



Quick Insight Update

Triveni Engineering & Industries Ltd.



Industry	Sugar
CMP	₹66.75
M Cap (₹ bn)	₹16.55bn
Buy Range	₹65-70
Target	₹95-100
Recommendation	BUY

Investment Argument

- **Revenue for Q2FY21 grew 23% with margins at 6.7%** – Revenues grew by 23% YoY to ₹11,684mn in Q2FY21. As most of the sugar plant are normally under maintenance and the new season starts from October of every year, therefore higher operating costs and no export incentives in this quarter led to an OPM of 6.7% as against 18.8% in Q2FY20. EBITDA stood at ₹778mn as against ₹1779mn in Q2FY20. Reported PAT stood at ₹366mn as against ₹1183mn in Q2FY20. Total debt reduced to ₹7614mn in H1FY21 as against ₹17,554mn in H1FY20, which led to a 40% YoY decline in interest cost in H1FY21. The company bought back an aggregate of 6.19mn equity shares at a price of ₹105 per share and the total amount utilised in the buyback was ~₹650mn.
- **Sugar sales volumes grew 41% YoY** – Sugar business topline grew by 22% YoY to ₹9514mn, with strong sales volume growth of 41% to 269.4 tonnes. Domestic sales volumes grew by 33%, while exports grew by 88%. Domestic realisations stood almost flat at ₹33.2/kg and export realisation grew by ~15% to ₹23.7/kg. During H1FY21, sugar revenues included an export subsidy of ₹577mn pertaining to sales made in the previous year whereas in H1FY20 export subsidy of ₹918mn was included. Co-generation operations (including incidental co-generation) achieved external sales of ₹179mn during H1FY21 as against ₹134mn in H1FY20, resulting in a growth of 34% due to higher number of operating days during the current year.
- **As per ISMA total sugar production for SY2020-21 is estimated at 33 mn tonnes** – With lower sugar production in Maharashtra and Karnataka, total sugar production in India is projected to be 27.4mn tonnes for sugar year (SY) 2019-20. The estimated sugar inventory as on September 30, 2020 is ~ 10.6 mn tonnes. As per the ISMA's latest estimates, total sugar production for SY2020-21 is estimated at 33 mn tonnes based on sugarcane production. It is further estimated that due to the diversion of sugarcane juice and B-heavy molasses, there will be reduction of approximately 2mn tonnes in actual sugar production. The revised ethanol policy, a recommended increase in sugar MSP by ₹2 per kg, quota based sugar distribution and likely export quota of 7mn tonnes will benefit sugar companies in FY2022 with stable realisations.
- **Distillery business received contracts of 101.4mn litres during the current marketing year** – The company has two molasses-based distilleries of 160 kilolitres per day (KLPD) each located in U.P. The units are strategically located in close proximity to its sugar units, resulting in consistent supply of captive raw material. Distillery at Sabitgarh came on-stream with full capacity in Q3FY20 and on account of which the distillery business has achieved higher production and sales. Topline grew by 43.1% YoY to ₹1545mn driven by 37.2% increase in sales volume and average realisations grew by 4%. PBIT margins was at 12.4% compared to 28.9% on YoY basis mainly on account of higher cost of molasses. The distillery business received contracts of 101.4mn litres during the current marketing year. Higher sales with incremental realisation from the distillery facility would help the business to achieve strong double-digit revenue growth with better margins.
- **Engineering business showed QoQ improvement with recovery at a far distance** – Power transmission business topline declined by 11.6% YoY in Q2FY21 to ₹379mn largely impacted due to the lingering effect of the pandemic-led shutdown. However, business improved QoQ due to some revival in business environment. PBIT margins remained largely flat 13.5% compared to 14% in Q2FY20. The outstanding order book as on Q2FY21 stood at ₹1489mn including long duration orders of ₹575mn executable over a couple of years. On the order enquiry front, it got strong enquiries from defence and is hopeful of concluding some more of them in the coming quarters. Going ahead, the management

Nifty	12,693
Sensex	43,381
Key Stock Data	
CMP	₹66.75
Market Cap (₹)	₹16.55bn
52W High/Low	₹88.5/28.9
Shares o/s (mn)	247.9
Daily Vol. (3M NSE Avg.)	968,481
Shareholding pattern (%) Sep'20	
Promoter	68.4
DII	3.4
FII	2.6
Public & Others	25.6

(₹ mn)

Particulars	FY19	FY20	1HFY21
Revenues	31,517	44,366	23,922
EBITDA	3,090	5,432	2,458
EBITDA Margin (%)	9.8	12.2	10.3
Net Profit	2,163	3,351	1,149
EPS (₹)	8.4	13.5	4.6
DPS (₹)	0.7	1.1	1.1
RoE (%)	19.0	19.9	
RoCE (%)	11.1	17.6	
P/E (x)	7.9	4.9	
EV/EBITDA (x)	11.2	5.9	
P/BV (x)	1.8	1.4	

Source: Company Data, Way2Wealth Inst Equity

highlighted that there could be further delay in orders both in domestic and international OEMs which may impact overall order book and dispatches for FY2021. However, it expects some normalcy in tendering and supply chain and order booking from H2 onwards. Further, the company is also exploring new product and geographies to expand, which in turn will improve its revenue and profitability. Water business topline declined by 5.7% YoY to ₹665mn as projects under execution got impacted by lockdown and movement of labourers. PBIT margins declined by 50 bps YoY to 6.1%. The absence of order booking during Q2FY21 as no major tenders were finalised, impacted the overall order booking in H1FY21. Overall order book for the segment stood at ₹8,747mn (includes long term O&M orders worth ₹4726mn) down 27% YoY and 7.6% QoQ. Going ahead, the management indicated that the company has participated in large number of tenders (amount not quantified) where in some are expected to be finalised in the coming quarters. Overall, the management highlighted that it will take few months to normalise as the Government's focus and funding is expected to be diverted towards fighting pandemic and there could be delays in its ability to allocate funds for new projects as well as execution for the existing projects. The management expects some subdued activities in new business opportunities in FY21 and the business is gearing-up to tackle these issues.

Outlook

The Central Government, recently announced the revised prices for ethanol for the season starting from Dec 2020 to Nov 2021 whereby the ethanol from C-molasses will witness realisation of ₹45.69/litre, an increase of ₹1.94/litre. The realisation from Sugar cane juice has been revised upward by ₹3.17/litre at ₹62.65/litre. New ethanol tender for 4580mn litres valid from Dec'20 to Nov'21 has been floated would auger well for higher ethanol sale. An increase in sugar MSP by ₹2 per kg would help sales realisations remain higher by ₹33-34 per kg. Considering the mentioned factors we are likely to see increase in sugar realisations and profitability to remain stable in the near to medium term for the company. **This along with stable cash flows is likely to help further reduce debt in the near-medium term. We continue to view it as a value BUY with target price ₹95-100.**

Financial & Operating Parameters

								(₹mn)
Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	1HFY21	1HFY20	YoY(%)
Revenue	11,684.0	9,480.0	23.2	12,238.0	(4.5)	23,922.0	18,734.0	27.7
EBITDA	778.0	1,779.0	(56.3)	1,556.0	(50.0)	2,458.0	2,909.0	(15.5)
EBITDA Margin (%)	6.7	18.8		12.7		10.3	15.5	
Net Profit	311.8	1,183.0	(73.6)	838.0	(62.8)	1,149.3	1,523.6	(24.6)

Source: Company Data, Way2Wealth Inst Equity

						(₹mn)
Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	
Sugar						
Revenue (₹mn)	9,514	7,749	22.8	11,159	(14.7)	
- Domestic Dispatches (Tonnes)	241,074	181,249	33.0	209,572	15.0	
- Exports Dispatches (Tonnes)	28,312	9,816	188.4	78,174	(63.8)	
Total	269,386	191,065	41.0	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	
Distilleries						
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	37.0	
Avg. Realisation (₹/ ltr)	44.76	43.04	4.0	48.63	(8.0)	
Gears						
Revenue (₹mn)	379	429	(11.7)	179	111.9	
Order Inflow (₹ mn)	393	433	(9.2)	19	1,936.3	
Water						
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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