



India

REDUCE (previously ADD)

Consensus ratings*: Buy 8 Hold 0 Sell 0

Current price:	Rs277
Target price:	Rs191
Previous target:	Rs387
Up/downside:	-31.0%
InCred Research / Consensus:	-45.8%
Reuters:	
Bloomberg:	TRE IN
Market cap:	US\$821m
	Rs66,918m
Average daily turnover:	US\$5.6m
	Rs454.7m
Current shares o/s:	218.9m
Free float:	38.8%

*Source: Bloomberg

Key changes in this note

- Downgrade to REDUCE from ADD, revise target price to Rs191 (from Rs387 earlier).
- PAT estimates adjusted by (0.7) % / (27.6) % for FY23F/24F.
- Target FY24F P/Ex cut from 13x to 10x.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(2.2)	6.5	4.0
Relative (%)	0.2	7.6	0.3

Major shareholders

	% held
Promoter & Promoter Group	61.2
DSP AMC	5.0
Nippon AMC	1.3

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Triveni Engineering and Industries Ltd

Troubling times ahead for industry

- 3QFY23 earnings were hit due to lower realization in domestic sugar business.
- It's important to note that pending notification of the SAP on sugarcane for the 2022-23 season by the Uttar Pradesh government, the cane price as applicable to the previous season has been considered in 3Q financial results.
- Downgrade our rating to REDUCE (from ADD earlier) due to likely stress in domestic sugar prices and the probability of a higher SAP (state advisory price). Target price slashed to Rs191 from Rs387 earlier.

Financial performance of sugar and ethanol segments

The performance of Triveni Engineering and Industries (TEIL) in both these segments was hit because of lower realization in domestic sugar business. The cost of raw materials (inventory carried forward) was higher due to higher SAP and lower yields. However, it's important to note that pending notification of the SAP on sugarcane for the 2022-23 season by the Uttar Pradesh government, the cane price as applicable to the previous season has been considered in the 3QFY23 results of the company. Management has highlighted that the proposed share buyback to the extent of Rs8bn is yet to get statutory approval.

Prospects of sugar and ethanol segments going ahead

Due to a peculiar situation in the sugar industry's inventory currently, which is too high for domestic consumption but not high enough for exports, prices in the domestic market are not expected to move above Rs36/kg (refer Fig.3). Also with Brazil's production bouncing back, the global market is expected to bounce back into surplus, keeping a further lid on sugar prices domestically and globally from the second-half of CY23F (for sensitivity analysis refer Fig.4). The ethanol segment showed a strong growth in topline, but the bottom-line could not keep pace due to higher transfer pricing of molasses. New prices of ethanol for the ethanol supply year (ESY) have been announced but, in our view, they are below expectations and management has concurred with the same during the 3QFY23 earnings conference call. Management believes that some more incentives on the ethanol front are required to boost investments in the ethanol segment for the required output.

Valuation and risks

We adjust our PAT estimates by (0.7)% & (27.6)% for FY23F & FY24F, respectively, based on 3QFY23 results. We downgrade our rating on the stock to REDUCE from ADD with a lower target price of Rs191 (Rs387 earlier) or 10x (13x earlier) FY24F P/E. The cut in P/E from 13x to 10x is particularly in view of the increased probability of SAP hike in Uttar Pradesh, where it is operational, in the coming sugar season. Upside risks: 1) Rise in sugar prices and sustaining the prices in the domestic market above Rs38.5/kg. 2) Shortage in the global sugar market post May 2023F when other producers enter the market. 3) Clear directives on FRP (fair and remunerative price) and SAP with no increase in pricing.

Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	46,742	42,909	55,388	60,205	66,615
Operating EBITDA (Rsm)	5,578	6,344	5,547	6,666	7,250
Net Profit (Rsm)	2,921	3,783	17,080	4,175	4,197
Core EPS (Rs)	11.9	15.4	17.5	18.1	19.2
Core EPS Growth	(4.0%)	29.3%	13.3%	3.6%	5.8%
FD Core P/E (x)	23.21	17.69	3.92	15.27	14.44
DPS (Rs)	0.0	0.0	0.4	1.0	1.0
Dividend Yield	0.00%	0.00%	0.13%	0.34%	0.35%
EV/EBITDA (x)	13.69	12.96	12.52	11.33	9.32
P/FCFE (x)	(34.21)	3.96	0.00	(135.80)	21.17
Net Gearing	55.1%	80.1%	7.0%	36.8%	19.4%
P/BV (x)	4.30	3.50	1.85	1.89	1.68
ROE	20.2%	21.5%	15.3%	12.2%	12.3%
% Change In Core EPS Estimates			(0.27%)	(0.32%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Rs m	3QFY23	2QFY23	%QoQ	3QFY22	%YoY
Revenue From Operations	14,627	13,459	8.7%	11,157	31.1%
Cost of Goods Sold	10,270	10,856	-5.4%	7,112	44.4%
Employee Expenses	872	842	3.6%	755	15.6%
Other Expenses	1,551	1,308	18.6%	1,262	22.9%
EBITDA	1,934	454	326.1%	2,028	-4.7%
Depreciation	238	234	1.7%	205	16.4%
EBIT	1,696	220	671.8%	1,824	-7.0%
Other Income	373	117	218.3%	70	435.5%
Interest Expenses	81	172	-52.6%	122	-33.1%
Exceptional Items	0	14,012	NA	0	NA
Profit/(Loss) of associates	0	80	NA	78	NA
Profit Before Tax	1,987	14,257	-86.1%	1,850	7.4%
Tax Expenses	514	379	35.6%	549	-6.3%
Profit After Tax	1,473	13,878	-89.4%	1,301	13.2%
Key Ratios	3QFY23	2QFY23	%QoQ	3QFY22	%YoY
<i>EBITDA Margin</i>	13.2%	3.4%	985bp	18.2%	-496bp
<i>EBIT Margin</i>	11.6%	1.6%	996bp	16.3%	-475bp
<i>PBT Margin</i>	13.6%	105.9%	-9234bp	16.6%	-300bp
<i>PAT Margin</i>	10.1%	103.1%	-9304bp	11.7%	-159bp
<i>Tax Rate</i>	25.9%	2.7%	2322bp	29.7%	-378bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Rs m	Old estimates		New estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	54,674	61,660	55,388	60,205	1.3%	-2.4%
EBITDA	6,075	9,494	5,547	6,666	-8.7%	-29.8%
EBITDA Margin (%)	11.1%	15.4%	10.0%	11.1%	-110bp	-432bp
PAT	17,200	6,367	17,080	4,175	-0.7%	-34.4%
EPS (Rs)	71	26	71	19	-0.7%	-27.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Key assumptions

Particulars	FY23F	FY24F	FY25F
SAP	3,500	3,500	3,500
Sugar sales (lakh q)	97.9	97.0	98.0
Sugar price (in kg)	35.5	35.5	35.5
Ethanol & ENA (in mL)	187.9	221.2	221.2
Ethanol price - direct (in L)	65.6	65.6	65.6
Ethanol price - B heavy (in L)	60.7	60.7	60.7
Ethanol price - C heavy (in L)	49.4	49.4	49.4
Ethanol price - Grain (in L)	55.5	55.5	55.5

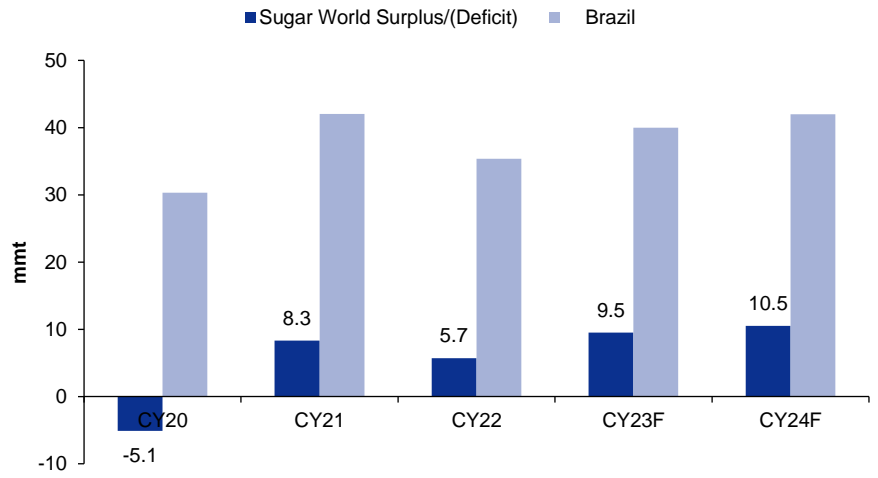
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Sensitivity analysis on EBITDA margin in FY24F

EBITDA margin in FY24F		Domestic sugar prices (Rs/kg)				
		34.0	34.5	35.0	35.5	36.0
SAP - mt	3,500	9.2%	9.8%	10.5%	11.1%	11.7%
	3,600	8.4%	9.0%	9.7%	10.3%	10.9%
	3,700	7.6%	8.2%	8.8%	9.5%	10.1%
	3,800	6.7%	7.4%	8.0%	8.7%	9.3%
	3,900	5.9%	6.6%	7.2%	7.9%	8.5%

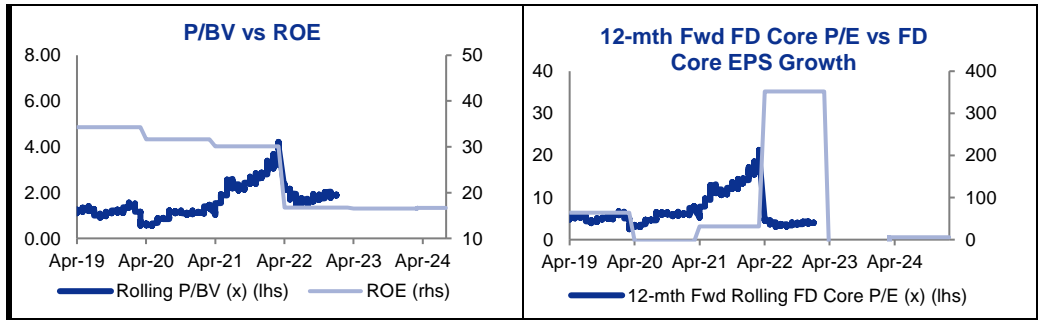
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Sugar surplus to grow rapidly as Brazil and other producers witness a bounce-back



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	46,742	42,909	55,388	60,205	66,615
Gross Profit	12,381	14,318	13,932	14,493	15,910
Operating EBITDA	5,578	6,344	5,547	6,666	7,250
Depreciation And Amortisation	(791)	(807)	(884)	(955)	(1,045)
Operating EBIT	4,787	5,537	4,663	5,711	6,205
Financial Income/(Expense)	(208)	(323)	(48)	(69)	(533)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	4,579	5,213	4,615	5,642	5,672
Exceptional Items	(7)	67	14,012		
Pre-tax Profit	4,572	5,280	18,627	5,642	5,672
Taxation	(1,652)	(1,497)	(1,547)	(1,467)	(1,475)
Exceptional Income - post-tax					
Profit After Tax	2,921	3,783	17,080	4,175	4,197
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,921	3,783	17,080	4,175	4,197
Recurring Net Profit	2,925	3,735	4,232	4,175	4,197
Fully Diluted Recurring Net Profit	2,925	3,735	4,232	4,175	4,197

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	5,578	6,344	5,547	6,666	7,250
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,783)	3,051	(3,911)	(2,112)	(2,810)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(208)	(323)	(48)	(69)	(533)
Tax Paid	(791)	(807)	(884)	(955)	(1,045)
Cashflow From Operations	2,796	8,264	704	3,530	2,862
Capex	869	2,911	(1,500)	(4,000)	
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	869	2,911		(4,000)	
Debt Raised/(repaid)	(5,646)	5,739			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid		(725)	(85)	(209)	(210)
Preferred Dividends					
Other Financing Cashflow	(734)	59		(7,977)	
Cash Flow From Financing	(6,379)	5,073	(85)	(8,186)	(210)
Total Cash Generated	(2,715)	16,248		(8,655)	2,652
Free Cashflow To Equity	(1,981)	16,915		(470)	2,862
Free Cashflow To Firm	4,181	11,721		310	3,642

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	126	279	13,082	3,805	8,606
Total Debtors	2,084	2,668	3,035	3,299	3,650
Inventories	17,338	20,369	24,279	26,391	29,201
Total Other Current Assets	2,522	2,261	3,051	3,316	1,004
Total Current Assets	22,069	25,577	43,447	36,810	42,461
Fixed Assets	10,675	10,654	13,835	16,880	15,835
Total Investments	1,578	1,934	1,134	1,134	1,134
Intangible Assets					
Total Other Non-Current Assets	1,875	4,810	831	903	999
Total Non-current Assets	14,127	17,398	15,800	18,917	17,968
Short-term Debt	5,616	12,406	12,406	12,406	12,406
Current Portion of Long-Term Debt					
Total Creditors	9,311	5,928	5,383	5,851	6,474
Other Current Liabilities	722	484	166	181	200
Total Current Liabilities	15,649	18,817	17,955	18,438	19,080
Total Long-term Debt	3,089	3,192	3,192	3,192	3,192
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	3,089	3,192	3,192	3,192	3,192
Total Provisions	1,902	1,837	1,978	2,032	2,104
Total Liabilities	20,640	23,846	23,125	23,661	24,376
Shareholders Equity	15,557	19,129	36,123	32,066	36,054
Minority Interests					
Total Equity	15,557	19,129	36,123	32,066	36,054

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	5.4%	(8.2%)	29.1%	8.7%	10.6%
Operating EBITDA Growth	2.8%	13.7%	(12.6%)	20.2%	8.8%
Operating EBITDA Margin	11.9%	14.8%	10.0%	11.1%	10.9%
Net Cash Per Share (Rs)	(35.48)	(63.35)	(10.40)	(53.86)	(31.93)
BVPS (Rs)	64.34	79.11	149.39	146.46	164.67
Gross Interest Cover	9.27	10.15	7.02	7.32	7.96
Effective Tax Rate	36.1%	28.3%	8.3%	26.0%	26.0%
Net Dividend Payout Ratio			1.9%	3.7%	3.7%
Accounts Receivables Days	18.60	20.21	18.79	19.20	19.04
Inventory Days	193.64	240.68	196.56	202.30	200.09
Accounts Payables Days	73.33	62.24	35.49	37.93	37.52
ROIC (%)	18.0%	22.6%	13.6%	14.5%	13.9%
ROCE (%)	17.8%	18.0%	10.5%	11.2%	12.2%
Return On Average Assets	12.5%	14.0%	9.1%	9.9%	10.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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