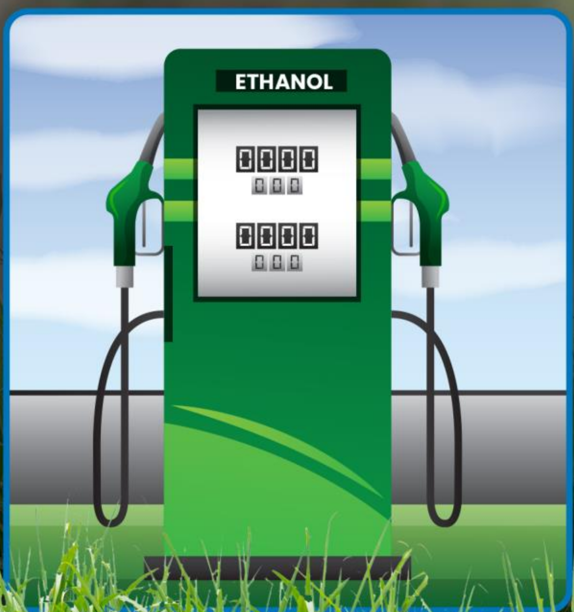
INITIATING COVERAGE

MONARCH NETWORTH CAPITAL

# TRIVENI ENGINEERING AND INDUSTRIES LTD

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Initiating coverage

MONARCH NETWORTH CAPITAL

# Triveni Engineering and Industries Ltd IBUY ITP:Rs.460

## *Not just sweet but spicy*

**We initiate on Triveni Engineering and Industries (TEIL), a sugar-to-engineering conglomerate, with a BUY and TP of Rs460. In the throes of a pathbreaking business (and perception) transformation from a commodity to a profitable trifecta of ethanol, power transmission and gearboxes, TEIL is poised for both value delivery and relative stability. Whereas TEIL's dominant position and locational advantage in sugar and industry tailwinds of fuel ethanol are noteworthy, it is the underrated high-speed gearboxes, a monopoly business, that could be a gamechanger, with a 15x export TAM potential opened up since this year. Our estimates and TP are significantly ahead of consensus. A value-unlocking possibility could be icing on the cake.**

- **Sugar sweeter, with a heady potion:** Indian sugar companies, hitherto battered continually by structural and financial infirmities, have remarkably deleveraged and steadied itself in the last 6-7 years, aided by government regulations, increased cash inflows from distillery operations, and better-quality seeds. Their presence in the plentiful rain-fed and irrigated Uttar Pradesh is an additional source of competitive advantage for TEIL. *The government's mandate of 20% ethanol blending in petrol by 2025, which will require 37% increase in ethanol production from current levels, can result in a 20%+ CAGR in TEIL's distillery division sales and EBIT over FY23-26E*.
- **Robust domestic and export opportunity in engineering business –** Encouraging tailwinds in the engineering division are predicated on a 22%/26% CAGR in revenue/EBIT for the Power Transmission Business (PTB), driven by the expansion of the exports market following the expiration of the licensing agreement with Lufkins in January 2023. TEIL enjoys a monopoly in the domestic niche high-speed gear market propped by a steady aftermarket. Our confidence is reinforced by our on-site visit to TEIL's PTB plant in Mysore. *Opening of the whole exports market has led to a 15x increase in TAM for high-speed gear business, where TEIL is the lowest cost producer as it delivers industry-leading margins of 34%+*.
- **Optionality - demerger of engineering business:** An abortive attempt by TEIL to demerge its engineering division (comprising PTB, including defence, and water) in the past could be revived. If and when this restructuring is done, there can be substantive value-unlocking within the pure-play engineering segment. While demerged entities are typically better valued than when embedded in a conglomerate, we foresee this division commanding a premium to peers due to its monopoly in high-speed gears, encouraging export opportunities, a growing aftermarket, and possible margin improvement.
- **Valuation:** TEIL is well positioned for robust topline and bottom-line growth over FY2023-FY2026 with higher capacity utilization in the expanded distillery facility, improved production for the sugar business, and better order book in engineering business backed by exports. Valuing the stock at 16x Q2FY26E, we are attributing a premium considering the strong exports potential in the engineering business, growth prospects for distillery segment, expansion plans in distillery, PTB and defence segments, coupled with shift from cyclical to structural nature of the sugar industry delivering considerably reduced volatility.

| Target price | 460 |
|---|---|
| CMP* | 384 |
| Upside | 20% |

| Price Performance (%) | 1M | 6M | 1Yr |
|---|---|---|---|
| TEIL | 32.1 | 42.1 | 32.5 |
| Nifty 50 | 4.5 | 18.9 | 14.6 |

| Key Data | |
|---|---|
| Bloomberg Code | TRE:IN |
| Curr Shares O/S (mn) | 218.9 |
| Diluted Shares O/S(mn) | 218.9 |
| Mkt Cap (Rsbn/USDmn) | 84.5/1018.6 |
| 52 Wk H / L (Rs) | 390/240 |
| 3M Average Vol. | 1302830 |

Source: Bloomberg, ACE Equity, BSE, MNCL Research

| Shareholding pattern (%) | Jun-23 | Mar-23 | Dec-22 | Sep-22 |
|---|---|---|---|---|
| Promoter | 60.98 | 60.98 | 61.22 | 68.25 |
| DIIs | 8.21 | 8.54 | 8.10 | 6.02 |
| FIIs | 4.23 | 4.67 | 5.29 | 4.43 |
| Others | 26.58 | 25.80 | 25.40 | 21.28 |

Source: BSE

***Why should you read this report?***

- *To know more about the sugar and allied business*
- *Potential of PTB business and exports*
- *Optionalities including demerger.*

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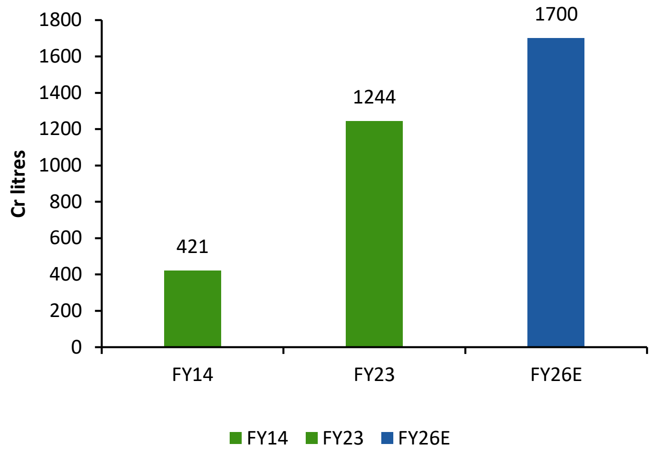
| Y/E Mar (Rs mn) | Revenue | YoY (%) | EBITDA | EBITDA (%) | PAT | YoY (%) | Adj EPS | RoE (%) | RoCE (%) | P/E (x) | EV/EBITDA (x) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FY22 | 42,909 | *-8.2%* | 6,621 | *15.43%* | 4,241 | *43.9%* | 17.54 | *22.2%* | *16.7%* | 17.7 | 13.7 |
| FY23 | 56,168 | *30.9%* | 6,278 | *11.18%* | 17,918 | *322.5%* | 74.58 | *14.7%* | *14.9%* | 16.8 | 11.7 |
| FY24E | 58,727 | *4.6%* | 7,503 | *12.78%* | 4,248 | *-76.3%* | 17.68 | *13.5%* | *13.7%* | 21.7 | 13.7 |
| FY25E | 67,506 | *15.0%* | 10,245 | *15.18%* | 6,107 | *43.8%* | 25.42 | *16.0%* | *15.4%* | 15.1 | 10.2 |
| FY26E | 74,267 | *10.0%* | 11,865 | *15.98%* | 7,661 | *25.4%* | 31.89 | *16.6%* | *17.6%* | 12.0 | 8.3 |

Source: Company, MNCL Research

# Index

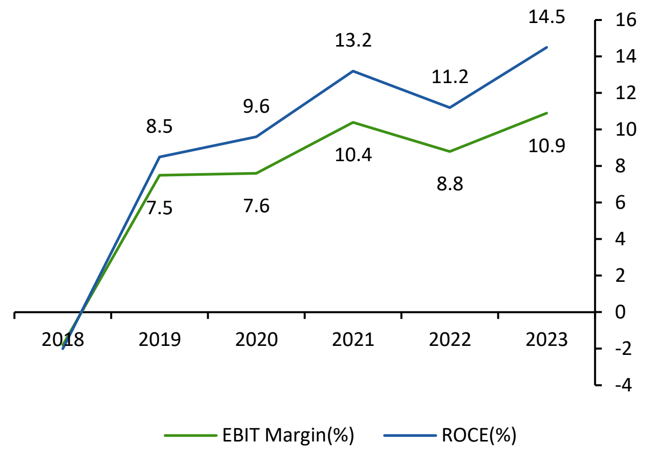
# Investment Thesis in Charts

### Exhibit 1: Ethanol requirement to increase substantially by FY26



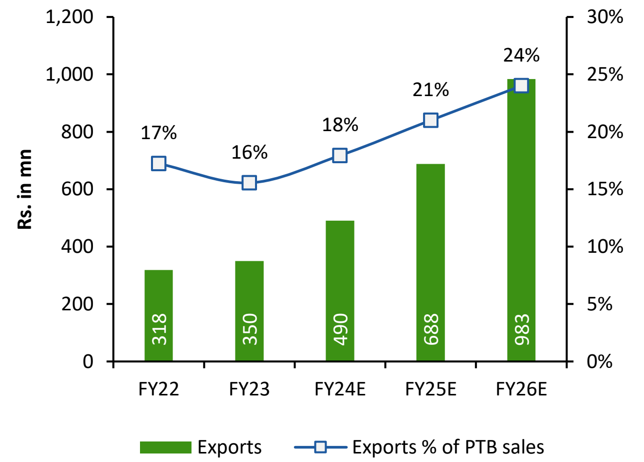

Source: Government of India, MNCL research

### Exhibit 2: Indian sugar industry - Segmental EBIT moving in favour of Ethanol from Sugar, driving RoCE



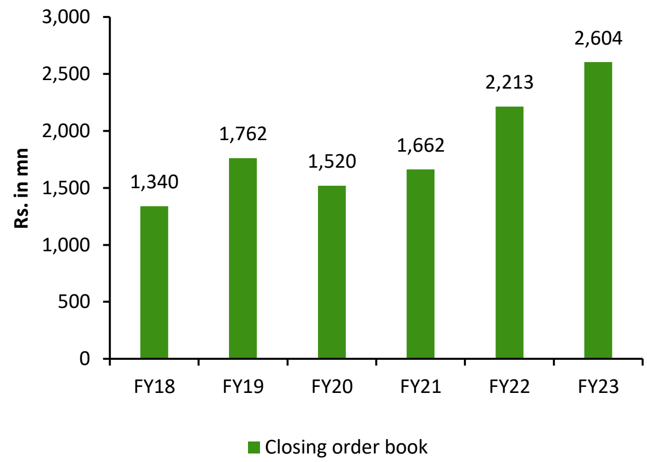

Source: Ace Equity, MNCL research

### Exhibit 3: PTB export sales to surge substantially backed by expansion of Exports TAM potential



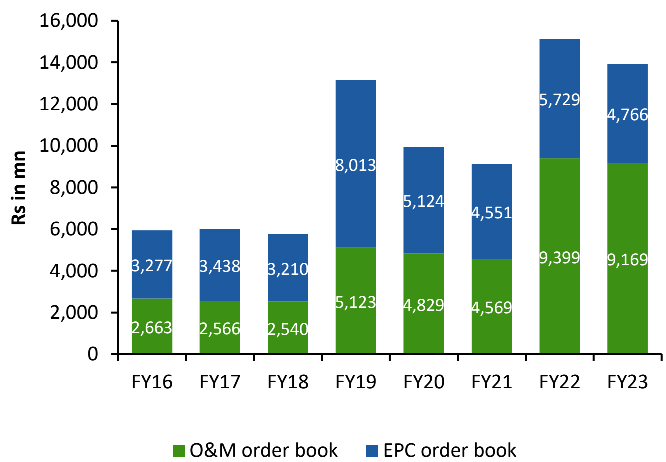

Source: Company, MNCL research

### Exhibit 4: PTB division order book



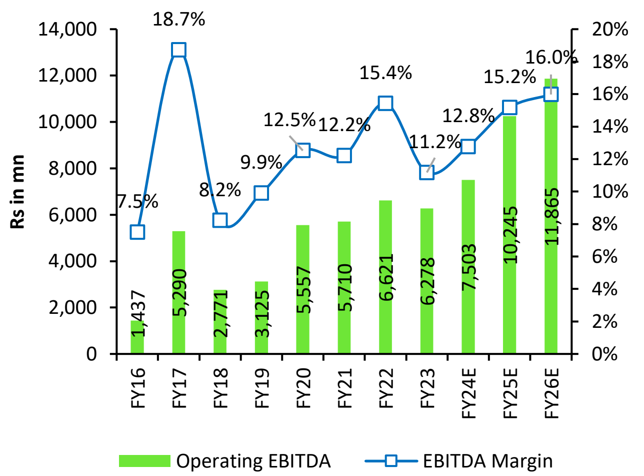

Source: Company, MNCL research

### Exhibit 5: Water division order book




Source: Company, MNCL Research

### Exhibit 6: TEIL – EBITDA and EBITDA %




Source: Company, MNCL research

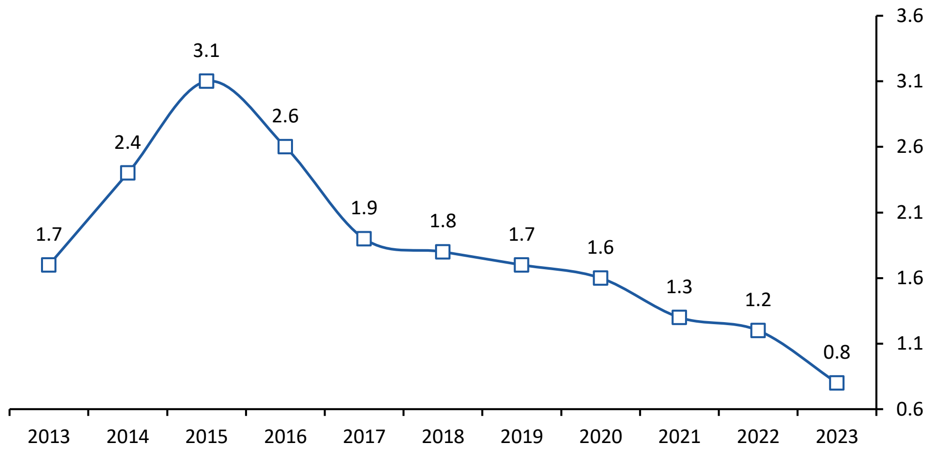
# Investment thesis

## Sugar industry: Shifting from cyclical to structural industry backed by strong tailwinds

*Sugar industry is shifting from cyclical industry to structural industry with strong tailwinds.*

Indian sugar companies have witnessed a notable enhancement of their financial health over the past half-decade, driven by a combination of factors. Government regulations, increased cash inflows from higher returns due to expansion in distillery operations, and advancements in seed varieties and technology have played pivotal roles in this transformation. A significant outcome of these developments has been the substantial reduction in the D/E ratio, declining from 1.7x in FY13 to a more favorable 0.8x in FY23.

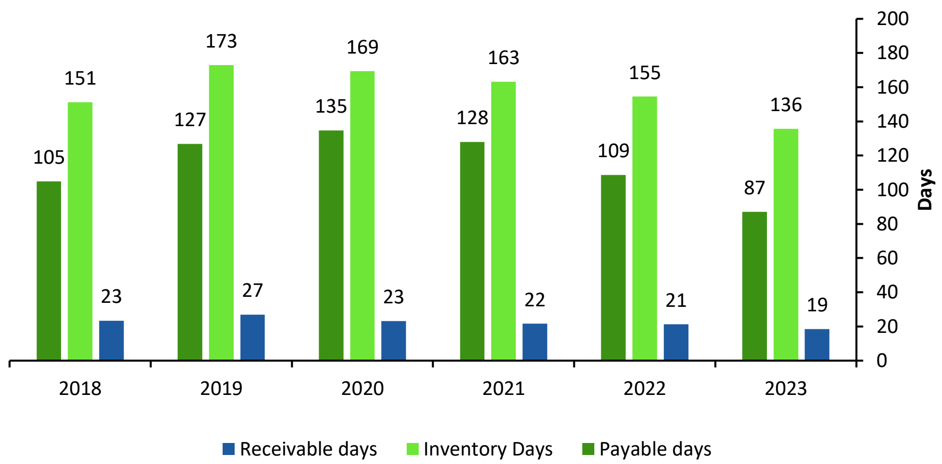
**Exhibit: Indian sugar industry debt to equity ratio is improving**




Source: Ace Equity, MNCL Research

The main reason for this improvement is the Indian government's introduction of the ethanol procurement policy in 2019. They aim to raise the amount of ethanol mixed with petrol to 20% by FY25, which has already increased from about ~5% to ~12% between FY18 and FY23. Moreover, the revival of the Minimum Support Price (MSP) for sugar, subsidies for sugar exports, increased financial support to farmers from the government, on-time funding to sugar mills, and the interest subsidy program for ethanol projects have all played a significant role in bolstering the financial well-being of the Indian sugar industry.

**Exhibit 7: Improving cash flow efficiency**




Source: Ace Equity, MNCL Research

This transformation is marked by consistent EBITDA margins, a growing contribution from the distillery segment, enhanced cash flows, a decreasing debt-to-equity ratio, and the absence of financial assistance from the Indian government (except for interest subvention scheme for ethanol projects).

Through initiatives such as the promotion of ethanol production from B-heavy molasses and sugarcane juice, well-executed export schemes, the sugar release quota mechanism, and the introduction of the Minimum Selling Price of sugar (MSP), the Government has effectively mitigated the cyclical nature of the industry. These measures have resulted in enhanced productivity and improved financial stability for sugar mills.

## Location and size are key to success for company

*TEIL has 7 sugar mills with 6 of them in Western and Central Uttar Pradesh and one in Eastern Uttar Pradesh.*

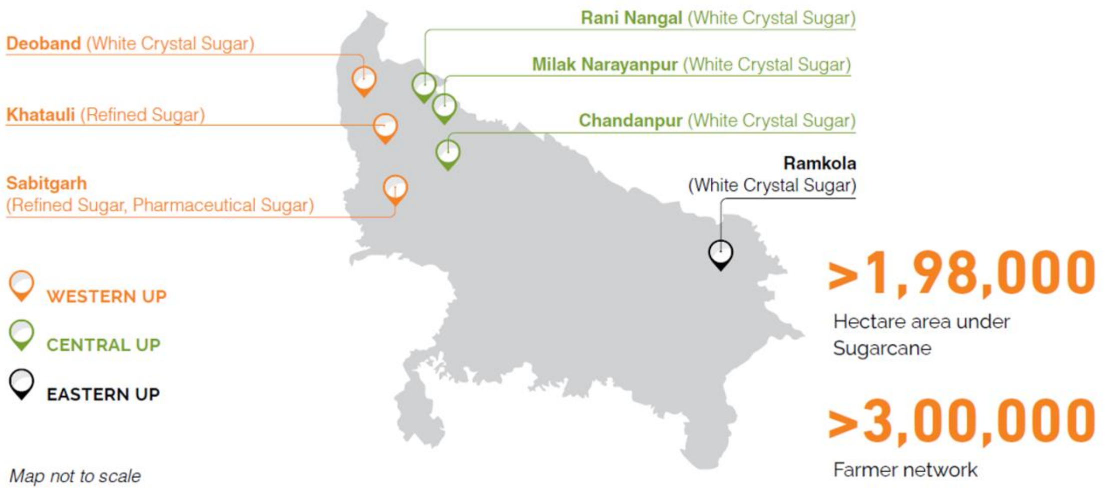
**UP based companies are well placed than others.**

Sugar companies in Uttar Pradesh, particularly those situated in the western region, enjoy a competitive advantage within the Indian sugar industry. This advantage stems from their effective irrigation systems, primarily facilitated by the presence of rivers in the area. These rivers provide a consistent and reliable water source, reducing dependence on erratic rainfall patterns. Alongside this advantage, Uttar Pradesh's sugar mills benefit from factors such as abundant sugarcane supply, government support through measures like FRP/SAP, MSP, and export subsidies, proximity to major markets, and alignment with clean energy initiatives. These combined factors have played a pivotal role in ensuring the sustained growth and profitability of these companies.

Adoption of CO-0238 seed was a turnaround (UP farmer income doubled from Rs.1.2lakh/hectare in 2015 to ~Rs.2.3lakh/hectare in 2020, yield improved from 60 tonne to 80 tonne/hectare, sugarcane quality improved, crushing season in UP improved from 120 days to 180 days, average recovery of sugar improved 10.6 to 11.3%, thus production went up from 6MMT to 11MMT without any capex.

TEIL has a presence primarily in UP with 6 of its mills in western and central UP and one mill in Ramkola in Eastern UP.

**Exhibit 8: TEIL sugar mill presence across UP**

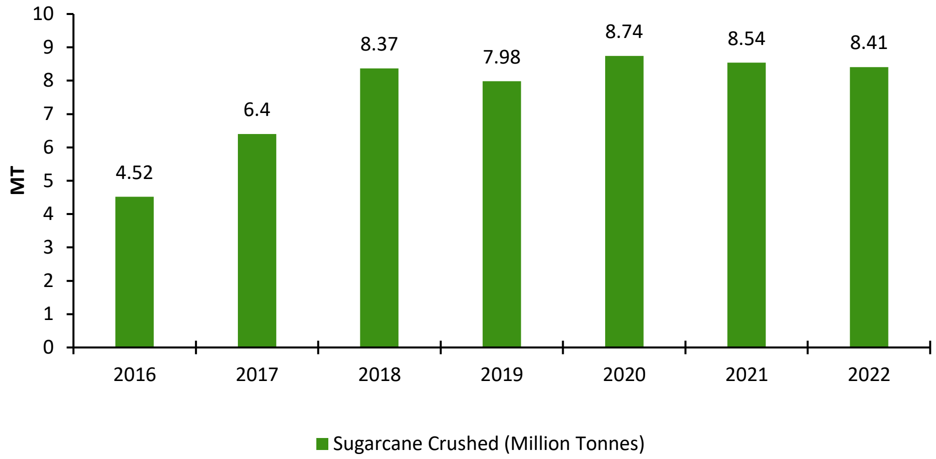



Source: Annual Report 2023

*Sugar mills strive for profit by improving efficiency, with larger mills having a competitive edge due to economies of scale.*

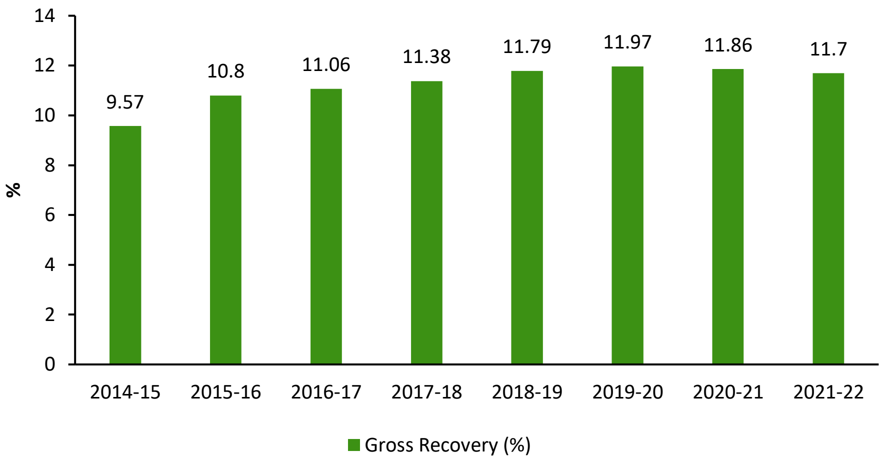
**Large size of operations is a competitive advantage for sugar mills -** In the sugar industry, where sugar mills can't control the costs of the sugarcane they use or the prices they get for their sugar, their pathway to boosting profit margins is primarily through cost reduction and operational efficiency enhancements. In this scenario, larger mills, benefiting from economies of scale, hold a notable competitive edge due to their ability to produce each unit of sugar at a lower cost.

**Exhibit 9: TEIL sugarcane crushed (million tonnes)**




Source: Company, MNCL Research

**Exhibit 10: Gross recovery has also increased simultaneously resulting in higher sugar production**




Source: Company, MNCL Research

## Focus on refined sugar a value addition

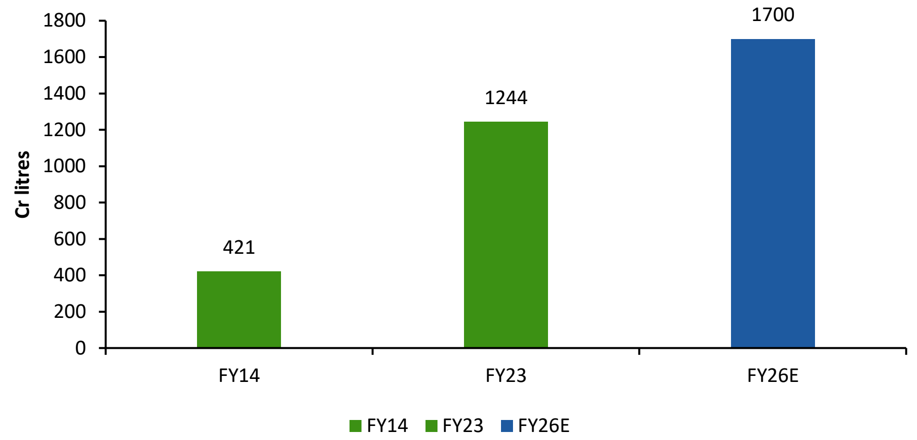
*Refined sugar has a higher realisation of 80 paise to 100 paise higher than regular crystal sugar.*

Triveni currently manufactures refined sugar, accounting for approximately 40% of its total sugar production (planning to increase it to 60%), and commands a premium compared to regular crystal sugar. Realisation from refined sugar is Rs.0.8-1 higher than regular crystal sugar. This refined sugar is targeted towards high-grade end-users, allowing Triveni to establish a niche customer base. The company also produces various grades of pharmaceutical sugar, tailored to meet specific user requirements, and has successfully grown its customer base in this segment. Additionally, Triveni supplies top-quality crystal sugar from select non-refinery units to major institutions, fetching premium prices.

## Sugar to ethanol transformation working wonders

As per Government, to achieve 20% blending by 2025, ethanol production capacity needs to be expanded to 17.00 bn litres. In July 2021, the ethanol production capacity in India was 4.26 billion litres as derived from molasses-based distilleries and 2.58 billion litres from grain-based distilleries, which was proposed to be expanded to 7.6 billion litres and 7.4 billion litres respectively. This was estimated to require 6 million tonnes of sugar and 16.5 million tonnes of grains per annum by 2025.

**Exhibit 11: Ethanol requirement to increase substantially by FY26**




Source: Government of India, MNCL Research

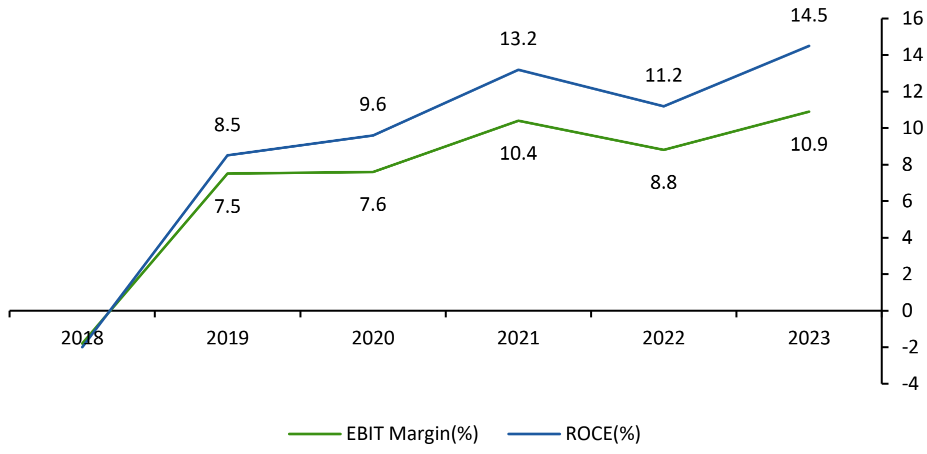
*TEIL is expanding distillery capacity from 660KLPD to 1100 KLPD over the next 2 years.*

We anticipate that to meet the ambitious targets for Ethanol Blended Petrol (EBP) set at 20%, the government may need to consider price adjustments for ethanol produced from sugarcane juice and grains. Such adjustments would enhance project feasibility and incentivize additional capacity expansions. The move has set the stage for the nation to reduce its fuel import bill by diverting sugar, utilizing other feedstocks for the production of ethanol, providing stability of income to farmers and sugar mills.

Thus, there has been a significant uptick in production and sales volumes, mainly attributable to the expansion of distillation capabilities in FY23 to 660 KLPD. This expansion has led to a higher processing capacity, ensuring a steady supply of raw materials for its distilleries. In FY23, distillery revenues accounted for 24% of our total turnover, and this proportion is poised to grow further as company TEIL plans to increase its distillation capacity from the 660 KLPD to 1110 KLPD.

The Central Government has set its sights on boosting ethanol production and supply, particularly during surplus seasons, to support the Ethanol Blended with Petrol (EBP) Program. Due to government policy changes, molasses-based distilleries have seen an impressive capacity increase, surging from 2.15 bn liters in 2014 to a remarkable 8.11 bn liters in the past nine years. Similarly, India's grain-based distilleries have experienced substantial growth, rising from 2.06 bn liters in 2013 to 4.33 bn liters. Consequently, the nation's ethanol production capacity reached 12.44 bn liters in 2023. To put this in perspective, in 2013-14, ethanol supply to Oil Marketing Companies (OMCs) stood at 0.38 bn liters, with a blending level of 1.53%. However, by the year 2023, production and supply of fuel-grade ethanol to OMCs had increased thirteen-fold.

**Exhibit 12: Sugar Industry - segmental EBIT moving in favour of Ethanol from Sugar, driving RoCE**



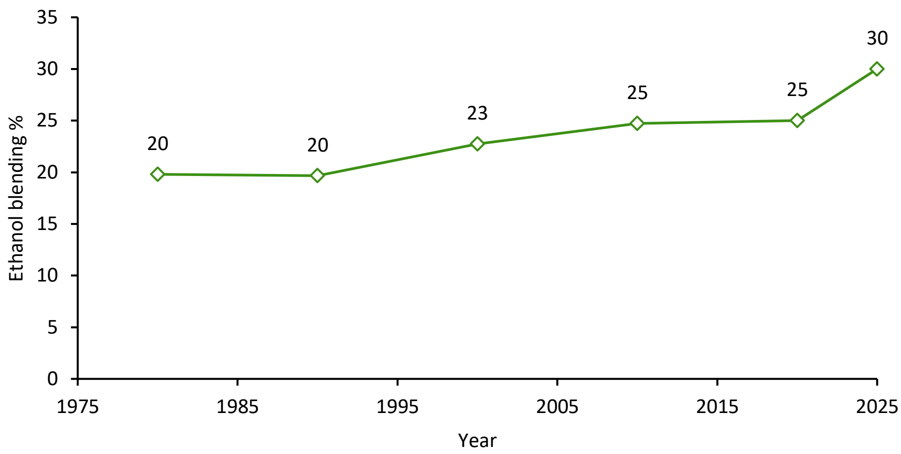

Source: Company

### Brazil's Ethanol Journey

Brazil has implemented E-27 in 2015 resulted in huge diversion of sugarcane production towards ethanol. Brazil also encouraged the usage of flex-fuel cars (can run 85%-100% ethanol blend) which has increased its overall blending levels beyond 50%. We believe India to follow a similar route in the long term with the increase in adoption of flex-fuel cars in the market.

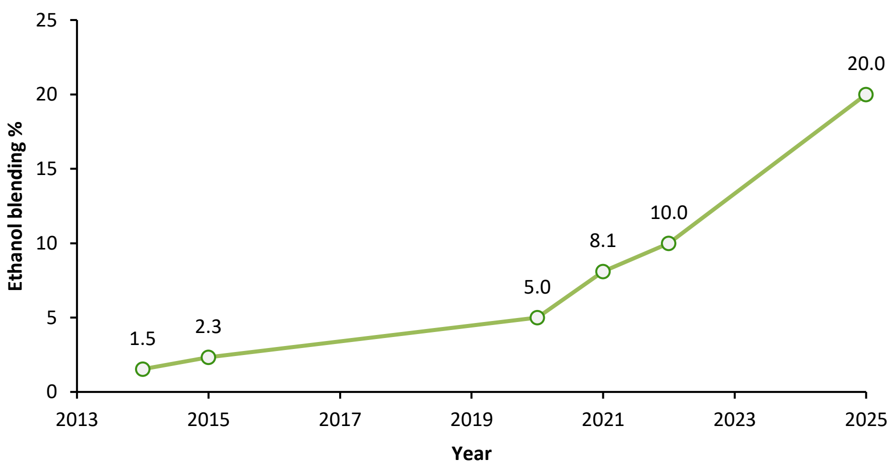
*Brazil has implemented E27 in 2015 and plans to upgrade to E30 over the next few years. India is targeting E20 by 2025.*

**Exhibit 13: Brazil ethanol blending %**



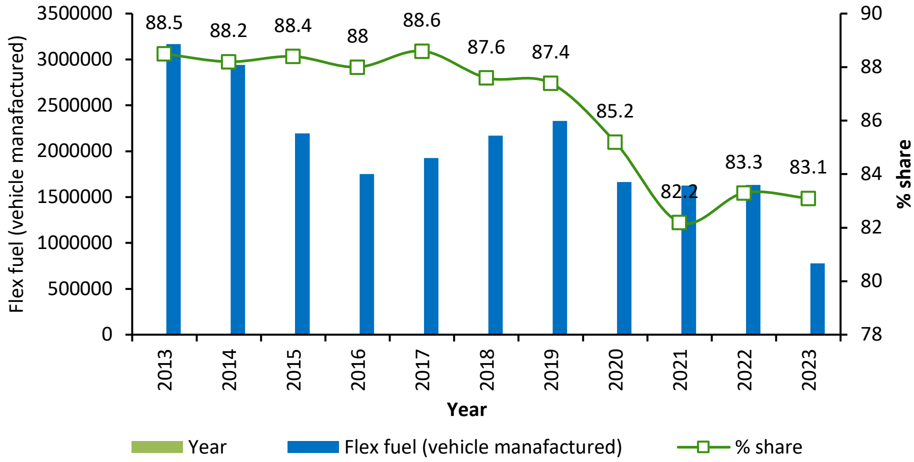

Source: Brazil Government, MNCL Research

**Exhibit 14: India ethanol blending %**




Source: Government of India, MNCL Research

### Exhibit 15: Flex fuel cars account for 80%+ of total cars sold in Brazil for past 10 years




Source: ANFAVEA, MNCL Research, the data is based on December closing and 2023 data is till July.

*Flex fuel cars are normal internal combustion engine vehicles capable of running up to 85% ethanol blended petrol.*

*In Brazil, over 80% of the total cars account for flex fuel cars. This*

We project the ethanol blending program to persist well beyond the E20 milestone, aligning with the Government of India's escalating emphasis on ethanol blending. This trajectory will pave the way for flex fuel vehicles in India, similar to the Brazilian model, where such cars can seamlessly operate with up to 85% ethanol blended into petrol. India's largest four-wheeler manufacturer is developing its own flex fuel vehicle which will work up to 85% ethanol blended petrol, scheduled for a 2025 launch.

Drawing a parallel, Brazil boasts an E-27 blending mandate, although the prevalence of flex fuel cars has led to an average blending rate of 50% in recent times.

Hence, Indian sugar enterprises will gain from this long-term trend. Over the past five years, sugar production has averaged 32 million metric tons (MT), while consumption is around 26 MT. The surplus will be channeled into ethanol production and exports, with priority to Ethanol production. In the current scenario, for every 5% increase in ethanol blending, we may require an additional 1.2 MT of sugar. This shift is also expected to stimulate the growth of other crops such as rice and maize, including the utilization of damaged crops if the government decides to raise the blending ratio. Consequently, companies like TEIL are strategically establishing multi-grain distilleries and ethanol plants in Milak Narayanpur and Muzaffarnagar, thereby enhancing TEIL's value proposition by utilizing grains for either partial or full-scale ethanol production operations.

## Power Transmission Business

### Market leader in high-speed gear box

*TEIL has over 70% market share in the high-speed gear box market in India.*

The Indian high-speed market is expected to grow by 10-15% in the coming years, driven by high capital expenditure (capex) in the oil and gas sector and other industries. Currently, it stands at over Rs. 2.50 bn in value terms, including aftermarkets, with major clients such as BHEL, Siemens, and Triveni Turbine.

The company holds over 70% of the market share in this segment, while the remainder is served through imports. The company is either the sole supplier or one of the preferred suppliers to all its domestic clients.

The company is investing Rs. 1800 million in its Mysore plant and establishing a new greenfield defense plant near the Mysore facility to expand its PTB (high-speed gearboxes) capacity. The peak revenue expected from this expansion is Rs. 4.00 bn. The company is the world's lowest-cost producer of high-speed gearboxes, with costs approximately half that of MNC players.

*TEIL's licensing agreement with Lufkins got expired in January 2023 and has opened the entire exports market of high-speed gear box for TEIL.*

The PTB business achieved a direct acceptance rate of over 98% in 2023, with nearly 100% on-time delivery and a high customer satisfaction ratio. The company manufactures products with Din 3 accuracy, and some products require even greater precision.

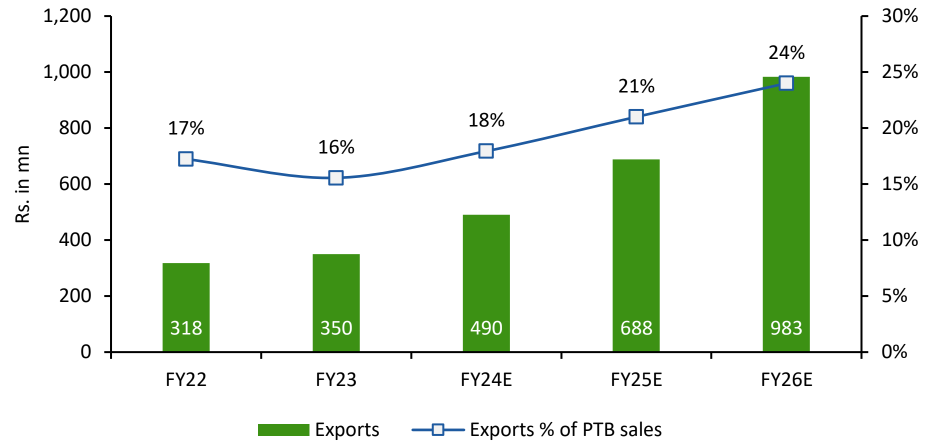
### Expiration of licensing agreement with Lufkins, open doors to Exports market

We expect that exports will increase their contribution from 16% in FY23 to 24% in FY26E. The company's long-term licensing agreement with Lufkins expired in January 2023. Under this agreement, Lufkin Group restricted exports to only ~22 countries, excluding key markets such as Europe, the Middle East, and North America, as well as major countries in the Asia-Pacific region, which are primary markets. It only allowed exports to East Africa and other smaller export markets in SAARC countries, as well as countries like Malaysia, Indonesia, and Singapore.

***After January 2023, the entire export market has opened for the company. Consequently, we estimate that the Total Addressable Market (TAM) for exports has increased by over Rs. 2.5bn to over Rs. 40bn.*****The company, being the lowest-cost producer, is poised to benefit from this.** According to our estimates, the company manufactures the same gearboxes at a cost over half of what its MNC competitors incur, all while maintaining higher margins on exports.

With the company now manufacturing gearboxes up to 70MW, it caters to most of the global gear market. The company is already a major supplier to Siemens India, and with exports opening up, it is a natural progression to secure orders from Siemens globally and other major players.

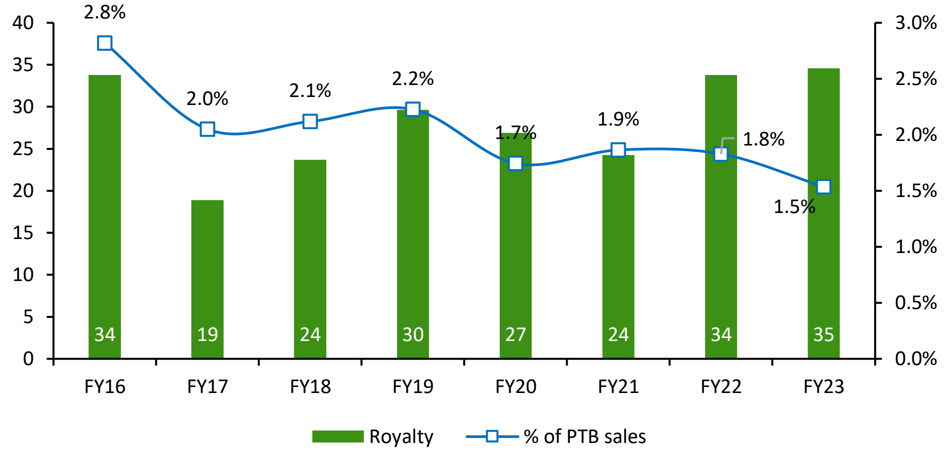
**Exhibit 16: PTB export sales and % of sales**




Source: Company, MNC Research

Also, TEIL will save on royalty cost going forward as the agreement with Lufkins has expired in January 2023. TEIL will save over ~Rs.30-35mn per year which will contribute to improve its margins.

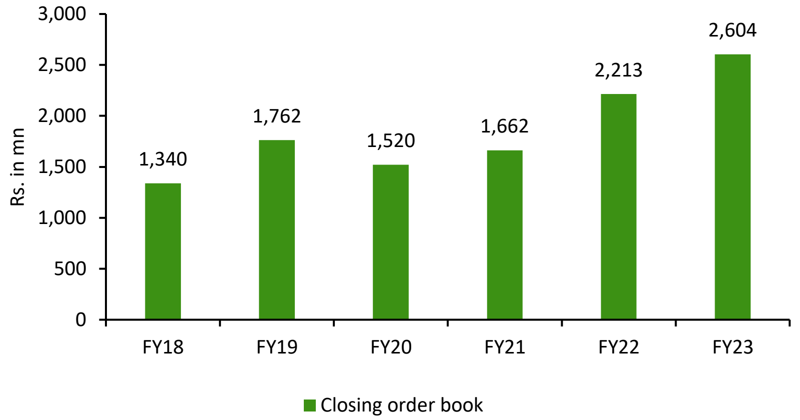
**Exhibit 17: Savings on royalty payments, will directly contribute to bottomline**




Source: Company, MNCL Research

The company's PTB (high-speed gearbox) order book has doubled over the last 5 years, and we expect this trend to gain even more momentum as the export market becomes accessible to the company. This presents substantial growth potential moving forward.

**Exhibit 18: PTB closing order book**




Source: Company, MNCL Research

*Global gears business has a market size of $30bn with high-speed market accounting for $0.5bn.*

*The global gears business has a market size of $30 billion, with the high-speed gear market accounting for over $0.5 billion of that total.* This global market is predominantly organized and dominated by MNC players. However, the entry of Triveni, which had previously limited its operations to select countries, primarily in the African region, is expected to facilitate access to key markets in Europe, North America, Asia, and other regions.

*In India, the gearbox market exceeds Rs. 35 billion, with the high-speed gearbox segment alone valued at over Rs. 2.5 billion.*

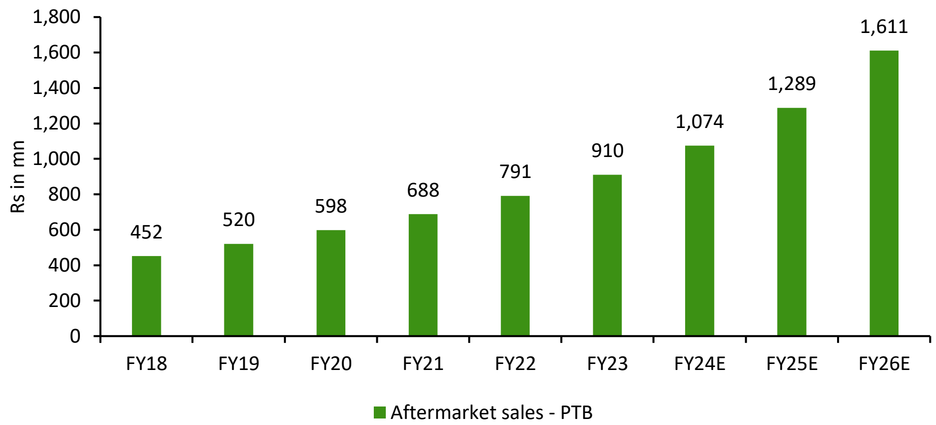
## Aftermarket segment will be a game changer

Aftermarket serves high speed and niche low speed gearboxes, which include spares and services of Triveni make as well as other global brands of gearboxes across the industry spectrum.

Aftermarket segment contributes over 35-40% of its PTB sales and it has steadily grown at 15% CAGR over the past 5 years.

Aftermarket segment contributes over 35-40% of its PTB sales and it has steadily grown at 15% CAGR over the past 5 years. This segment derives substantially higher margins.

**Exhibit 19: Aftermarket sales has grown steadily over the years**




Source: MNCL Research

Middle East remains a prominent and high-potential exports market for PTB (high-speed gearboxes) within the aftermarket segment.

**Further scope of Improvement in margins**

TEIL derives over ~34% EBIT margin from PTB business. We estimate this margin to further improve going forward pertaining to the following reasons:

- Opening up of exports market
- No royalty payments going forward
- Increase in aftermarket segment(35-40% of sales with substantially higher margins)

**High focus on R&D**

There are over 270 full time employees in Mysore plant out of which 60 are working in design and R&D.

## Defence segment has a huge potential

TEIL is a reliable supplier to Indian navy for turbo alternator turbines (TAT) and turbopumps, for its indigenous submarine programme.

The company is currently undertaking a Rs.1bn capex for its defense segment, involving the setup of a dedicated multi-modal plant near the Metgalli region in Mysore, located 20 kms away from its existing facility. This strategic move anticipates substantial growth in the defence segment in the coming years, with the potential for a significant boost in sales through the acquisition of a major contract.

Defence segment has a huge opportunity to scale up 3-4x in the long term.

Furthermore, GEAE Technology USA has granted TEIL a license to locally manufacture various components of the LM2500 gas turbine, including the base frame, acoustic enclosure, and lubricating oil skid. TEIL also supplies other source-controlled accessories for the LM2500 gas turbine enclosure assembly. It's noteworthy that the LM2500 gas turbine is the chosen propulsion system for numerous surface combatant vessels in the Indian Navy and is widely utilized by more than 40 naval forces worldwide.

In the fiscal year 2023, the company boasts an order book worth Rs0.8 bn in the defence segment, and this figure is expected to experience significant growth in the upcoming years, particularly with the prospects of export opportunities. Currently, this partnership has the potential to pave the way for additional contracts and collaborations within India's burgeoning defense industry. We believe defence segment has huge opportunity to scale up 3-4x in the long term.

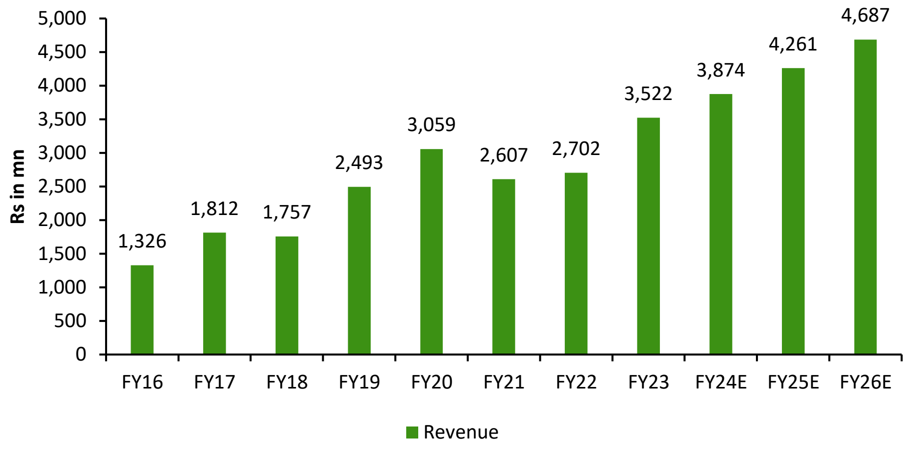
## Waste-water management business

This division is actively involved in various activities, including executing EPC contracts, engaging in projects based on the Hybrid Annuity Model, and delivering operations and maintenance services. Furthermore, it oversees the operations of two wholly owned subsidiary companies, Mathura Wastewater Management Private Limited and Pali ZLD Private Limited, which were established as special purpose vehicles to handle specific projects.

The company has forged technology partnerships with globally renowned providers across various product categories, processes, and solutions. These partnerships encompass Ultrafiltration (UF), Reverse Osmosis (RO), Moving Bed Bio Reactor (MBBR), and more. Additionally, TEIL has demonstrated its commitment to long-term strategic growth by acquiring a 25% equity stake in Aqwise-Wise Water Technologies Limited, an Israel-based company specializing in water treatment solutions.

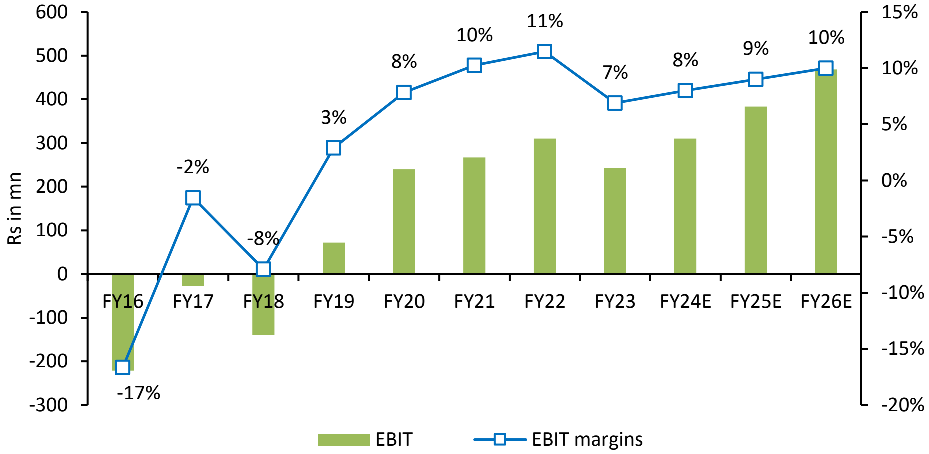
The escalating issues of water scarcity, population growth, environmental concerns, and urbanization have led to a heightened demand for water resources. Simultaneously, the supply of water remains a significant constraint. Consequently, there is a growing emphasis on wastewater management, recycling, desalination, and pollution reduction to combat water scarcity and environmental degradation.

### Exhibit 20: Water business revenue




Source: Company, MNCL Research

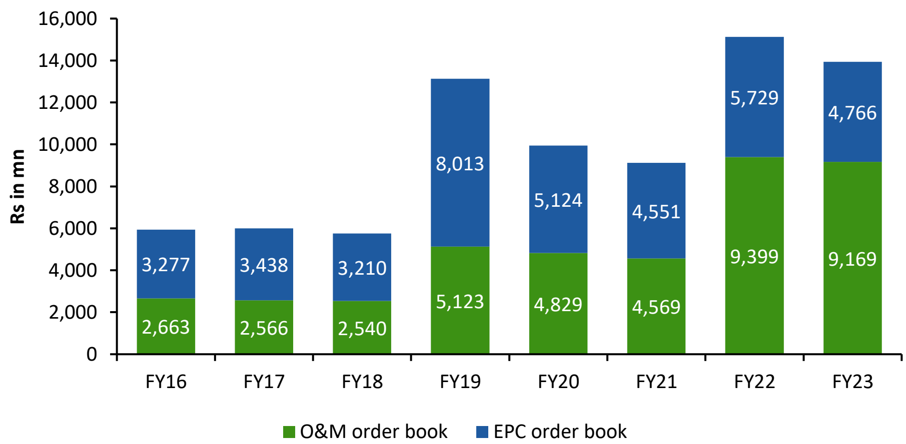
### Exhibit 21: Water - EBIT and EBIT margin




Source: Company, MNCL Research

The company has achieved positive EBIT since FY19. We anticipate that the company will continue to enhance its margins in the future, driven by an increasing share of operations and maintenance (O&M) contracts, which offer higher margins, and the successful execution of more engineering, procurement, and construction (EPC) projects.

### Exhibit 22: Order book for water business




Source: Company, MNCL Research

Over the period from FY16 to FY23, the company's order book has grown at a CAGR of 13%, with the O&M share rising from 45% to 66% of the total closing order book during the same timeframe.

# Optionality

## Inorganic growth in the PTB business

The global industrial gears business commands a market size of $30bn, with the high-speed gear market alone valued at more than $0.5bn. In January 2023, TEIL's licensing agreement with Lufkins expired and TEIL has witnessed the complete opening up of the export market since then. Post that, the TAM for exports has increased from Rs.2.5bn to over Rs.40bn.

Given its status as the lowest-cost producer, the company is well positioned to reap the benefits of this expanded market opportunity.

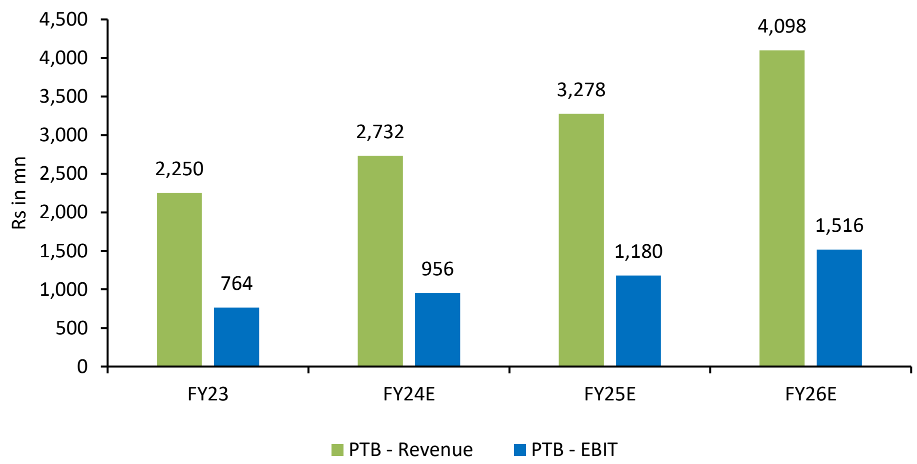
Furthermore, the PTB segment is generating free cash flow, and any strategic acquisition in key markets such as North America or Europe, facilitating the establishment of manufacturing facilities or service centers, will expedite the company's export market growth.

## Demerger of Engineering business may unlock value

Engineering business consists of PTB business and water business.

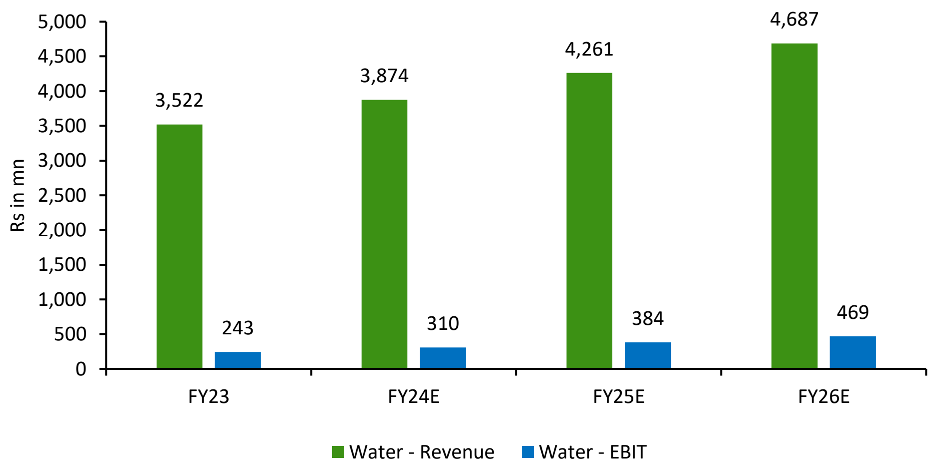
- PTB business – In FY23, this division reported over Rs.2250 mn in revenue, Rs764mn in EBIT with an EBIT margin of ~34%. We estimate this division to grow sales/EBIT by 22%/26% respectively between FY23-FY26E.
- Water business – In FY23, this division reported over Rs.3522mn in revenue, Rs.243mn in EBIT with an EBIT margin of ~7%. We estimate this division to grow sales/EBIT by 10%/25% respectively between FY23-26E.

**Exhibit 23: PTB– Revenue and EBIT forecast**




Source: Company, MNCL Research

**Exhibit 24: Water – Revenue and EBIT forecast**




Source: Company, MNCL Research

Both the segments under the engineering business will see an excellent value unlock if they are demerged. Demerged entities usually enjoy market valuations in line with their peers.

**Exhibit 25: Peer comparison**

| Company Name | EV/EBITDA | | | P/E (x) | | |
|---|---|---|---|---|---|---|
| | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E |
| Elecon engineering | 12.13 | 21.31 | 18.42 | 18.05 | 31.89 | 26.44 |
| Shanthi Gears | 29.93 | 29.39 | 24.98 | 42 | 47.81 | 37.9 |
| Va tech wabag | 6.79 | 7.91 | 6.89 | 170 | 11.64 | 10.12 |
| Ion Exchange | 17.73 | NA | NA | 20.57 | NA | NA |

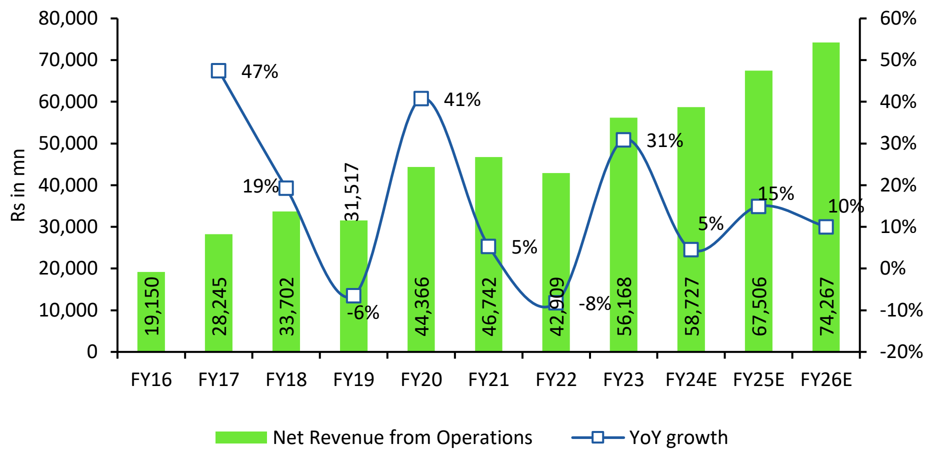
Source: Bloomberg, MNCL Research

# Financial analysis

## Strong revenue growth trend to continue over FY23-FY26E

Strong revenue and EBITDA growth trend to continue over the next three years with 10%/24% CAGR in sales and EBITDA led by multiple growth drivers across distillery, Power Transmission Business (PTB) and Defence. We anticipate strong revenue growth prospects over the long term, aided by the substantial fifteen times expansion opportunity in the high-speed gears export market (post the expiration of the licensing agreement with Lufkins) and the defence sector. This optimism is further supported by TEIL's dominant presence in the ethanol space, aided by structural changes in the sugar industry.

**Exhibit 26: Operating sales and growth trend**




Source: MNCL Research, Company

## EBITDA per ton crushed

Over the past five years, TEIL has experienced a surge in its EBITDA per tonne crushed. This improvement is expected to continue on an upward trajectory as the company progresses with its capex in the distillery business. Specifically, TEIL is expanding its operations from 660 KLPD to 1100 KLPD by FY25 in two phases, which is poised to contribute further to the improvement in EBITDA per tonne crushed.

**Exhibit 27: EBITDA per tonne crushed for Indian sugar companies**

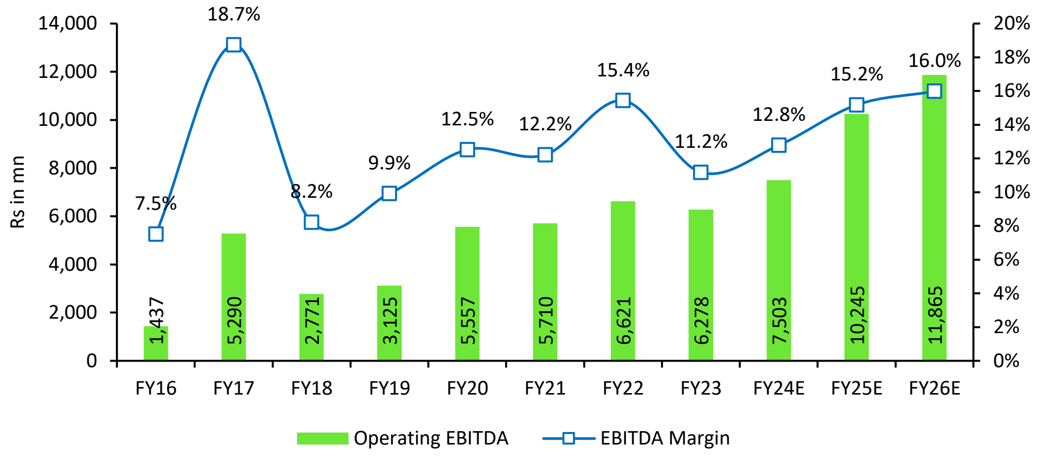
| EBITDA PER TONNE Crushed (Rs) | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|---|---|
| Triveni Engineering | 404 | 392 | 636 | 669 | 787 | 673 |
| Balrampur Chini | 490 | 626 | 668 | 691 | 799 | 557 |
| Dalmia Bharat Sugar | 553 | 471 | 704 | 896 | 888 | 812 |
| Dwarikesh Sugar | 440 | 390 | 415 | 507 | 778 | 558 |

Source: MNCL Research

## Margin expansion led by improvement in product mix

Going forward, EBITDA will see a substantial increase as the upcoming capacity of 1100 klpd (up from 660klpd) in distillery will get operational by FY25, followed by higher contribution and higher margin from PTB business (34%+ margin) and water business.

**Exhibit 28: TEIL Operating EBITDA and margins will improve going forward**




Source: Company, MNCL Research

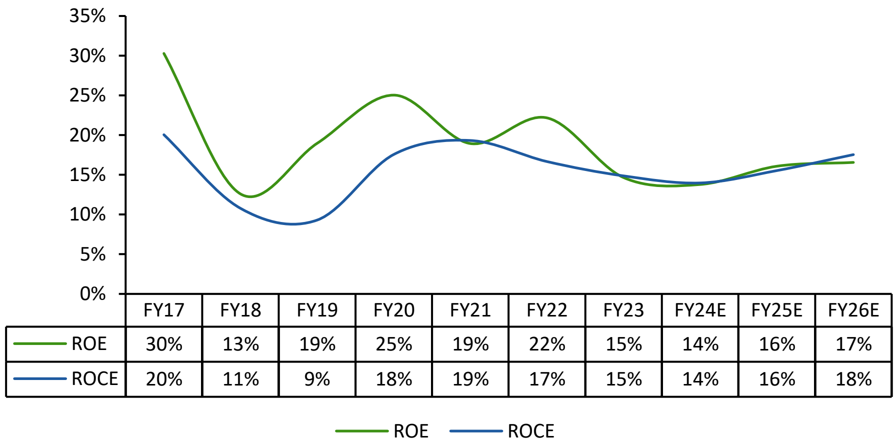
**Exhibit 29: Division based EBITDA**

| EBITDA breakup | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Sugar | 150 | 3,707 | 1,479 | 1,197 | 4,106 | 4,220 | 4,341 | 3,549 | 3,657 | 4,431 | 4,711 |
| Distillery | 494 | 522 | 318 | 1,378 | 1,238 | 1,167 | 1,662 | 2,390 | 2,638 | 3,797 | 4,510 |
| Power Transmission | 366 | 259 | 396 | 464 | 566 | 489 | 717 | 842 | 1,036 | 1,270 | 1,609 |
| Water | -204 | -9 | -120 | 90 | 259 | 286 | 332 | 268 | 390 | 474 | 562 |
| Others | 632 | 811 | 698 | -3 | -612 | -451 | -431 | -770 | -218 | 273 | 474 |
| **Total** | **1,437** | **5,290** | **2,771** | **3,125** | **5,557** | **5,710** | **6,621** | **6,278** | **7,503** | **10,245** | **11,865** |

Source: Bloomberg, MNCL Research

## Return ratios

**Exhibit 30: ROE and ROCE trend**




| | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|---|---|---|
| ROE | 30% | 13% | 19% | 25% | 19% | 22% | 15% | 14% | 16% | 17% |
| ROCE | 20% | 11% | 9% | 18% | 19% | 17% | 15% | 14% | 16% | 18% |

Source: Company, MNCL Research; FY23 ROE is adjusted for exceptional item

**Exhibit 31: DuPont analysis (FY121-26E)**

| Particulars | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|
| PATM (%) | 6% | 10% | 7% | 7% | 9% | 10% |
| Sales / Total Assets(x) | 1.29 | 1.00 | 1.26 | 1.04 | 0.98 | 1.04 |
| Assets to Equity (x) | 2.33 | 2.25 | 1.67 | 1.80 | 1.79 | 1.54 |
| ROE (%) | 19% | 22% | 15% | 14% | 16% | 17% |

Source: Company, MNCL research

## DuPont Analysis

- **Profit margin**: Improvement in margin profile led by better product mix and higher operating leverage. This trend is set to continue over FY23-FY26E.
- **Asset Turnover:** Asset turnover is expected to moderate due to the heavy capitalization of assets related to capacity expansion plans from FY23-FY26E.
- **Financial Leverage:** This is expected to improve over FY23-FY26E as TEIL will continue to fund its expansion plans through a mix of debt and equity.
- Therefore, the ROE will remain stabilized at 14-17% between FY23-FY26E, though we expect it to improve from FY26 as product mix will improve, backed by structural nature of sugar industry.

## MNCL Research's AQCG Score

We analyze the company's accounting quality and corporate governance based on MNCL's proprietary AQCG score, which accounts for 14 different attributes in the accounting and corporate governance domain for at least 5 years and backtested on BSE 500 companies.

Quadrant 1: >=72%
Quadrant 2: 65% -71.9%
Quadrant 3: 60% - 64.9%
Quadrant 4: <60%

## AQCG Score: 66% and 2nd quadrant

**Interpretation of the score:** A score of 66% signifies that TEIL financial reporting and governance policies are well in compliance with the widely accepted regulations, raising no red flags. A 2nd quadrant score signifies its above average positioning in corporate governance standards. The company misses higher score due to higher bad debts written off as a % of EBITDA and high capex to OCF. We believe this score will improve over the next 2-3 years with the commencement of new plants across segments - distillery, PTB and defence, and good growth in EBITDA numbers.

# Valuation

TEIL is well positioned for robust topline and bottomline growth over FY2023-FY2026 with higher capacity utilization in the expanded distillery facility, improved production for the sugar business, and better order book in engineering business backed by exports opportunity. We recommend Buy on the stock with a TP of Rs.460, valuing the stock at 16x Q2FY26E PER. We are giving a premium considering the strong exports potential in Engineering business, strong growth prospects for distillery segment, expansion plans in Distillery, PTB and Defence segments, coupled with shift from cyclical to structural nature of the sugar industry giving steady profits.

## Valuation: Price to earnings method

**Exhibit 32: Exhibit: Valuation**

| Particulars | Unit | Unit |
|---|---|---|
| FY26Q2 EPS | Rs | 28.7 |
| P/E Multiple | x | 16 |
| Fair value per share | Rs | 460 |

Source: MNCL Research

**Exhibit 33: Peer valuation:**

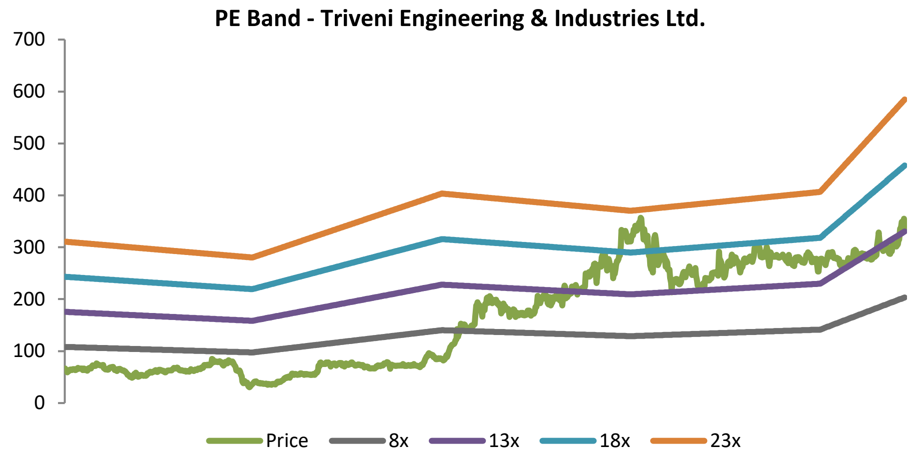
| Sugar companies | EBITDA margin (%) | | | ROE (%) | | | EV/EBITDA | | | P/E (x) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E |
| Balrampurchini mills | 10.97 | NA | NA | 10.03 | 17.19 | 17.7 | 19.14 | 11.14 | 10.17 | 28.39 | 15.27 | 13.27 |
| Triveni engineering | 11 | 13.1 | 15 | 78.28 | 16.7 | 18.91 | 13.64 | 10.97 | 8.56 | 3.31 | 15.92 | 12.21 |
| Dalmia bharat | 13.42 | NA | NA | 9.88 | NA | NA | 6.92 | NA | NA | 11.02 | NA | NA |

| Water companies | EBITDA margin (%) | | | ROE (%) | | | EV/EBITDA | | | P/E (x) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E |
| Va tech wabag | 10.74 | NA | NA | 0.83 | 15.26 | 15.68 | 6.79 | 7.91 | 6.89 | 170 | 11.64 | 10.12 |
| Triveni engineering | 11 | 13.1 | 15 | 78.28 | 16.7 | 18.91 | 13.64 | 10.97 | 8.56 | 3.31 | 15.92 | 12.21 |
| Ion Exchange | 12.89 | NA | NA | 26.42 | NA | NA | 17.73 | NA | NA | 20.57 | NA | NA |

| PTB companies | EBITDA margin (%) | | | ROE (%) | | | EV/EBITDA | | | P/E (x) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E |
| Elecon engineering | 22.15 | NA | NA | 20.39 | 20.15 | 19.5 | 12.13 | 21.31 | 18.42 | 18.05 | 31.89 | 26.44 |
| Triveni engineering | 11 | 13.1 | 15 | 78.28 | 16.7 | 18.91 | 13.64 | 10.97 | 8.56 | 3.31 | 15.92 | 12.21 |
| Shanthi Gears | 20.61 | NA | NA | 23.85 | 20 | 20 | 29.93 | 29.39 | 24.98 | 42 | 47.81 | 37.9 |

Source: Bloomberg, MNCL Research

**Exhibit 34: PE Price band**




Source: Ace Equity, MNCL Research

## Alternate valuation: Sum of parts valuation

**Exhibit 35: Exhibit: Sum of parts valuation**

| Divisions (FY26) | EBITDA | EV/EBITDA | Rs in mn |
|---|---|---|---|
| Sugar and allied products | 9,221 | 9 | 82,988 |
| Power Transmission business | 1,609 | 20 | 32,183 |
| Water business | 562 | 8 | 4,494 |
| Total EV | | | 1,19,665 |
| Less: Net debt | | | 5,760 |
| Market cap | | | 1,13,905 |
| Number of shares (mn) | | | 240 |
| **Fair value per share** | | | **474** |

Source: MNCL Research

We are valuing TEIL on 16x FY26Q2 PER. We are giving a premium considering the strong exports potential in Engineering business, strong growth prospects for distillery segment, expansion plans in Distillery, PTB and Defence segments, coupled with shift from cyclical to structural nature of the sugar industry giving steady profits.

# About the Company

Triveni Engineering & Industries Limited (TEIL) incorporated in 1932 as Ganga sugar corporation Ltd which was then changed to Gangeshwar Ltd. in 1973 and subsequently changed to Triveni Engineering Ltd. TEIL is a versatile industrial conglomerate with its primary strengths lying in the sugar industry and engineering sector. It stands as one of India's largest integrated sugar producers and holds a prominent position in its engineering ventures, which encompass Power Transmission and Water & Wastewater treatment solutions.

## Sugar and allied business

Sugar and allied business consist of sugar business, distillery business and co-generation business.

- **Sugar division**: TEIL is one of India's largest integrated sugar manufacturers with 7 state-of-the-art FSSC 22000 sugar factories UP located at Deoband, Khautali, Sabitgarh, Rani Nangal, Milak Narayanpur and Chandanpur. The sugar is supplied not only to household consumers but also to bulk consumers. The Company has supply chain relationships with leading multinational beverage, food & FMCG companies, pharmaceutical companies, and leading confectionery producers. It reported a revenue of Rs43.6bn, EBIT of Rs3.1bn and ROCE of 10%in FY23.It has a total crushing capacity of 63000 TCD and Net recovery rate of 10.2%.

**Exhibit 36: Sugar business**

| Particulars (Rs. mn) | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 16,405 | 26,108 | 29,992 | 25,310 | 37,974 | 40,631 | 34,739 | 43,619 |
| EBIT | -282 | 3,649 | 1,156 | 792 | 3,575 | 3,745 | 3,865 | 3,058 |
| ROCE | -1% | 17% | 6% | 4% | 14% | 16% | 15% | 10% |

Source: Company, MNCL Research

- **Distillery division:** TEIL has four modern distilleries producing high-quality potable alcohol and ethanol. These distilleries are in Muzaffarnagar, Sabitgarh, and Milak Narayanpur, boasting a total capacity of 660 KLPD. They've expanded into bottling IMFL and are committed to the Ethanol Blended Petrol Program.They also supply Ethanol to Oil Marketing Companies (OMC) for blending with petrol, which makes it a green fuel, and to the major private players in the oil & gas sector. Ethanol, also known as fuel alcohol, is the bulk product manufactured at Muzaffarnagar and Sabitgarh. Looking ahead, they're investing in two new distilleries in Uttar Pradesh, with a combined capacity of 450 KLPD, aiming to further enhance their presence in the industry by Q3FY24. It reported a revenue of Rs 18.6bn, EBIT of Rs 2.1bn, ROCE of 29%.

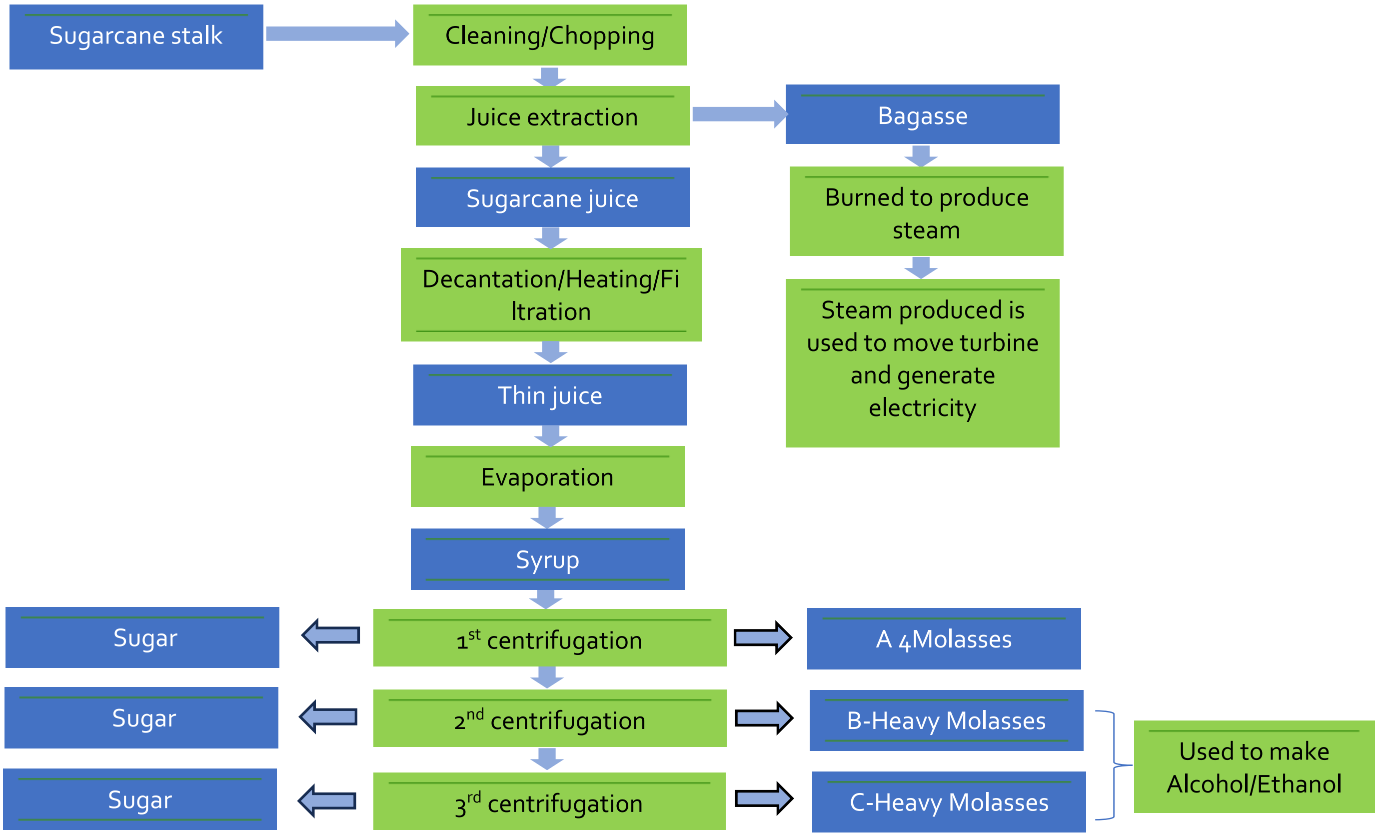
**Exhibit 37: Distillery Business**

| Particulars (Rs. In mn) | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 1,805 | 1,680 | 1,159 | 2,140 | 3,912 | 5,438 | 10,716 | 18,655 |
| EBIT | 437 | 466 | 267 | 1,327 | 1,106 | 1,011 | 1,494 | 2,123 |
| ROCE | 28% | 30% | 19% | 69% | 34% | 25% | 28% | 29% |

Source: Company, MNCL Research

- **Co-generation division:** TEIL utilizes captive power generation to meet the energy needs of its facilities, and any excess power is supplied to the power grid. Presently, TEIL manages three large-scale co-generation plants connected to the power grid, along with three smaller co-generation units (incidental co-generation facilities) located at five of its sugar units in Khatauli, Deoband, Chandanpur, Milak Narayanpur, and Sabitgarh. These state-of-the-art plants are highly automated, employing the latest Distributed Control System (DCS) technology. TEIL has established power purchase agreements with the Uttar Pradesh Power Corporation Ltd (UPPCL) for all its co-generation facilities.

**Exhibit 38: Flow chart of sugar and allied products**




Source: MNCL Research

## Engineering business

### Power transmission business

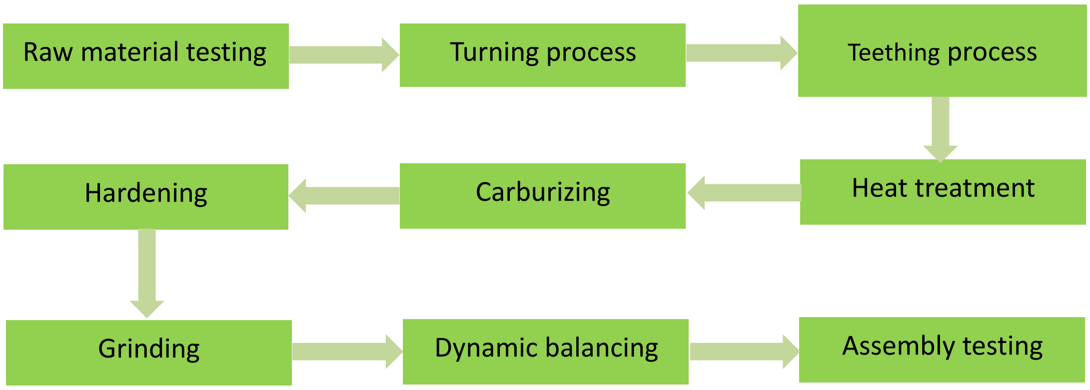
- The Company is a dominant market player in the engineered-to-order turbo gearbox manufacturer in India. The Power Transmission business has three different business segments – Gears, Defence, Built to Print. It delivers robust and reliable gears solutions which cover a range of applications and industries to meet the ever-changing operating conditions and customers' requirements. TEIL has become a dominant supplier to all major OEMs in the country, offering solutions to all industrial segments including oil and gas. Its robust and reliable products are backed by 360-degree service solutions which minimise the downtime for its customers. It had joint manufacturing agreement with Lufkins Gears LLC to produce gear and gearboxes up to 62 MW. However, this agreement expired in January 2023. TEIL has not renewed the agreement and manufactures all the gears and gearboxes up to 70 MW. It has revenue of Rs 2.2bn,EBIT of Rs 7.64bn and ROCE of 59%.
  - **Key projects:** The company's strong presence in industrial gears and expertise in high-precision products align well with the Indian government's push for indigenous defense capability under the 'Make in India' and 'Atmanirbhar Bharat' initiatives, making it a valuable partner for the Ministry of Defence.

**Exhibit 39: Power Transmission**

| Particulars (Rs. In mn) | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 1,199 | 922 | 1,118 | 1,331 | 1,542 | 1,301 | 1,846 | 2,252 |
| EBIT | 292 | 180 | 314 | 381 | 485 | 409 | 642 | 764 |
| ROCE | 26% | 17% | 29% | 34% | 49% | 47% | 67% | 59% |

Source: Company, MNCL Research

**Exhibit 40: Process to manufacture high-speed industrial gears**




Source: Company, MNCL research

**Water management business**

- The Company provides complete and sustainable water technology solutions across the water usage segments. They offer advanced solutions for water management including 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 etc. They employ cutting-edge equipment and technologies for various treatments, including effluent, common effluent, and sewage (physical, chemical, and biological). Their solutions adhere to rigorous environmental standards, mitigating water pollution. Notably, they've completed over 100 water and sewage treatment plant installations, reinforcing their expertise in this critical field.
  - Key projects: Some of the key government projects creating opportunities for growth and investment are the National Rural Drinking Water Program (NRDWP) and Jal Jeevan Mission (JJM), as well as the National Mission for Clean Ganga (NMCG).

**Exhibit 41: Water business**

| Particulars (Rs. In mn) | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 1,326 | 1,812 | 1,757 | 2,493 | 2,929 | 2,506 | 2,702 | 3,522 |
| EBIT | -221 | -28 | -139 | 72 | 135 | 188 | 310 | 243 |
| ROCE | -19% | -2% | -12% | 7% | 12% | 14% | 15% | 7% |

Source: Company, MNCL Research

## Other business

The 'Other Operations' mainly include selling sugar and certain FMCG products under the Company's brand name/private labeling; and retailing of diesel/petrol through a Company operated fuel station. The new distilleries in Milak Narayanpur and Muzaffarnagar will enhance TEIL's value proposition by utilizing grains for partial/full operations and producing Distillers Dried Grain Solubles (DDGS), a high-protein fodder made from grains after fermentation with yeast to produce ethanol which is used as a supplement for animals. With no branded DDGS in the market, this presents a significant revenue opportunity and contributes to reducing TEIL's carbon footprint. TEIL also converts fly ash released as waste from incineration boilers as revenue generating fertiliser.

### Exhibit 42: Strong board

| Name of the director | Type of director | About the director |
|---|---|---|
| Mr. Dhruv M. Sawhney | Chairman & Managing Director | He is an industrialist and one of the Promoters &Chairman & Manging Director of Triveni Engineering and Industries Ltd. & Triveni Turbine Ltd. He is an accomplished leader with diverse roles including President of Confederation of Indian Industry and International Society of Sugar Cane Technologists, international honours recipient, and leadership in various organizations, known for expertise in management, governance, and finance. |
| Mr. Tarun Sawhney | Vice Chairman and Managing Director | He is an experienced industrialist and company promoter with a strong background in sugar and engineering industries, possessing expertise in general management, leadership, corporate governance, and finance. |
| Mr. Nikhil Sawhney | Promoter & Non-Executive Director | Nikhil Sawhney is the Vice Chairman and Managing Director of Triveni Turbine Limited and a Director with Triveni Engineering and Industries Limited |
| Ms. Homai A. Daruwalla | Independent Non-Executive Director | Ms. Daruwalla, a Chartered Accountant with over three decades of banking experience, including leadership roles at Union Bank of India and Central Bank of India, now serves as an Executive Advisor and board member for various companies, specializing in the financial sector. |
| Mr. Sudipto Sarkar | Independent Non-Executive Director | Sudipto Sarkar, a distinguished lawyer, and author with degrees from prestigious institutions, specializing in Commercial and Corporate Laws, serves as a director on various boards and has extensive experience as an arbitrator in domestic and international matters. |
| Mr. Jitendra Kumar Dadoo | Independent Non-Executive Director | Jitendra Kumar Dadoo, with a background in government service and an MBA from the Indian Institute of Management, currently serves on the board of Triveni Engineering & Industries Ltd. |
| Mr. Siraj Azmat Chaudhry | Independent Non-Executive Director | Siraj Azmat Chaudhry is an MBA graduate from IIFT and a seasoned leader with 35 years of experience. He serves as Country Chairman at SATS India and Independent Director on several boards, including Tata Consumers Products Ltd. |
| Dr. Rajender Pal Singh | Independent Non-Executive Director | Dr Rajender Pal Singh, a distinguished IPS officer, with 37 years of service, including international roles at the Narcotics Control Bureau, and holding dual charges as DGP for EOW (Economic offence wing) and SIT (special Investigation Team) in Uttar Pradesh. He holds a LLB and PHD degree which he earned during the course of his service. |
| Manoj Kumar Kohli | Independent Non-Executive Director | Manoj Kumar Kohli, an accomplished entrepreneur and business advisor, formerly Country Head of SoftBank India and Executive Chairman of SB Energy, with a vast background spanning telecom, renewable energy, and leadership roles in major companies. He holds degrees in Law, Commerce, and an MBA from Delhi University, along with executive programs at prestigious institutions. |

Source: Company, MNCL Research

# Key risks to our thesis

- **Production Constraints:** In India sugarcane is grown under varied agro-climatic conditions. The crop faces various biotic and abiotic stresses that impact productivity in a significant way. The major disease affecting the crop is red rot prevalent throughout the country, which has been largely managed through the deployment of resistant varieties. Other major diseases are smut and wilt. However, serious concern is now on yellow leaf disease (YLD) caused by the sugarcane yellow leaf virus, which has spread across the country. As such no resistant varieties are available and the disease needs to be managed through tissue culture-based seed nursery programme combined with virus-indexing as of now.
- **Risk of adverse Government's policies:** it includes sugarcane pricing, export policy, monthly sales quota, prescribing Minimum Sale Price of sugar (MSP) and ethanol pricing. These are mainly uncontrollable risks and may have a significant impact on the profitability of the Company. Increase in ethanol blending to E20 will affect fuel efficiency in non-compliant vehicles (all vehicles which are not BSV phase ii compliant).
- **Risk of excess production and climatic factors:** Higher sugar production may lead to depressed sugar prices whereas significantly low production may cause spurt in sugar prices. The fluctuation in production mainly occurs due to climatic factors, such as monsoon, flood and drought, and diseases to the crop that has the potential of impacting yield and sugar recovery from cane. Lower yields result in lower cane availability to sugar mills whereas lower sugar recovery leads to higher cost of production. The fluctuation in the production is more prominent in the western India where the sugarcane crop is largely dependent on the monsoon.
- **Risk of arranging working capital funds at competitive cost:** In view of seasonal nature of sugar business, it has substantial working capital requirements. Adequate working capital funding is required to make timely cane price payments and to maintain inventories. Further, it is imperative to keep cost of funds in check to rationalise finance costs.

# Financials

### Income Statement

| Y/E March (Rs mn) | FY20A | FY21A | FY22A | FY23A | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|
| **Revenues** | **44,366** | **46,742** | **42,909** | **56,168** | **58,727** | **67,506** | **74,267** |
| Materials cost | 32,518 | 34,361 | 28,592 | 40,865 | 42,283 | 47,457 | 51,987 |
| *% of revenues* | *73%* | *74%* | *67%* | *73%* | *72%* | *70%* | *70%* |
| Employee cost | 2,558 | 2,708 | 3,027 | 3,483 | 3,406 | 3,780 | 4,010 |
| *% of revenues* | *6%* | *6%* | *7%* | *6%* | *6%* | *6%* | *5%* |
| Others | 3,773 | 4,057 | 4,891 | 5,661 | 5,755 | 6,278 | 6,684 |
| *% of revenues* | *9%* | *9%* | *11%* | *10%* | *10%* | *9%* | *9%* |
| **EBITDA** | **5,557** | **5,710** | **6,621** | **6,278** | **7,503** | **10,245** | **11,865** |
| ***EBITDA margin (%)*** | ***13%*** | ***12%*** | ***15%*** | ***11%*** | ***13%*** | ***15%*** | ***16%*** |
| Depreciation & Amortisation | 749 | 791 | 807 | 935 | 1,116 | 1,215 | 1,263 |
| **EBIT** | **4,808** | **4,919** | **5,813** | **5,343** | **6,387** | **9,030** | **10,603** |
| Net interest cost | 793 | 516 | 545 | 567 | 1,011 | 1,218 | 851 |
| **PBT from operations** | **4,014** | **4,403** | **5,268** | **4,776** | **5,376** | **7,813** | **9,752** |
| Exceptional items | 0 | 7 | -67 | 14,012 | 0 | 0 | 0 |
| Net Income / (Expenses) from non-core ops | 238 | 176 | -55 | 685 | 288 | 331 | 463 |
| **PBT** | **4,456** | **4,598** | **5,738** | **19,636** | **5,664** | **8,143** | **10,215** |
| Taxes | 1,105 | 1,652 | 1,497 | 1,718 | 1,416 | 2,036 | 2,554 |
| *Effective tax rate (%)* | *25%* | *36%* | *26%* | *9%* | *25%* | *25%* | *25%* |
| **Reported PAT** | **3,351** | **2,946** | **4,241** | **17,918** | **4,248** | **6,107** | **7,661** |

Source: Company, MNCL Research

## Balance Sheet

| Y/E March (Rs mn) | FY20A | FY21A | FY22A | FY23A | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|
| **SOURCES OF FUNDS** | | | | | | | |
| Equity Share Capital | 248 | 242 | 242 | 219 | 219 | 219 | 219 |
| Reserves & surplus | 13,139 | 15,315 | 18,887 | 26,434 | 31,152 | 37,937 | 45,908 |
| **Shareholders' fund** | **13,387** | **15,557** | **19,129** | **26,652** | **31,371** | **38,156** | **46,127** |
| **Minority Interest** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Lease and Liability** | **122** | **133** | **153** | **180** | **180** | **180** | **180** |
| Total Debt | 13,870 | 9,772 | 15,598 | 9,113 | 14,913 | 20,113 | 14,000 |
| Def tax liab. (net) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Other Liabilities** | **27,073** | **20,643** | **23,846** | **17,892** | **25,266** | **30,432** | **24,811** |
| **Total Liabilities** | **40,460** | **36,200** | **42,975** | **44,544** | **56,637** | **68,587** | **70,939** |
| Gross Block | 13,701 | 14,279 | 15,040 | 19,829 | 25,629 | 30,829 | 32,779 |
| Less: Acc. Depreciation | 2,961 | 3,689 | 4,409 | 5,284 | 6,400 | 7,615 | 8,878 |
| Net Block | 10,739 | 10,590 | 10,631 | 14,544 | 19,228 | 23,213 | 23,901 |
| Capital WIP | 262 | 222 | 2,565 | 283 | 283 | 283 | 283 |
| Net Fixed Assets | 11,001 | 10,812 | 13,196 | 14,827 | 19,511 | 23,496 | 24,184 |
| Sundry debtors (non-current) | 2,680 | 2,084 | 2,668 | 3,920 | 3,456 | 4,294 | 4,759 |
| Inventories | 19,121 | 17,337 | 20,369 | 19,965 | 24,039 | 27,991 | 28,539 |
| Sundry debtors (current) | 811 | 3,282 | 4,315 | 5,631 | 5,167 | 6,005 | 6,470 |
| Cash | 320 | 113 | 233 | 720 | 4,518 | 7,693 | 8,344 |
| Loans & Advances | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other assets | 4,066 | 2,529 | 2,847 | 2,804 | 2,804 | 2,804 | 2,804 |
| Total Current Asset | 4,373 | 2,579 | 2,261 | 2,740 | 2,740 | 2,740 | 2,740 |
| Trade payables | 7,564 | 6,243 | 3,508 | 4,147 | 5,721 | 5,687 | 6,179 |
| Other current Liab. | 4,066 | 2,529 | 2,847 | 2,804 | 2,804 | 2,804 | 2,804 |
| Net Current Assets | 26,503 | 22,126 | 25,577 | 27,420 | 34,828 | 42,793 | 44,457 |
| **Total Assets** | **40,460** | **36,200** | **42,975** | **44,544** | **56,637** | **68,587** | **70,939** |

Source: Company, MNCL Research

### Cash Flow

| Y/E March (Rs mn) | FY20A | FY21A | FY22A | FY23A | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|
| Operating profit bef working capital changes | 5,856 | 5,882 | 6,690 | 6,423 | 7,250 | 10,035 | 11,788 |
| Trade and other receivables | -1,197 | 171 | -1,089 | -1,315 | 464 | -838 | -465 |
| Inventories | 2,053 | 1,783 | -3,051 | 402 | -4,074 | -3,953 | -548 |
| Trade payables | 1,207 | -1,311 | -2,725 | 651 | 1,574 | -34 | 493 |
| Changes in working capital | -27 | 2,654 | -6,905 | -334 | -2,036 | -4,824 | -520 |
| Direct taxes | -726 | -628 | -1,518 | -2,115 | -1,416 | -2,036 | -2,554 |
| **Cash flow from operations** | **5,104** | **1,887** | **329** | **3,412** | **3,399** | **5,956** | **6,354** |
| Net Capex | -1,160 | -869 | -2,911 | -2,355 | -5,800 | -5,200 | -1,950 |
| Others | 88 | -210 | 344 | 16,491 | 0 | 0 | 0 |
| **Cash flow from investments** | **-1,072** | **-1,079** | **-2,567** | **14,136** | **-5,800** | **-5,200** | **-1,950** |
| FCF | 3,943 | 7,040 | -4,645 | 1,620 | -2,002 | -2,025 | 6,764 |
| Increase/(decrease) in debt | -7,626 | -12,430 | 8,520 | -14,587 | 5,800 | 5,200 | -6,113 |
| dividend | -273 | 0 | -725 | -484 | 0 | 0 | 0 |
| **Cash flow from financing** | **-3,857** | **-7,037** | **4,421** | **-17,624** | **5,800** | **5,200** | **-6,113** |
| **Net change in cash** | 174 | -6,229 | 2,183 | -75 | 3,399 | 5,956 | -1,708 |

Source: MNCL Research

## Key Ratios

| Y/E March | FY20A | FY21A | FY22A | FY23A | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|
| **Growth Ratio (%)** | | | | | | | |
| Revenue | *41%* | *5%* | *-8%* | *31%* | *5%* | *15%* | *10%* |
| EBITDA | *78%* | *3%* | *16%* | *-5%* | *20%* | *37%* | *16%* |
| Adjusted PAT | *55%* | *-12%* | *44%* | *323%* | *-76%* | *44%* | *25%* |
| **Margin Ratios (%)** | | | | | | | |
| EBITDA | *13%* | *12%* | *15%* | *11%* | *13%* | *15%* | *16%* |
| PBT from operations | *9%* | *9%* | *12%* | *9%* | *9%* | *12%* | *13%* |
| Adjusted PAT | *8%* | *6%* | *10%* | *32%* | *7%* | *9%* | *10%* |
| **Return Ratios (%)** | | | | | | | |
| ROE | *25%* | *19%* | *22%* | *15%* | *14%* | *16%* | *17%* |
| ROCE | *18%* | *19%* | *17%* | *15%* | *14%* | *15%* | *18%* |
| ROIC | *18%* | *19%* | *19%* | *15%* | *17%* | *20%* | *21%* |
| **Turnover Ratios (days)** | | | | | | | |
| Debtors | 22 | 16 | 23 | 25 | 21 | 23 | 23 |
| Inventory | 215 | 184 | 260 | 178 | 208 | 215 | 200 |
| Creditors | 85 | 66 | 45 | 37 | 49 | 44 | 43 |
| Cash conversion cycle | 152 | 134 | 238 | 167 | 180 | 195 | 180 |
| **Solvency Ratio (x)** | | | | | | | |
| Net debt-equity | 1.0 | 0.6 | 0.8 | 0.3 | 0.3 | 0.3 | 0.1 |
| Interest coverage ratio | 6.1 | 9.5 | 10.7 | 9.4 | 6.3 | 7.4 | 12.5 |
| Gross debt/EBITDA | 1.0 | 0.6 | 0.8 | 0.3 | 0.5 | 0.5 | 0.3 |
| Current Ratio | 1.3 | 1.4 | 1.4 | 2.0 | 1.8 | 1.8 | 2.2 |
| **Per share Ratios (Rs)** | | | | | | | |
| Adjusted EPS | 13.32 | 12.01 | 17.54 | 74.58 | 17.68 | 25.42 | 31.89 |
| BVPS | 53.20 | 63.42 | 79.12 | 110.94 | 130.58 | 158.81 | 191.99 |
| **Valuation (x)*** | | | | | | | |
| P/E | 2.7 | 7.0 | 17.7 | 16.8 | 21.7 | 15.1 | 12.0 |
| P/BV | 0.7 | 1.3 | 3.9 | 2.4 | 2.9 | 2.4 | 2.0 |
| EV/EBITDA | 4.1 | 5.3 | 13.7 | 11.7 | 13.7 | 10.2 | 8.3 |
| Dividend yield % | *2%* | *1%* | *1%* | *1%* | *0%* | *0%* | *0%* |

Source: MNCL research

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