industry.

8th September 2020

Triveni Engineering & Industries Ltd.

Background

Triveni Engineering & Industries Limited (TEL) is one amongst the largest integrated sugar manufacturers in India and market leader in its engineering businesses comprising high speed gears, gearboxes, and water & wastewater treatment solutions. Triveni currently has seven sugar mills in operation at Khatauli, Deoband, Sabitgarh, (all in western Uttar Pradesh), Chandanpur, Rani Nangal and Milak Narayanpur (all in central Uttar Pradesh) and Ramkola (eastern Uttar Pradesh). The new distillery commissioned at Sabitgarh produces Ethanol .While the Company's Gears manufacturing facility is located at Mysuru, the Water & 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 U.P. India, located at Muzaffarnagar and Sabitgarh. The Company produces premium quality multi-grade crystal sugar, raw, refined and pharmaceutical sugar. All of the Sugar units are FSSC-2000:2010 certified. The sugar is supplied not only to household consumers but also to bulk consumers. The Company has supply chain relationship with leading multinational beverage, food & FMCG companies, pharmaceutical companies and leading confectionery producers. It also has a strong presence in branded sugar market through its brand "Shagun". The distillery at Muzaffarnagar produces Ethanol, Extra Neutral Alcohol (ENA) and Hand Sanitizers under the brand "GermCare". Triveni currently operates 104.5 MW grid connected co-generation capacity

The Company is the largest engineered-to-order turbo gearbox manufacturer in India. The Gears business has three different business segments – **Gears, Defence, Built to Print**. It delivers robust and reliable Gears solutions which cover a range of applications and industries to meet the ever-changing operating conditions and customers' requirements. The Company has become a dominant supplier to all major OEMs in the country, offering solutions to all industrial segments including Oil and Gas as per AGMA, API-613 and API-677 standards. It remains the market leader in high-speed Gears and Gearboxes up to 70 MW capacity and speed of 70,000 rpm. The major product portfolio includes steam turbines, gas turbines, and compressor gearboxes under the High Power High Speed segment. In the Low Speed segment, the Company focuses on the gearboxes used in applications such as reciprocating pumps and compressors, hydel turbines, mill and extruder drives for metal, sugar, rubber and plastic industries, marine applications, etc. Its robust and reliable products are backed by 360-degree service solutions which minimise the downtime for its customers. The Company provides health monitoring services for all types of critical gearboxes, high speed and low speed, as well as maintains an inventory of dimension ready sites for immediate solution.

The Company provides complete and sustainable water technology solutions across the water usage segments. Advanced Solutions offered for total water management include turnkey / EPC, customer care, operations and maintenance, life cycle models such as Design, Build Own & Operate (DBOO), Design, Build Own Operate and Transfer (DBOOT), BOOT, equipment supply for unit processes like screening, grit separation, clarification and sludge handling. The turbine business of the Company, located at Bengaluru has been demerged through a scheme of arrangement into **Triveni Turbine Limited (TTL)** from the appointed date on 1st October 2010, and the same has become effective w.e.f. 21st April 2011. Triveni Engineering & Industries Limited holds 21.85% equity capital of TTL.

Nifty	11,355
Sensex	38,417
Key Stock Data	
CMP	₹76.15
Market Cap (₹)	₹18.88bn
52W High/Low	₹88.5/28.9
Shares o/s (mn)	247.9
Daily Vol. (3M NSE Avg.)	558,270
Shareholding pattern (%)	**Jun'20**
Promoter	68.4
DII	3.6
FII	2.5
Public &Others	25.5

(₹ mn)

Particulars	FY18	FY19	FY20
Revenues	33,702	31,517	44,366
EBITDA	2,731	3,090	5,432
EBITDA Margin (%)	*8.1*	*9.8*	*12.2*
Net Profit	1,191	2,163	3,351
EPS (₹)	4.6	8.4	13.5
DPS (₹)	0.3	0.7	1.1
RoE (%)	12.6	19.0	19.9
RoCE (%)	10.6	11.1	17.6
P/E (x)	16.6	9.1	5.6
EV/EBITDA (x)	11.1	10.9	5.8
P/BV (x)	2.0	1.8	1.4

Source: Company Data, Way2Wealth Inst Equity

Investment Arguments

- **Strong growth in Sugar & distillery along with reduced interest cost enabled profit growth –** Triveni Engineering (TEL) posted robust revenue growth of 32.2% driven by 43.4% growth in sugar business & 50.2% growth in distillery business in Q1FY21. The strong sugar sales growth was aided by 17.6% volume growth. The company received higher domestic sales of 209,572 tonnes (vs. 159,328 tonnes in Q1FY20) in Q1FY21. Despite aggressive exports in Q4FY20, TEL further exported 78,000 tonnes sugar in Q1FY21. It was allocated 94,210 tonnes of sugar in the process of re-allocating quantities to those millers who were interested in exporting additional sugar. Sugar realisation was down 2% with fall in sugar prices in April/May'20 impacted by muted demand due to lockdown. The healthy growth in distillery segment was led by 23.9% growth in ethanol volumes with ramping up of new capacity utilisation. Ethanol realisation was also up 14.5% led by higher proportion of B-Heavy ethanol. However, within engineering business, gears sales were down 44% & water business was down 23% mainly due to halt in business activity during lockdown & lack of manpower availability. Operating profit increased 71% with higher sales to ₹1,556mn while net profit increased 145.9% to ₹838mn driven by higher operating profit and 54% dip in interest cost. The company is also contemplating new line of businesses in the extension of sugar or ethanol value chain. This could be announced in the next three to six months. The company has announced a buyback of 6.19mn shares (which represents 5.31% and 5.03% of the aggregate of the company's paid-up capital and free reserves (including securities premium) as per the audited financials as on 31 March 2020) at a price of ₹105 per share.

- **Robust sugar sales growth in domestic & export market –** The robust sugar sales growth of 32.2% YoY was led by 17.6% increase in sugar volumes with higher domestic sales quota. The company sold 209,572 tonnes of sugar compared to 159,328 tonnes YoY. It exported 78,174 tonnes compared to 85,331 tonnes YoY. Domestic sugar realisation was down 2% to ₹32.2/kg due to muted demand in Apr-May'20 during the lockdown The company booked its entire export subsidy (except ₹58mn) during the quarter. The company is holding sugar inventory of 545,000 tonnes at ₹28.5/kg against 639,000 tonnes at ₹29.9/kg. With the current monthly sales quota of 75,000–80,000 tonnes and small amount of left over exports, the company would exhaust current year inventories by Jan'21, which is 2.5 months of inventory at the time of start of new crushing season against industry average of approximately five months. The company crushed 9.5% higher sugarcane in 2019-20 sugar season (SS) with 7.4% increase in sugar production to 1.01mn tonnes. Recovery rate was 11.54% (down 24 bps due to diversion towards B heavy molasses). On a like to like basis, the recovery rate was up 18 bps for the entire season. Levy molasses quota for country liquor has been reduced to 17% from 18.5% last year by UP government. TEL is yet to receive ₹3,540mn export subsidy from the central government and some power business dues from the Uttar Pradesh government.

- **Distillery volumes, MSP increase to drive earnings growth –** With the first year of operation of new 160 KLD distillery at Sabitgarh, U.P (commissioned in May'19), the company was able to sell 85mn litre of ethanol/ENA in FY20. Distillery volumes increased 29.3% to 26,929 kilo litre (KL) with higher ethanol offtake enabled topline growth of 50.2% YoY to ₹1240.8mn. The utilisation was steadily ramped up subsequently. Distillery realisation was up 14.5% to ₹48.6/litre due to higher proportion of B-Heavy ethanol. With the ramping up of utilisation, we expect 24% increase in ethanol offtake by OMCs. The distillery has received contracts of 101.4mn litres. The company has ventured into hand sanitisers to leverage its ENA capacity considering strong demand scenario currently. Moreover, it has started manufacturing country liquor to eliminate its levy molasses liability. Moreover, with higher proportion of B-Heavy ethanol, distillery realisation would also improve. With the ramping up of distillery capacity utilisation, the company expects to sell 105mn litre of ethanol/ENA in FY21 & 110mn litre in FY22 with 350 days of distillery operations.

- **Gear & water business to be under pressure in FY21 –** The engineering business has been negatively impacted by COVID-19 induced lockdowns. Gear business sales declined 44% due to halt in project implementations during lockdown. The current order book is at ₹1576mn. The order intake is expected to be muted in FY21. Water business saw 23% dip in revenues due to slower execution of existing projects with lack of manpower availability. The current order book is at ₹9,471mn with ₹4,776mn towards operations & maintenance. Due to pandemic, new order inflows (largely from government projects) are expected to stay slow in FY21. The gear & water business would be under pressure in FY21 with lack of manpower availability in water business and delay in various project implementations impacting gear business. However, we believe the capex cycle would pick up in FY22. This is expected to result in a recovery in both businesses to FY20 levels.

  The impact of COVID-19 for the industry would be limited to ~1.0mn tonnes (MT) of demand destruction in the last three months. The industry would be able to export 5.0 MT in the current crushing season, out of which 4.2 MT is already contracted as of now. As per the management with lower consumption by 25 MT & export of 5 MT, the industry would be holding ~11.5 MT of sugar by Sep'20. In the next crushing season, sugar production is likely to be ~32-32.5 MT. The higher sugar inventory in the country would warrant continuation of export incentives & hike in MSP. The industry expects ₹2/kg increase in MSP and similar 6 MT of export in the next crushing season 2020-21.

  Notwithstanding the impact of the lockdown on sugar demand, domestic sugar prices have remained resilient with Delhi M-30 prices at ₹32-34/kg. On the other hand, global sugar prices that plummeted to USD 308/t (white sugar) on 27th April 2020 have inched back to USD 374/t (+21% YoY) as of 19Aug'20. India is likely to meet its 5-6mnt export target, aided by exports to Indonesia and Iran.

  The total debt as on Jun'20 was at ₹12,467mn, which is ₹6,000mn lower compared to Jun'19. This includes ₹5,960mn of term loan (of which ₹4,670mn is concessional loans) and rest ₹6,500mn is working capital debt. The average cost of debt is 6.6%.

- **Q4FY20 & FY20 Performance –** Triveni Engineering reported a strong set of numbers with 74.9% growth in revenues & 72.6% growth in earnings. Robust revenue growth was led by 105%, 97% growth in sugar, distillery segment, respectively. Sugar volumes doubled during the quarter to 379,207 tonnes on the back of 130,648 tonnes of exports. The company aggressively exported sugar during the year benefited by sugar subsidy announced by government. The company contracted for 270,000 tonnes of exports in the current crushing season (Oct'19-Sep'20) out of which ~250,000 tonnes had already been exported which led to a substantial reduction in inventory & healthy cash flow generation. The company had not booked ₹570mn of subsidy of quantities exported during the March quarter.

  The company crushed 8.75mn tonnes of sugarcane in the current season (SS 2019-20) with 1.01mn tonnes of sugar production, which is a 7% increase from last year. Recovery rate in the season was 11.55% against 11.79% in the corresponding quarter. The lower recovery was mainly due to sugarcane diversion towards B-Heavy ethanol. On account of diversion towards B-Heavy molasses, the company has sacrificed 37,000 tonnes of sugar. On a like to like basis, recovery rate was 11.97% (18 bps higher). Despite high production, it was able to reduce inventory to 570,000 tonnes of sugar inventory against 620,000 tonnes in corresponding quarter.

  TEL had reduced its sugar inventory by 50,000 tonnes in FY20 largely on the back of significant increase in exports & 37,000 tonnes sugar sacrifice towards B-Heavy ethanol. The company had been allocated 94,210 tonnes of additional quota (other than original 180,000 tonnes). Considering continuance of export policy in next crushing season, the company is likely to export 270,000 tonnes of sugar in FY21 also. Moreover, it would be aggressively diverting sugarcane for B-Heavy ethanol.

- **Distillery sales** increased 84% to ₹3912mn in FY20 aided by commissioning of 160 KLD capacity in May'19. Triveni sold 85mn litres of ethanol/ENA during the year. It has received approval to run the distillery for 350 days. With the current capacity, the company is likely toproduce 110mn litre ethanol/ENA.

- **Power revenue** declined 10.3% with reduction in power tariffs in UP earlier in the year. Power volumes were also down from 76mn units to 57.8mn unit leading to decline in power revenues which were down 10.3% due to reduction in tariffs by ₹2/unit in Jul'19. Gear business sales dipped 17.3% impacted by lockdown at the end of Mar'20. In high speed gear business, revenues declined 17.3% in the quarter. This was largely impacted by lower revenues booking at the end of March due to lockdown across country. Current order book is ₹1520mn. On a full year basis, the segment revenue grew 15.8%. Water business revenue grew 8.2% due to slower execution of some projects. The improved performance can be attributed to healthy order book, which was at ₹9,953mn including ₹4,829mn towards operations & maintenance.

Outlook

The company has been able to reduce sugar inventory by ~100,000 tonnes in the last year with the 257,000 tonnes of sugar exports in sugar season 2019-20. This has led to strong cash flow generation &₹6bn of debt (including working capital) reduction. We believe aggressive exports, sugar sacrifice towards B-Heavy ethanol would further reduce sugar inventories by Mar'21. Hence **we view it as a value *BUY* with target price ₹105-115**

Indian Sugar Industry Synopsis

Sugar is a sector of significant importance to the national economy. At present, the sugar industry is regulated across the value chain. The sugar industry caters to an estimated 12% of rural population through direct and indirect employment. India has now become the world's second largest sugar producer after Brazil and is also the largest sugar consumer. Excess Sugar production in the last couple of years has resulted in surplus sugar inventories. Indian Sugar production has historically been cyclical in nature with three-four years of bumper crop usually followed by two years of shortfall. The shortage years helped restore Mills' health by liquidating excess stocks and lifting market prices for Sugar thereby benefiting farmers. Historically, the sector has struggled to generate a return on invested capital in excess of its cost of capital in most years, primarily due to a high mandated fixed cane price and a volatile sugar price.

However, this cyclical pattern has been broken lately, with sugar production outpacing consumption since the year 2010-11 except the year 2016-17 when sugar production dipped to the level of just 20.3 mn tonnes (MT) mainly due to drought conditions. In fact, now we are facing a glut of high sugar inventory due to excess production. Of the total sugar sold in the free market, an estimated 61% is accounted for by the industrial and small business segment, also referred to as indirect consumption of sugar. The household segment, which consumes sugar directly, accounts for an estimated 39% of the total sugar domestic consumption.

- **Global Sugar Industry dependent on Brazil & India –** Globally, India is a key sugar geography, since it is the largest consumer and the second largest producer. The global landscape is also highly influenced by Brazil, given that it is the least cost producer and the largest exporter of sugar.

  Ethanol has had a significant influence on the global sugar market. The world sugar production has been increasing steadily at a CAGR of 1.5% to 174 MT is SY19-20 while consumption has grown faster at a CAGR of 2.2% to 176 MT in SY19-20.

  Global sugar balance moved from a surplus of 3.98mn Metric Tonne (MT) in Sugar Year (SY) 2018-19 to expect deficit of 3.35 MMT in SY19-20. Global prices were under a great deal of pressure, ultimately bottoming out in Sep'19.

However, Indian production dropped due to floods whilst Thailand lost more than 35% of its record crop of last year, due to unprecedented drought. Brazil's focus on ethanol for the second successive year meant that their sugar production remained capped at previous year levels

- **After the adoption Co-0238 variety of sugarcane,** cane yield in Uttar Pradesh has become the highest in the country. The state is responsible for 36% of the country's total sugar production. Sugarcane is a high water crop which requires adequate and evenly distributed rainfall. However, India's tropical sugar producing states such as Maharashtra, Karnataka and Tamil Nadu face extreme weather conditions. In the last five years, sugarcane availability was heavily affected by several floods or droughts in these states. In SY19-20, sugar production fell by 40% due to impact of drought/floods in these states.

  Compared to these states, Uttar Pradesh faces adequate rainfall as well ground water levels for irrigation. This ensures uniform sugarcane availability and sustainable sugar production for Uttar Pradesh sugar millers which leads to uniform cash flow generation and better working capital cycle. Any shortage in sugar production due to drought/flood like situation in the western and southern states of India will increase the sugar prices in the country. Hence, we believe Uttar Pradesh based sugar mills with higher production will be able to take better advantage from the higher sugar price realisations.

- **Government has re-imposed mill wise sugar sales quota from Jun'18 –** To support the sugar realisation Government has re- imposed mill wise sugar sales quota from Jun'18. The intention is to control the sugar supply in the country so that the realisation is kept well above MSP i.e. ₹31 per kg. The quota system was last used in SY12-13. This move also proved to be beneficial for industry as it had kept the sugar prices from coming under pressure from oversupply of sugar in the market. We expect this mechanism, to continue at least for the next sugar season i.e. SY20-21 due expectation of high sugar production. As an add-on, the Government is providing additional quotas on both domestic and export sales for companies who are diverting more sugar for ethanol blending.

  In a notification issued on 31st August 2020, the food ministry had allocated 22 lakh tonnes (LMT) monthly sugar quota for Sep'20 to each of 547 mills in India. The allocated quota for September 2020 is 2.5 LMT higher than the quota allocated for sale in Sep'19 which stood at 19.5 LMT.

  In a notification issued on 30th July 2020, the food ministry had allocated 20.5 LMT monthly sugar quota for Aug'20 to each of 547 mills in India The allocated quota for Aug'20 is 1.50 MT higher than the quota allocated for sale in Aug'19 which stood at 19 LMT.

  For Jul'20 the Govt. had allocated 21 LMT quota to each 546 mills in India. In view of the heavy floods being experienced in the State of Bihar, the time period for the monthly sale quota of sugar for July 2020 has been extended by 15 days i.e. till 15th August 2020 only for the State of Bihar. In the month of Jul'20, millers had witnessed fresh buying due to the rumors of hike in Minimum Selling Price (MSP) of sugar which has been talked of from ₹31/kg to ₹33/kg. Some demand had also been witnessed due to the easing nationwide lockdown due to the coronavirus pandemic. According to market experts, demand for sugar is yet likely to pick up pace since the country has reached the scenario of complete unlocking. Once hotels, restaurants, theatres, malls etc. open, the industry shall witness the actual demand coming in.

Month	Quota (LMT)	Month	Quota (LMT)
June 2018	**21.0**	July 2019	**20.5**
July 2018	**16.5**	August 2019	**19.0**
August 2018	**17.5**	September 2019	**19.5**
September 2018	**20.0**	October 2019	**21.0**
October 2018	**22.0**	November 2019	**21.5**
November 2018	**22.0**	December 2019	**21.5**
December 2018	**19.5**	January 2020	**22.0**
January 2019	**18.5**	February 2020	**20.0**
February 2019	**21.0**	March 2020	**21.0**
March 2019	**24.5**	April 2020	**21.0**
April 2019	**18.0**	May 2020	**17.0**
May 2019	**21.0**	June 2020	**18.5**
June 2019	**21.5**	July 2020	**21.0**

***Source**-ISMA*

➢ **According to ISMA, the production in the sugar season 2019-20 is expected to be 27.2 MT.** The season started in Oct'19 with 14.3mn tonnes (MT) of opening stock. The domestic consumption in 2019-20 is estimated to be 25-25.5 MT and exports nearly 5-6 MT. Therefore, the closing stock on 30 Sep'20 is expected to be nearly 10.5 MT. Based on the satellite images procured in the latter part of June 2020, the total acreage under sugarcane in the country is estimated to be around 52.28 lakh hectares (ha) in 2020-21 SS, which is about 8% higher than 2019-20 sugar season's cane area of around 48.41 lakh ha. The increase in acreage and the expected increase in sugarcane production was discussed in the meeting of ISMA on 25 June 2020, wherein representatives from sugar producing States from across the country were present. The images of the cane area, field reports regarding expected yield, sugar recovery, withdrawal percentage, impact of previous and current year's rainfall, water availability in reservoirs, expected rainfall during SW monsoon 2020 and other related aspects were discussed in detail during the meeting. During 2019-20 SS, till 22nd June, 2020, about 27.03mn tonnes of sugar has been produced and another about 150,000 tonnes is expected to be produced in the special season till Sep'20 in Tamil Nadu and Karnataka, taking total sugar production in 2019-20 SS to about 27.2mn tonnes.

Demand - supply scenario

in Millions tonnes (mt)	SS11	SS12	SS13	SS14	SS15	SS16	SS17	SS18	SS19	SS20E	SS21E
Opening stock	4.9	5.9	6.6	9.3	7.3	9.5	8.1	4.4	10.6	14.3	10.5
Production	**24.4**	**26.3**	**25.1**	**24.4**	**28.3**	**25.1**	**20.3**	**32.3**	**33.0**	**27.2**	**31.3**
YoY growth	*29%*	*8%*	*-5%*	*-3%*	*16%*	*-11%*	*-19%*	*59%*	*2%*	*-18%*	*15%*
Uttar Pradesh	6.0	7.0	7.5	6.5	7.1	6.8	8.8	12.1	11.8	12.6	12.8
Maharashtra	9.1	9.0	8.0	7.7	10.4	8.4	4.2	10.7	10.7	6.1	8.6
Karnataka	4.1	3.8	3.3	4.2	5.0	4.0	2.1	3.7	4.4	3.5	4.1
Tamil Nadu	1.9	2.3	2.0	1.4	1.1	1.4	1.1	0.9	0.7	0.60	0.0
others	3.3	4.2	4.4	4.6	4.6	4.4	4.0	4.9	5.4	4.4	5.9
Imports	0.0	0.0	0.7	0.1	0.0	0.0	0.5	0.0	0.0	0.0	0.0
Local consumption	20.8	22.6	22.8	24.2	25.1	24.9	24.5	25.5	25.5	25.0	26.0
YoY growth	*-2%*	*9%*	*1%*	*6%*	*4%*	*-1%*	*-1%*	*4%*	*0%*	*-2%*	*4%*
India population YoY growth	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*
Exports	2.6	3.0	0.4	2.2	1.1	1.6	0.0	0.5	3.8	6.0	5.5
Closing stock	**5.9**	**6.6**	**9.3**	**7.3**	**9.5**	**8.1**	**4.4**	**10.6**	**14.3**	**10.5**	**10.3**
Surplus/Deficit	3.6	3.7	2.3	0.2	3.2	0.3	-4.2	6.8	7.5	2.2	5.3
# of months consumption	3.4	3.5	4.9	3.6	4.5	3.9	2.2	5.0	6.7	5.0	4.7

***Source**-ISMA*

There was an agreement that sugarcane and sugar production during 2020-21 SS would be higher than what is expected to be produced in 2019-20 SS, and that the increase in production will mainly come from Maharashtra and Karnataka, where sugarcane and sugar production had dropped due to drought in previous year. ISMA is accordingly released its State–wise preliminary estimates of sugar production for the 2020-21 SS. This is without considering reduction of sugar because of diversion of B heavy molasses and sugarcane juice/ syrup into production of ethanol.

Uttar Pradesh, the leading sugarcane producing State in the country, is estimated to have sugarcane area at 22.92 lakh hectares (ha.), as against 23.21 lakh ha. in 2019-20 SS, i.e. a marginal decrease by about 1%. ISMA is expecting a marginal increase in yield as well as sugar recovery in 2020-21 SS, owing to good overall standing crop condition and continued replacement of cane variety by high yielding and high sugared cane varieties in more areas. Thus, sugar production in U.P. in 2020-21 SS is estimated to be around 123.06 lakh tonnes, which will be about 126.45 lakh tonnes (after diversion into ethanol) in the current 2019-20 SS. It is noteworthy that current year's sugar production of the State turned out to be about 5-6 lakh tonnes more, mainly because of much better yields as also cane diversion from Gur / Khandsari manufacturing units to sugar units, owing to premature closure of their operations due to lockdown.

The other major sugar producing state, Maharashtra's net cane area has gone up by about 43% in 2020-21 SS, which is mainly due to above normal SW and NE monsoon in 2019, followed by normal rainfall from Jan-Mar'20. As against the net cane area of 7.76 lakh ha. in 2019-20 SS, area is expected to increase to 11.12 lakh ha in 2020-21. It is noteworthy that during the current 2019-20 SS around 0.5 lakh ha cane area was completely lost due to floods in July- August' 2019. Normal Pre – Monsoon rainfall '2020 followed by normal rainfall in June' 2020 (as on date), accompanied by above normal level of reservoirs is found to be beneficial for early growth of adsali and pre–seasonal crops (18 months and 15 months crop) during their grand growth period. In view of above, overall yield per hectare is expected to go up in the State. Sugar production is, therefore, estimated to be around 10.134 mn tonnes in 2020-21 SS, as against 6.16mn tonnes produced in 2019-20 SS, i.e. higher by about 3.973mn tonnes.

Similarly, due to timely and adequate rainfall, sugarcane area in Karnataka has also increased in 2020-21 SS. Area under sugarcane in 2020-21 SS is expected to be about 4.85 lakh ha as against 4.20 lakh ha. in 2019-20 SS, +15% YoY. Sugar production in 2020-21 SS is estimated to be around 43.13 lakh tonnes, as against 34.20 lakh tonnes expected to be produced in 2019-20 SS.

Sugarcane area in Tamil Nadu for 2020-21 SS is expected to be more or less at the same level as last year. As against 2.30 lakh ha area in 2019-20 SS, cane area is about 2.2 lakh ha for 2020-21 SS. Sugar production is therefore expected to be around 7.51 lakh tonnes in 2020-21 SS as against 7.80 lakh tonnes expected to be produced in 2019-20 SS.

Sugarcane area in Gujarat for 2020-21 SS has increased by about 7% to about 2.01 lakh ha. as against 1.87 lakh ha. in 2019-20 SS, mainly due to normal rainfall in major cane growing districts during SW monsoon 2019. Sugar production is expected to be around 10.81 lakh tonnes in 2020-21 SS as against 9.32 lakh tonnes produced in 2019-20 SS.

The remaining States are expected to collectively produce about 34.28 lakh tonnes of sugar in the 2020-21 SS, against 32.86 lakh tonnes produced in 2019-20 SS.

- **Fair and Remunerative Price (FRP) of sugarcane for SS21 hiked by 4% –** The Cabinet Committee of Economic Affairs (CCEA) has approved a 4% hike in the Fair and Remunerative Price (FRP) of sugarcane from ₹2,750/t to ₹2,850/t for SS21 for a basic 10% recovery rate (Oct'20-Sep'21) as expected by the industry. However, a section of the industry was expecting the much-awaited hike in the Minimum Selling Price (MSP) of sugar from the current ₹31/kg. As a result of surplus production, sugar realisation under the market forces fell to a level where production of sugar meant loss for the millers. To mitigate this problem the Government announced a Sugar MSP for the first time in June 2018 at ₹29 per kg. Later on it was revised to ₹31 per kg in Feb'19. This has created a floor to the sugar realisation even in the periods of surplus production. It also increased the profitability in the industry to some extent

Fair and Remunerative Price (FRP) is the minimum price that sugarcane farmers are legally guaranteed to receive from the sugar mills. In the SY19-20, the FRP was pegged at ₹275 per quintal, same as that in SY18-19, with the objective of empowering the farmers. The CCEA also approved to provide a premium of ₹2.75 per quintal for every 0.1% increase above 10% in the recovery rate. For a 0.1% increase/decrease in recovery, the FRP would increase/decrease by ₹2.85/quintal, with the minimum FRP at ₹2,707.5/tonne. This is along expected lines and as per the recommendations of The Commission for Agricultural Costs & Prices (CACP). States such as Maharashtra and Karnataka follow a revenue sharing mechanism (RSM) wherein the FRP is the floor price. So, an FRP hike may lead to a modest increase in the cost of sugar production (₹0.5-1/kg), depending on revenue. Companies based in Uttar Pradesh (UP) are subject to the State Advisory Price (SAP), which is usually greater than the FRP. The State advised price (SAP) announcement is usually made at the start of the crushing season (Oct-Nov).

Separately, the Niti Aayog Task Force on Sugar has recommended certain measures; these, if implemented, could have a significant long-term structural impact on the industry. For SS21, the Niti Aayog task force has recommended a) a one-time increase in the MSP to ₹33/kg, to be reviewed after 6 months of the notification; b) capping of farmers' land use for sugarcane to 85% of holding; c) cess of ₹50/quintal (ex-exports) for 6 months; d) cash incentives of ₹6,000/ha to incentivise farmers to shift to other crops; and e) a revenue-sharing formula with a price stabilisation fund to protect farmers from receiving below-FRP prices. While we await the fine print, steps towards reduction of over-supply and increase in MSP augur well for industry players. The government is actively working on some of these recommendations. We believe some of these recommendations have significant structural implications, which could see resistance from stakeholders (farmers/millers). However, pending clarity on this, we continue to remain cautious on the sector owing to a) a structural oversupply scenario (next year's production estimated to cross 30mnt again) and b) excessive dependence on government regulations for the sugar industry

While consumption remained steady excess production is caused by excess sugarcane harvesting and the sugar millers are mandated to lift all the harvest at Government mandated FRP and State advised price (SAP).Meanwhile, FRP and SAP has steadily risen over the years making sugarcane farming more remunerative than other crops. We expect a upward revision in FRP and SAP given the Uttar Pradesh elections in 2021

- **The new Biofuel Policy 2018 has fixed a target of achieving 20% ethanol blending with petrol by 2030.** The government is targeting to achieve the first milestone of 10% of ethanol blending with petrol by 2022. India's oil demand is met by 80% imports. High crude prices and the depreciating rupee has created a double-whammy for the economy in FY18 and FY19, resulting in high import bills and inflation. Current Account Deficit (CAD) widened to a high of US$ 57.2 bn (2.1% of GDP) in FY19 versus US$ 48.7 bn (1.9% of GDP) in 2019. To curb the high dependence on import of oil and reduction in CAD, the government has mandated to blend up to 10% ethanol in petrol by 2022 from current 4-5% levels. For 10% blending, the demand for ethanol is 5 bn litres. At present, the sugar companies are able to produce up to 3.5 bn litres, which has restricted the blending to below 6%. Higher ethanol blending will help in the reduction in petrol prices and in turn will help in curbing import bills.

  Ethanol Blended Petrol (EBP) programme was initially launched in January, 2003 for blending 5% ethanol in petrol and later on increased to 10%. The programme sought to promote the use of alternative and environment friendly fuels and to reduce import dependency for energy requirements. The procurement was only from conventional C-Heavy molasses and the price was set at 43.7 per litre. However, due to low sugar recovery and lower distillery capacity the blending target of 10% was never achieved. In September 2018, Government for the first time allowed incentivized sugar mills to produce ethanol from B-Heavy molasses and directly from sugar cane juice. For the 2018-19, supply year (December-November), the Government introduced procurement prices of ethanol from C-Heavy, B-Heavy as well as from Cane juice. Later on for the new 2019-20 supply year, the prices have been raised marginally to currently ₹43.75/litre (C-Heavy), ₹54.27/litre (B Heavy) and ₹59.48/litre (sugarcane juice). The oil marketing companies will also pay the GST and transportation tax associated with the ethanol supply – a provision that existed in the previous plan as well

This initiative from the Government turned out to be a game changer for the whole Sugar industry. If mills are able to divert more sugar towards B-Heavy and cane juice for ethanol, it would mean producing less sugar, higher profitability and increasing liquidity for sugar mills for timely payment of cane arrears. Since the country is producing too much sugar and is importing oil, the ethanol-blending programme is beneficial both for mills and for the country's balance of payments. Furthermore, the procurement prices of ethanol (C- Heavy, B-Heavy and Cane juice) is linked to MSP and not linked to crude oil prices. Hence, there is an upside risk that if MSP of sugar hiked the procurement prices of ethanol will hiked proportionately, leading to further improvement in earnings.

The Centre had announced the loan package in two tranches – first in Jun'18 amounting to ₹44.4bn and the other in March 2019 of ₹105.4bn. The objective was to incentivize millers to expand distillery capacities and divert sugar toward ethanol as well as clearing cane arrears. This move was again beneficial for the millers as distillery capacity to the tune of more than 500mnr litres have been set up after the scheme has been announced. Over the last two years, more than 500 mn litres distillery capacities has been set up and more than 282 applications have been filled for soft loan scheme for setting up/expansion of distilleries.

During ethanol supply year 2018-19, OMC's have tendered 3290mn litres and out of that only 1590mn litres have been supplied. In the current supply year 2019-20 the OMC's have tendered for 5110mn litres but only 920mn litres have been supplied till Jun'20. Specifically for FY21 such low offtake by OMC's were caused by the lockdown imposed in Q1FY21.

As per industry sources, currently India's petroleum demand for automobiles stands at ~50bn litres and growing at a CAGR of 4.5%. To achieve a blending rate of 10% across the country by 2022, 5.5-6bn litres of ethanol would be required to be supplied per annum. Currently, we have operational distillery capacity to the tune of 4bn litres. Hence, to supply such quantity of ethanol more distillery capacity as well as more diversion towards B-Heavy ethanol is required.

In the current season 2019-20, about 557.5 mn ltrs of ethanol made from B heavy molasses and sugarcane juice have already been supplied to the OMCs as upto 15th June 2020. As per standards, this is equivalent to sugar diversion of about 550,000 tonnes in the first 6.5 months. Oil Manufacturing Companies (OMCs) have released a tender (Expression of Interest – EOI) for ethanol supply for the next 5 years (SY21 at 4.7bn litres to SY25 at 5.8bn litres). Such EOIs for registration would be floated at least quarterly and would be open for new bidders as well. We believe this provides comfort to banks to positively consider proposals of distillery capacity expansions of sugar mills, as the off-take visibility is established. However, there is no mention of prices in the said tender; we believe prices would continue to remain reset annually. We expect more supplies of ethanol made from B-heavy molasses with expectation of 1.2 MT and 1.5 MT and of sugar will be sacrificed in SS19-20 and SS20-21, respectively. Accordingly, it is estimated that a total of 800,000 tonnes of sugar would get reduced in the current season (Oct'19-Sep'20).

- **Export subsidies have also been announced to support price –**The Cabinet Committee on Economic Affairs (CCEA) on Sep'19 approved the ongoing sugar export policy for the export of surplus stock up to 6 MT under Maximum Admissible Export Quantity (MAEQ) allocated to sugar mills for the sugar season 2019-20. The Government has given its approval for providing a lump sum export subsidy at ₹10,448 per metric tonne (MT) to sugar mills for the sugar season 2019-20. The subsidy is mainly intended to bridge the gap between global sugar prices and domestic price.

  The lump-sum export subsidy is being provided for expenses on marketing costs including handling and costs of international and internal transport and freight charges on export. These subsidies is being directly paid to the famers for their cane dues on behalf of the sugar mills.

  In SY18-19, the Government had allowed 5 MT of export but the millers could export only 3.8 MT. For the current SY19-20, the Government has allowed a total 6MT of export out of which 4.9 MT has been exported till June 2020.We expect by the end SY19-20, total export of sugar could reach to 5.5-6 MT levels.

  Also for the next SY20-21, considering the high sugar production we expect the Government to continue with its export policies and set a target at least above 6 MT.

Key Risks

- **Ethanol Blending programme –**The present Government has been pushing hard to achieve the blending target of 10% by 2022 and has taken major initiatives to expand the country's distillery capacity and incentivized ethanol production from B-Heavy and Cane juice. OMC's has significantly increased their lifting in the last two years. This was a win-win move by the Government as this way the Government can also reduce the sugar glut in the country and improve the liquidity and profitability of sugar mills for timely cane arrear payments. While sugar business is highly volatile and marginally profitable, sale of ethanol has proved to be a major contribution to earnings. Hence, any adverse change in Ethanol blending policies by the Government would severely affect the earnings of the sugar mills.
- **MSP and Sales quota –**While MSP in sugar has ensured a floor price to sugar realisation even in the period of surplus production. Monthly sales quota released by the Government has ensured the sugar prices are maintained well above the MSP. Abolition of these regulations will be negative for sugar prices in periods of surplus production which have adverse effect on the earnings.
- **Export –**To cut excess sugar inventory, the Government has introduced export subsidies for export of sugar. While the global sugar prices are far below Indian sugar cost of production, continuance of such subsidies is highly necessary in order to facilitate exports and curb the excess inventory. Hence, discontinuance of such subsidy or any delay in payment of export subsidies to sugar mills will discourage exports of sugar in the industry.
- **Cane pricing –**Given that a large proportion of rural farmers in the key cane growing states are dependent on the sugar cane sector, the SAP/FRP is largely politicised and has become major political tool during pre-elections. Any disproportional increase in cane pricing without increase in MSP will adversely affect the earnings of the sugar industry as well timely payment to farmers.

Financial & Operating Parameters

(₹mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	12,238.0	9,254.0	32.2	14940	(18.1)
EBITDA	1,556.0	910.0	71.0	1864	(16.5)
EBITDA Margin (%)	*12.7*	*9.8*		*12.5*	
Net Profit	838.0	341.0	145.7	1376	(39.1)

Source: *Company Data, Way2Wealth Inst Equity*

(₹mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Sugar					
Revenue (₹mn)	*11,159*	*7639*	*46.1*	*13,712*	*(18.6)*
- Domestic Dispatches (Tonnes)	209,572	159,328	31.5	248,559	(15.7)
- Exports Dispatches (Tonnes)	78,174	85,331	(8.4)	130,648	(40.2)
Total	287,746	244,659	17.6	379,207	(24.1)
Domestic Realisation price (₹/MT)	32,223	32,866	(2.0)	32,707	(1.5)
Export Realization price (₹/MT)	22,560	19,673	14.7	19,760	14.2
Distilleries					
Revenue (₹mn)	*1,241*	*826*	50.2	*991*	*25.2*
Production (KL)	26,929	19,603	37.4	24,866	8.3
Sales (KL)	25,092	19,413	29.3	18,601	34.9
Avg. Realisation (₹/ ltr)	48.63	42.48	14.5	53.1	(8.4)
Gears					
Revenue (₹mn)	*179*	*322*	*(44.4)*	*340*	*(47.4)*
Order Inflow (₹ mn)	19	82	(76.5)	418	(95.4)
Water					
Revenue (₹mn)	*529*	*686*	*(22.9)*	*963*	*(45.1)*

Source: Company Data, Way2Wealth Inst Equity

(₹mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY18	FY19	FY20	YoY (%)
Revenue	14,940	8,543	74.9	10,693	39.7	33,702	31,517	44,366	(29.0)
EBITDA	1,864	1,171	59.2	879	112.1	2,731	3,090	5,432	(43.1)
EBITDA Margin (%)	*12.5*	*13.7*		*8.2*		*8.1*	*9.8*	*12.2*	
Net Profit	1,376	797	72.6	452	204.4	1,191	2,163	3,351	(35.5)

Source: Company Data, Way2Wealth Inst Equity

(₹mn)

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY19	FY20	YoY (%)
Sugar								
Revenue (₹mn)	*13,712*	*6,679*	*105.3*	*9,400*	*45.9*	*25,310*	*38,581*	*(34.4)*
- Domestic Dispatches (Tonnes)	248,559	188,982	31.5	205,960	20.7	753,251	795,096	(5.3)
- Exports Dispatches (Tonnes)	130,648	616	21,109	48,654	168.5	5,816	274,449	(97.9)
Total	379,207	189,598	100.0	254,614	48.9	759,067	1,069,545	(29.0)
Domestic Realisation price (₹/MT)	32,707	31,692	3.2	33,551	(2.5)	31,456	33,184	(5.2)
Export Realization price (₹/MT)	19,760	23,030	(14.2)	19,825	(0.3)	20,768	19,716	5.3
Distilleries								
Revenue (₹mn)	*991*	*502*	97.4	*1,014*	*(2.3)*	*2,140*	*3,912*	-45.3
Production (KL)	24,866	11,211	121.8	25,744	(3.4)	48,035	93,826	-48.8
Sales (KL)	18,601	11,477	62.1	21,672	(14.2)	51,279	84,566	-39.4
Avg. Realisation (₹/ ltr)	53.1	43.2	22.9	46.8	13.5	41.5	46.1	-10.0
Gears								
Revenue (₹mn)	*340*	*412*	*(17.5)*	*451*	*(24.6)*	*1,331*	*1,542*	*(13.7)*
Order Inflow (₹ mn)	418	344	21.5	360	16.1	1,778	1,568	13.4
Water								
Revenue (₹mn)	*963*	*890*	*8.2*	*705*	*36.6*	*2,493*	*3,059*	*(18.5)*

Source: Company Data, Way2Wealth Inst Equity

Technical View

Looking at monthly chart, Triveni has been consolidating in a range of nearly 100 to 30 since August, 2017. As a result, stock formed 'Descending Triangle' pattern on monthly chart. Recently, stock has seen a sharp bounce from its support zone near 30 and approaching towards the falling trend line of its 'Descending Triangle'. Any decisive break above 87 will confirmed its breakout from 'Descending Triangle' pattern. The probable target on the upside comes near 130. Failure to cross 87 decisively may extend the ongoing consolidation. The monthly RSI (14) momentum indicator hovering near 60 mark and any sustain move above 60 will be an early indication of a breakout from said triangle.

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Name of the Security	**Triveni Engineering & Industries Ltd.**
Name of the analyst	**Jayakanth Kasthuri**
Analysts' ownership of any stock related to the information contained Financial Interest Analyst : Analyst's Relative : Yes / No Analyst's Associate/Firm : Yes/No	NIL No No No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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