



# Quick Insight Update

## Triveni Engineering & Industries Ltd.



Industry	Sugar
CMP	₹71.65
M Cap (₹ bn)	₹17.32
Buy Range	₹65-70
Target	₹95-100
Recommendation	BUY

**Investment Argument**

- **Sugar & Distillery volumes drive Q3FY21** – Triveni Engineering (TEL) reported strong Q3FY21 results driven by domestic sugar & distillery volumes resulting in robust operating profits. Consolidated revenue increased 5% YoY to ₹11,231mn led by 6.8% YoY growth in sugar segment & 7.2% growth in distillery segment. Sugar dispatches volume increased by 6.7% YoY to 271,799 tonnes mainly on account of higher domestic sale quota. The company also exported 14,244 tonnes of sugar pending from previous seasons export quota. The company is holding 282k tonnes of sugar valued at ₹30.9/kg. Distillery volumes increased by 3.8% to 22,492 Kilolitre. Distillery realisation was up 1.5%YoY to ₹47.48/litre. Engineering businesses continued to remain impacted by pandemic related execution delays. Power transmission sales were down 52.8% to ₹213mn mainly due to deferment of supplies from Q3FY21 to Q4FY21. Water business sales was down by 14.7% YoY to ₹602mn. Outstanding order book for power transmission & water business was ₹1609mn & ₹8275mn, respectively. Operating profit increased 82.6% to ₹1605mn on account of lower valuation of inventory cost at the end of Q2FY21. Led by higher operating profit & lower interest cost, PAT increased to ₹947mn compared to ₹452mn YoY.
- **In the sugar season 2020-21, the company started crushing early in current season** – The company was able to crush 2.81mn tonnes of sugarcane with the effective recoveries of 10.19% resulted in sugar production of 286,487 tonnes with like to like sugar recoveries (after adjustment on account of B-heavy molasses) at 10.93% as against 11.36% YoY. The company is actively considering variety substitute program to gradually reduce the dependence on sugarcane variety Co-0238. The reduction in recovery was mainly on account of adverse climate. Also, longer days of crushing in previous season resulted in inadequate time for ratoon crop for maturity. The full season decline in recoveries can be 20-30bps given plantation sugar recoveries are relatively better
- **Recovery in sugar to be low leading to increase in cost of production** – As per the latest ISMA estimates, sugar production in the country is likely to be 30.2mn tonnes. UP is likely to witness 17% decline in sugar production due to lower yields & recoveries, higher diversion towards Gur & Khandsari and Sugar mills are likely to sacrifice 0.67 lakh tonnes sugar for ethanol manufacturing through B-Heavy molasses/sugarcane juice. We are likely to see sugar mills in western UP would fare better compared to mills in central & eastern UP. In the current sugar season, sugar recoveries are expected to be lower by 20-30 bps due to adverse weather conditions at the time of ratoon sugarcane crushing. This would increase the cost of production by ₹0.6-1.0/kg. TEL is likely to witness 4-5% reduction in sugar production & it would be able to take advantage of expected higher domestic sugar prices in FY22.
- **TEL has contracted 98.6mn litres of ethanol, of which 90% is B-Heavy** – On the ethanol front, OMCs are likely to procure 3,250mn litre of ethanol from sugar mills for 7.7-8% ethanol blending during Dec'20 to Nov'21 and sugar industry has already contracted 2,480mn litres of ethanol. The government has advanced the 20% ethanol blending target from 2030 to 2025.
- **Two new distilleries with capex of ₹2,500mn** – Distillery volumes in FY21 are likely to be 105-110mn litres. The company announced capacity addition of two new distilleries of 160 KLD & 40 KLD capacity with a capex of ₹2,500mn. The 160 KLD capacity would be fungible for sugarcane juice, B-Heavy molasses, C-Heavy molasses & grain whereas 40 KLD capacity would be dedicated for grain based ethanol enabling TEL's total distillery capacity enhancement to 520 KLD (~160mn litres pa). It would be able to commission these plants by Jan'22. We believe new capacities would create a sustainable business model company would be able to switch its production between sugar & ethanol according to demand supply situation.

<b>Nifty</b>	15,208
<b>Sensex</b>	51,682
<b>Key Stock Data</b>	
CMP	₹71.65
Market Cap (₹)	₹17.32bn
52W High/Low	₹84.9/28.9
Shares o/s (mn)	247.9
Daily Vol. (3M NSE Avg.)	66,344
<b>Shareholding pattern (%) Dec'20</b>	
Promoter	68.4
DII	3.8
FII	3.0
Public & Others	24.8

Particulars	FY19	FY20	9MFY21
Revenues	31,517	44,366	36,053
EBITDA	3,090	5,432	4,063
EBITDA Margin (%)	9.8	12.2	11.3
Net Profit	2,163	3,351	2,096
EPS (₹)	8.7	13.5	8.5
DPS (₹)	0.7	1.1	1.1
RoE (%)	19	19.9	
RoCE (%)	11.1	17.6	
P/E (x)	8.2	5.3	
EV/EBITDA (x)	12.0	6.3	
P/BV (x)	1.9	1.5	

Source: Company Data, Way2Wealth Inst Equity

Moreover, this would also eliminate the possibility of building up sugar inventory & in turn working capital debt. The company started producing country liquor in one of its plant to safeguard from the 18% levy obligation. It has approval for producing 5.28mn litres of potable alcohol.

- **Engineering business of the company remained impacted by pandemic delays** in execution of projects & hence deferments of order supplies from Q3FY21 to Q4FY21 for high speed gears. Power transmission business outstanding order book stands at ₹1609mn. Water business also adversely impacted by pandemic with delays in order finalisations. Outstanding order book stands at ₹8,275mn which includes ₹4,673mn of O&M contracts. The total debt for the company declined by ₹9,940mn to ₹5,500mn with the entire debt at concessional interest rate of 5.7%

## View

With increase in distillery capacity, OMC procurement of ethanol and reduction in debt levels by ~₹10bn we are likely to witness sustainable growth without any additional working capital requirement in the near to medium term. Hence, we continue to view it as a **BUY** with a fair value of ₹95-100.

**Financial & Operating Parameters**

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY(%)
Revenue	12,131	10,693	13.4	11,684	3.8	36,053	29,427	22.5
EBITDA	1,605	879	82.6	778	106.3	4,063	3,788	7.3
EBITDA Margin (%)	13.2	8.2		6.7		11.3	12.9	
Net Profit	947	452.0	109.5	312	203.7	2,096	1,976	6.1

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	1HFY21	1HFY20	YoY(%)
Revenue	11,684	9,480	23.2	12,238	(4.5)	23,922	18,734	27.7
EBITDA	778	1,779	(56.3)	1,556	(50.0)	2,458	2,909	(15.5)
EBITDA Margin (%)	6.7	18.8		12.7		10.3	15.5	
Net Profit	312	1183	(73.6)	838	(62.8)	1,149.3	1,523.6	(24.6)

Source: Company Data, Way2Wealth Inst Equity

	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
<b>Sugar</b>					
Revenue (₹mn)	10,036	9,514	5.5	9,514	5.5
- Domestic Dispatches (Tonnes)	257,555	205,960	25.1	241,074	6.8
- Exports Dispatches (Tonnes)	14,244	48,654	(70.7)	28,312	(49.7)
Total	271,799	254,614	6.7	269,386	0.9
Domestic Realisation price (₹/MT)	32,786	33,551	(2.3)	33,299	(1.5)
Export Realization price (₹/MT)	24,210	19,825	22.1	23,750	1.9
<b>Distilleries</b>					
Revenue (₹mn)	1,087	1,014	7.2	1,545	(29.6)
Production (KL)	25,507	25,744	(0.9)	24,385	4.6
Sales (KL)	22,492	21,672	3.8	34,385	(34.6)
Avg. Realisation (₹/ ltr)	47.48	46.8	1.5	44.76	6.1
<b>Gears</b>					
Revenue (₹mn)	213	451	(52.8)	379	(43.8)
Order Inflow (₹ mn)	337	360	(6.4)	393	(14.2)
<b>Water</b>					
Revenue (₹mn)	602	705	(14.6)	665	(9.5)

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
<b>Sugar</b>					
Revenue (₹mn)	9,514	7,749	22.8	11,159	(14.7)
- Domestic Dispatches (Tonnes)	241,074	181,249	33	209,572	15
- Exports Dispatches (Tonnes)	28,312	9,816	188.4	78,174	(63.8)
Total	269,386	191,065	41	287,746	(6.4)
Domestic Realisation price (₹/MT)	33,299	33,702	(1.2)	32,223	3.3
Export Realization price (₹/MT)	23,750	20,691	14.8	22,560	5.3
<b>Distilleries</b>					
Revenue (₹mn)	1,545	1080	43.1	1,241	24.5
Production (KL)	24,385	23,614	3.3	26,929	(9.4)
Sales (KL)	34,385	25,070	37.2	25,092	37
Avg. Realisation (₹/ ltr)	44.76	43.04	4.0	48.63	(8.0)
<b>Gears</b>					
Revenue (₹mn)	379	429	(11.7)	179	111.9
Order Inflow (₹ mn)	393	433	(9.2)	19	1,936.30
<b>Water</b>					
Revenue (₹mn)	665	705	(5.7)	529	25.7

Source: Company Data, Way2Wealth Inst Equity

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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	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	Yes
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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