

## Higher distillery revenues to boost earnings...

The most significant factor in the September quarter results of most sugar companies has been a significant increase in operating cash flow & reduction in working capital debt. In a similar context, Triveni Engineering (TEL) also saw ~₹ 900 crore of operating cash flow generation in H1FY21 & ~₹ 1000 crore debt reduction in last one year. TEL has been able to increase distillery volumes by 34% in H1FY21 mainly due to better utilisation of 160 KLD distillery commissioned in April 2019. Further, the company has aggressively exported 2.85 lakh tonnes (lt) in sugar season 2019-20, which led to reduction of 1.7 lt of sugar in last one year. TEL is holding three months of sugar inventory (2.7 lt) vs. industry average of five months. It is also considering a capital expansion of 160 KLD distillery to utilise the sugarcane juice/B heavy route to leverage the ethanol blending programme & subsequent increase in B heavy/sugarcane juice ethanol prices.

## Higher distillery utilisation levels to drive ethanol volumes

The company has been able to increase its distillery volumes by 34% to 5.9 crore litre in H1FY21 mainly on account of higher utilisation of 160 KLD distillery, which was commissioned in April 2019. We believe the company would be diverting ~75% of its sugarcane towards B heavy ethanol in sugar season 2020-21. With the higher B heavy ethanol contribution, TEL would be able to operate distilleries for 350 days at more than 100% utilisation. We expect the company to increase distillery production by 19.5% CAGR to 12.1 crore litre by FY22E. Further, with the increase in B heavy ethanol prices by ₹ 3/litre, distillery realisation would increase at 7.3% CAGR to ₹ 53/litre. We estimate 28.2% CAGR in distillery revenues to ₹ 640 crore by FY22E. We believe the higher diversion towards B heavy ethanol would result in sacrifice of 90,000 tonne of sugar in 2020-21 season.

## Engineering business on recovery path

The engineering business has recovered considerably in Q2FY21 with gear and water business witnessing 12% & 6% sales decline, respectively. We expect 10% decline in engineering business revenue in FY21E & 22% growth in FY22E with speedy execution of existing orders. The current order book in gear & water business is at ₹ 149 crore & ₹ 875 crore, respectively. Further, segment margin of gear business improved 300 bps.

## Valuation & Outlook

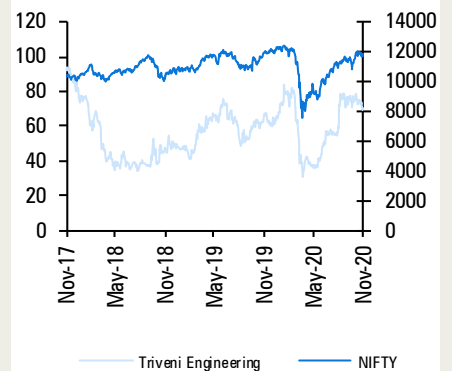
With the liquidation of excess sugar inventory & significant increase in ethanol revenue, the company is expected to see 9.1% CAGR earnings growth in FY20-22E. Moreover, possible expansion in distillery is likely to eliminate the dependence on sugar exports in future. We expect operating cash flow generation of ₹ 592 crore & 706 crore in FY21E & FY22E, respectively. We estimate ~₹ 850 crore of debt reduction in FY20-22E. We value the stock at 1.2x FY22 book value with a revised target price of ₹ 90/share (earlier target price was ₹ 95/share) and maintain **BUY** rating.



### Particulars

Particulars (₹ crore)	Amount
Market Capitalization	1,617.4
Total Debt (FY20)	1,558.2
Cash and Investments (FY19)	32.9
EV	3,142.7
52 week H/L (₹)	88 / 29
Equity capital	24.1
Face value (₹)	1.0

### Price performance



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### Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Total Operating Income	3370.2	3151.7	4436.6	4646.2	4810.3	4.1%
EBITDA	273.1	309.0	543.2	579.3	592.4	4.4%
EBITDA Margin %	8.1	9.8	12.2	12.5	12.3	
Net Profit	119.1	216.3	335.1	366.5	399.2	9.1%
EPS (₹)	4.62	8.39	13.52	15.18	17.25	
P/E	14.5	8.0	5.0	4.4	3.9	
RoNW %	12.6	19.0	19.9	23.8	23.2	
RoCE (%)	10.6	11.1	17.6	20.1	22.9	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Total Operating Income	1,168.4	948.0	23.3	1,223.8	-4.5	Net sales witnessed strong growth with higher sugar & distillery volumes
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	937.0	648.7	44.4	917.7	2.1	Increase in RM cost mainly due to reduction in inventory & inventory valuation at lower price of ₹ 27.9/kg
Employee Expense	60.6	56.7	6.8	65.2	-7.1	
Other operating Expenses	93.0	64.7	43.8	85.3	9.0	
EBITDA	77.8	177.9	-56.2	155.6	-50.0	Decline in operating profit mainly due to accounting of higher export subsidy in base quarter
EBITDA Margin (%)	6.7	18.8	-1210 bps	12.7	-605 bps	
Depreciation	19.7	19.1	2.9	19.7	0.1	
Interest	14.1	15.5	-9.2	15.9	-11.1	With significant reduction in working capital debt, interest cost fell 9.2%
Other Income	7.9	15.4	-48.7	4.4	79.4	
PBT	52.0	158.7	-67.2	124.5	-58.2	
Tax Outgo	19.9	49.6	-59.9	45.4	-56.2	
PAT	31.2	118.3	-73.6	83.8	-62.8	Profitability impacted by lower EBITDA. However, Q2 numbers are not relevant given profitability is disproportionately higher in Q4

Key Metrics

Sugar sales volume (in lakh tonnes)	2.7	1.9	40.8	2.9	-6.5	Significant increase in sugar volumes due to higher domestic sales quota & exports
Domestic realisation (₹ per kg)	33.3	33.7	-1.2	32.2	3.3	
Distillery volumes (in crore litre)	3.4	2.5	37.2	2.5	36.7	Distillery volumes increased significantly on the back of increase in utilisation of 160 KLD distillery commissioned last year
	44.8	43.0	4.0	48.6	-8.0	Distillery realisation remained at ₹ 44.8 mainly due to higher proportion of C heavy contribution. However, the composition would change significantly with higher volume contribution of B heavy ethanol in H2FY21
Distillery realisation (₹ per litre)						

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	change	Old	New	% change	
Net sales	4491.1	4646.2	3.5	4,499.0	4,810.3	6.9	With increase in distillery volume & prices, we revise our revenue estimates upwards
EBITDA	586.4	579.3	-1.2	613.0	592.4	-3.4	With change in inventory pricing, operating estimate would change
EBITDA Margin (%)	13.1	12.5	-59 bps	13.6	12.3	-131 bps	
PAT	387.1	366.5	-5.3	422.3	399.2	-5.5	Given lower-than-expected other income & higher income tax, our earnings estimate has been revised downwards
EPS (₹)	16.0	15.2	-5.1	18.2	17.3	-5.2	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current						Earlier		Comments
	FY17	FY18	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Sugar Sold (in tonne)	613,755	761,276	759,067	1,069,545	1,065,307	1,053,642	1,050,051	996,077	With higher domestic quota, we increase our volume estimate for FY21. We expect 50,000 tonnes of exports in H2FY21
Sugar Price (₹ per tonne)	38,210	36,765	31,420	30,249	33,044	33,666	33,147	33,861	Given, delay in implementation of MSP increase, we slightly change our sugar price estimate
Distillery volume	38,078	28,093	51,279	84,551	115,500	120,750	105,600	110,400	With increase in distillery utilisation, we increased our distillery volume estimates
Distillery price (₹ per KL)	43,562	40,745	41,515	46,100	50,762	53,049	46,381	46,381	Given higher B heavy ethanol prices & significant increase in contribution of B heavy, we change our distillery realisation estimate
Power Units sold	13.6	18.2	17.5	14.5	15.5	17.5	16.1	17.5	
Price per unit (₹ per units)	5.6	5.9	5.2	3.1	3.2	3.3	3.2	3.3	
Gear/Gear box revenue	88.0	107.3	129.3	150.3	130.7	159.5	123.4	150.5	Recovery in engineering business faster than earlier estimates
Water segment revenue	167.3	160.3	231.4	289.1	260.2	317.4	256.2	312.6	

Source: Company, ICICI Direct Research

## Revenue uptick, profits impacted by off-season spends in Q2

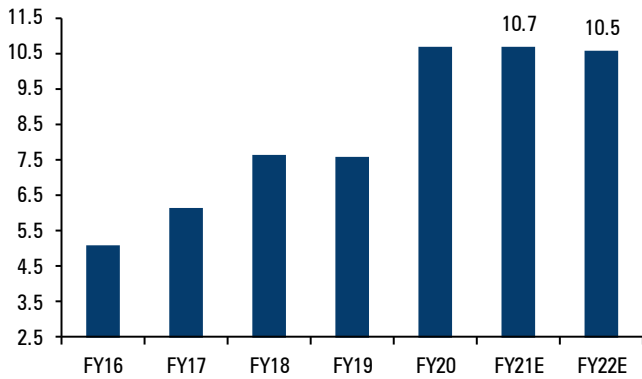
The company witnessed 23.3% revenue growth during Q2FY21 on the back of 21.8% growth in sugar and 43% growth in the distillery segment. The growth in the sugar segment was aided by higher sugar volumes led by increase in domestic sale quota and exports. The company sold 2.7 lt of sugar, of which 0.28 lt was exported. Domestic realisation was flat at ₹ 33.3/kg. Distillery volumes increased 37% to 3.4 crore litre with 4% increase in average realisation. The company largely sold C heavy ethanol during the quarter. We believe more than 80% of ethanol volume would comprise B-heavy ethanol in future, which would significantly improve distillery realisation. Gear & water business saw 12% & 6% sales decline, respectively, as engineering operations have been negatively impacted in Q1FY21 and were in a recovery mode in Q2.

## Inventory valuation impacts profitability

Sugar inventory declined by 1.7 lt in the last one year. The company is holding 2.7 lt valued at ₹ 27.9/kg at the end of September 2020 vs. 4.5 lt valued at ₹ 29.6/kg. Inventory valuation at a lower price and higher export subsidy in the base quarter impacted earnings during the quarter. Net profit was at ₹ 31.2 crore vs. ₹ 118.3 crore in the corresponding quarter. Profitability for sugar companies is disproportionately higher in Q4 with substantial volume contribution of by-products (distillery and power). The company is expected to sell 11.5 crore litres of ethanol/ENA this year with ~80% is likely to be B-heavy ethanol.

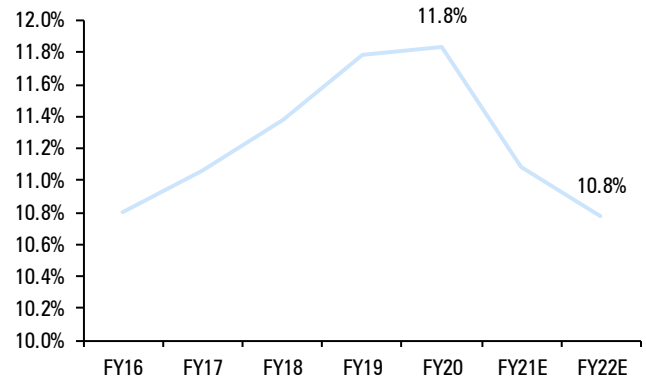
## Key metrics

Exhibit 4: Sugar sales volume (in lakh tonne)



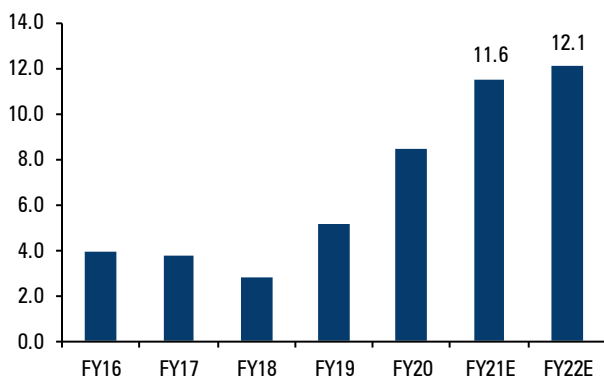
Source: ICICI Direct Research, Company

Exhibit 5: Sugar recovery rate (%)



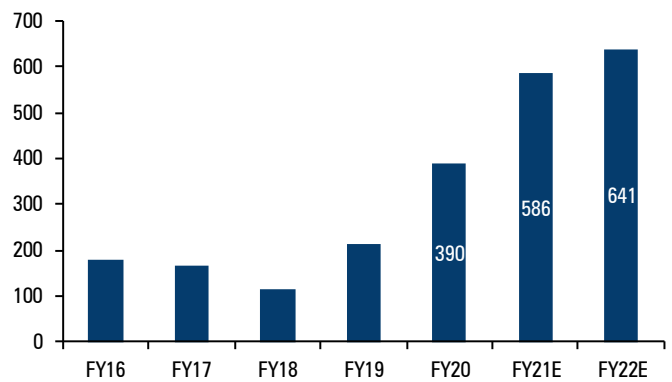
Source: ICICI Direct Research, Company

Exhibit 6: Ethanol volumes (in crore litre)



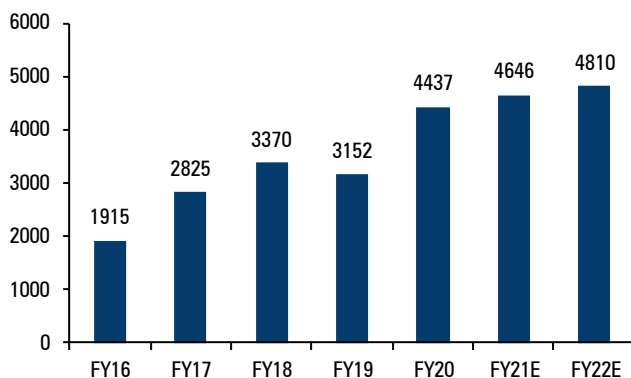
Source: Company, ICICI Direct Research

Exhibit 7: Ethanol sales (₹ crore)



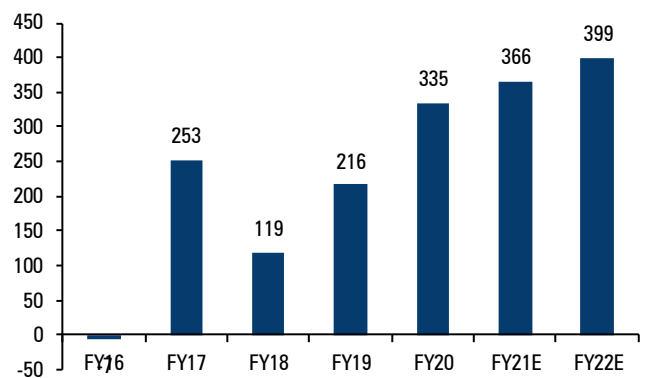
Source: Company, ICICI Direct Research

Exhibit 8: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 9: Net profit trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	3151.7	-6.5	8.39	81.5	8.0	10.2	19.0	11.1
FY20	4436.6	40.8	13.52	61.2	5.0	5.4	19.9	17.6
FY21E	4646.2	4.7	15.18	12.3	4.4	4.4	23.8	20.1
FY22E	4810.3	3.5	17.25	13.7	3.9	3.5	23.2	22.9

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Total Operating Income</b>	<b>3,151.7</b>	<b>4,436.6</b>	<b>4,646.2</b>	<b>4,810.3</b>
Growth (%)	-6.5	40.8	4.7	3.5
Raw Material Expenses	2,231.3	3,251.8	3,430.4	3,563.7
Employee Expenses	223.9	255.8	269.5	288.6
Administrative Expenses	53.2	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Marketing expenses	10.8	0.0	0.0	0.0
Other expenses	376.7	385.9	367.1	365.6
Total Operating Expenditure	2,842.7	3,893.5	4,066.9	4,217.9
<b>EBITDA</b>	<b>309.0</b>	<b>543.2</b>	<b>579.3</b>	<b>592.4</b>
Growth (%)	13.2	75.8	6.6	2.3
Depreciation	57.0	74.9	72.9	74.5
Interest	68.0	79.3	52.4	27.6
Other Income	63.6	36.3	29.0	29.6
PBT	184.1	389.0	454.0	490.3
Exceptional items	0.1	0.0	0.0	0.0
Total Tax	51.5	110.5	132.8	137.8
<b>PAT</b>	<b>216.3</b>	<b>335.1</b>	<b>366.5</b>	<b>399.2</b>
Growth (%)	81.5	55.0	9.4	8.9
EPS (₹)	8.4	13.5	15.2	17.3

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/Loss after Tax	267.8	445.6	366.5	399.2
Add: Depreciation	57.0	74.9	72.9	74.5
Add: Interest	68.0	79.3	0.0	0.0
(Inc)/dec in Current Assets	-574.6	-150.9	214.6	269.2
Inc/(dec) in Current Liabilities	290.6	82.2	148.2	-62.1
<b>CF from operating activities</b>	<b>-167.3</b>	<b>510.3</b>	<b>591.9</b>	<b>706.5</b>
(Inc)/dec in Investments	18.5	0.3	-4.8	-5.0
(Inc)/dec in Fixed Assets	-238.2	-116.9	-30.0	-30.0
Others	5.0	9.4	0.8	0.0
<b>CF from investing activities</b>	<b>-214.7</b>	<b>-107.2</b>	<b>-34.0</b>	<b>-35.0</b>
Issue/(Buy back) of Equity	0.0	-101.3	-0.6	-1.0
Inc/(dec) in loan funds	483.7	-167.8	-400.0	-460.0
Dividend paid & dividend tax	-21.8	-32.9	-96.6	-115.7
Inc/(dec) in Sec. premium	0.0	-6.5	-68.2	-100.0
Others	-68.9	-77.3	0.0	0.0
<b>CF from financing activities</b>	<b>393.0</b>	<b>-385.7</b>	<b>-565.5</b>	<b>-676.7</b>
Net Cash flow	11.0	17.4	-7.6	-5.2
Opening Cash	3.7	14.6	32.0	24.5
Cash with bank	4.4	0.8	0.0	0.0
<b>Closing Cash</b>	<b>19.0</b>	<b>32.9</b>	<b>24.5</b>	<b>19.3</b>

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
	FY19	FY20	FY21E	FY22E
<b>Liabilities</b>				
Equity Capital	25.8	24.8	24.1	23.1
Reserve and Surplus	1,114.7	1,313.9	1,515.5	1,699.1
Total Shareholders funds	1,140.5	1,338.7	1,539.7	1,722.2
Total Debt	1,608.9	1,387.0	987.0	527.0
Long Term Provisions	43.2	47.9	45.9	43.9
Other Non-current Liabilities	61.9	108.7	109.7	110.7
<b>Total Liabilities</b>	<b>2,854.5</b>	<b>2,882.3</b>	<b>2,682.3</b>	<b>2,403.8</b>
<b>Assets</b>				
Gross Block	1,054.0	1,372.9	1,402.9	1,432.9
Less: Acc Depreciation	224.1	298.9	371.9	446.4
Net Block	829.9	1,073.9	1,031.0	986.5
Capital WIP	204.8	26.2	26.2	26.2
Intangible assets	0.5	0.9	0.9	0.9
Non Current Investments	124.4	153.3	158.3	163.3
Other non-current assets	70.0	60.6	60.4	60.4
<b>Current Assets</b>				
Inventory	2,118.7	1,912.1	1,703.6	1,403.0
Debtors	296.0	348.7	322.7	334.1
Cash	19.0	32.9	24.5	19.3
Loans & Advances	3.1	3.4	3.4	3.4
Other Current Assets	138.7	433.9	453.9	473.9
<b>Current Liabilities</b>				
Creditors	637.6	756.4	695.3	659.9
Provisions	32.3	31.8	31.8	31.8
Other CL	280.6	375.5	375.5	375.5
Net Current Assets	1,625.0	1,567.3	1,405.5	1,166.5
<b>Total Assets</b>	<b>2,854.5</b>	<b>2,882.3</b>	<b>2,682.3</b>	<b>2,403.8</b>

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
	FY19	FY20	FY21E	FY22E
<b>Per share data (₹)</b>				
EPS	8.4	13.5	15.2	17.3
Cash EPS	10.6	16.5	18.2	20.5
BV	44.2	54.0	63.8	74.4
DPS	0.8	3.1	4.0	5.0
Cash Per Share	8.7	12.1	15.4	19.3
<b>Operating Ratios (%)</b>				
EBITDA Margin	9.8	12.2	12.5	12.3
PBT / Net Sales	7.9	9.6	10.4	10.8
PAT Margin	6.9	6.0	7.9	8.3
Inventory days	245	157	134	106
Debtor days	34	29	25	25
Creditor days	74	62	55	50
<b>Return Ratios (%)</b>				
RoE	19.0	19.9	23.8	23.2
RoCE	11.1	17.6	20.1	22.9
<b>Valuation Ratios (x)</b>				
P/E	8.0	5.0	4.4	3.9
EV / EBITDA	10.2	5.4	4.4	3.5
EV / Net Sales	1.0	0.7	0.5	0.4
Market Cap / Sales	0.5	0.4	0.3	0.3
Price to Book Value	1.5	1.2	1.1	0.9
<b>Solvency Ratios</b>				
Debt/EBITDA	5.2	2.6	1.7	0.9
Debt / Equity	1.4	1.0	0.6	0.3
Current Ratio	3.1	2.8	2.8	2.6
Quick Ratio	0.5	0.8	0.9	0.9

Source: Company, ICICI Direct Research

**Exhibit 15: ICICI Direct coverage universe (Sugar)**

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B			RoCE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Avadh Sugar (AVASUG)	185	195	Hold	362	44.3	55.2	60.5	4.2	3.4	3.1	7.0	5.8	4.7	0.6	0.5	0.4	10.6	12.3	13.3
Balrampur Chini (BALCHI)	153	210	Buy	3,150	23.6	26.5	30.2	6.5	5.7	5.1	6.6	4.7	4.2	1.3	1.2	1.1	16.1	21.2	22.3
Dhampur Sugar (DHASUG)	152	175	Buy	950	32.5	38.6	43.3	4.7	3.9	3.5	7.0	4.3	3.3	0.7	0.6	0.5	10.4	15.4	17.4
Dwarikesh sugar (DZWASUG)	29	34	Buy	517	3.9	6.7	7.2	7.5	4.4	4.1	8.4	4.8	4.2	1.1	0.9	0.8	9.0	15.9	16.6
Triveni Engineering (TRIENG)	67	90	Buy	1,617	13.5	15.2	17.3	5.0	4.4	3.9	5.4	4.4	3.5	1.2	1.1	0.9	17.6	20.1	22.9
Dalmia Bharat Sugar (DALSUG)	132	160	Buy	1,068	23.9	26.8	28.4	5.5	4.9	4.7	8.3	7.4	6.1	0.7	0.6	0.6	11.8	11.9	12.1

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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