

Sweet Tidings

Triveni Engineering's capacity expansion plans are slated to give a fillip to its sugar business as firm sugar prices ahead could add to the company's profitability

TRIVENI Engineering and Industries (TEI) is a Rs 1,000-crore company mainly in the business of sugar. Its businesses could be broadly classified as sugar production along with the related activity of co-generation of electricity and engineering. The former constituted around 80% of the overall sales for the company. As on September 30, '05 it had three sugar mills—all in UP—with a total crushing capacity of 29,500 TCD (tonnes crushed per day). TEI is currently the third largest sugar player in the country. TEI is coming out with a public issue of Rs 210-250 crore.

Business Analysis

THE sugar business is doing well with a turnover of Rs 767 crore. The company saw a major improvement in realisation from Rs 12,607 per metric tonne in '04 to Rs 15,244 per metric tonne in '05 for free sale sugar. This significantly boosted its profits. The company's profit before tax and interest (PBIT) stood at Rs 161 crore in '05, out of which Rs 140 crore was from its sugar business. 87% contribution of the profits was from the sugar business.

After years of excess stocking, the industry is seeing higher demand leading to considerable de-stocking. TEI is increasing its crushing capacity from 25,250 TCD in '05 to around 40,500 TCD in '06 and has further increased its capacity forecast for '07. The UP government sugar incentive policy gives capital subsidies and reimbursement of the transportation cost of sugar. The saving for TEI would be close to 8% of the company's sales for the next 10 years if its expansion plans go as planned. The recovery rate for TEI has been at around 10% levels. The company's engineering business portfolio comprises turbines, gears and water and wastewater treatment. The turbines business is the largest among them. In terms of revenues, turbines constitute 17%.

It has been in the small turbine business for a little less than 40 years now. It is one of the leading manufacturers of turbines up to 15.0 MW. The total capacity of turbines manufactured improved 18% in '05 to 225 MW. As on

Oct '05, its order book was Rs 311 crore. The company is undertaking expansion of turbine capacity to assemble turbines up to 50.0 MW. For the gears business, it has a tie-up with Lufkin, based in US, and the company manufactures and also markets gearboxes with a capacity up to 70.0 MW.

Financials

THE company's financials have improved on the back of robust performances in both its sugar and engineering business. For the half year ended September '06, net sales improved 20% to Rs 554 crore as compared to the previous year. Profit After Tax (PAT) for H1 '06 improved 48% to Rs 68 crore as compared to the previous year. Its interest cost for HY '06 fell to Rs 13.7 crore as against Rs 17.1 crore in the previous year. Its average cost of debt declined from 10% in '04 to 8.9% in '05. The long-term debt to equity ratio as on March 31, '05 was 0.72.

Valuation

THE company is coming out with a public issue with a price band of Rs 42 to Rs 50. On a four-quarter trailing EPS of Rs 4.7, it is quoting at 8.9-10.6 times, which is reasonable pricing. If one were to look at P/E of sugar companies located at UP, the P/E band is between 8.8-20.4. While Bajaj Hindustan has a P/E of 20.3, Balrampur Chinni is at 11.9, Mawana Sugar at 6.6 and Dwarikesh Sugar at 8.8. By that count, it is attractively priced since the pricing is lower than the second largest player, Balrampur Chinni. Its fast growing engineering business should give it a slightly higher P/E multiple anyway. Investors could invest at these levels with a medium-term horizon of a year and review investments subsequently. Sugar prices are expected to remain firm for at least a year and that would add to the company's profitability. The sugar industry is also cyclical and hence any glut in the market could mean losing revenue. Exiting at the right time could prove crucial.

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