March 28, 2024

Triveni Engineering & Industries Ltd.: Long-term rating upgraded to [ICRA]AA+ (Stable); short-term rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based - Term loan	321.93	321.93	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Stable)
Long term - Fund-based - Working capital facilities	1,595.00	1,825.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Stable) and assigned for enhanced amount
Short term - Non-fund based - Working capital facilities	593.44	963.44	[ICRA]A1+; reaffirmed and assigned for enhanced amount
Commercial paper*	300.00	300.00	[ICRA]A1+; reaffirmed
Total	**2,810.37**	**3,410.37**	

**Instrument details are provided in Annexure-I; * carved out of working capital limits*

Rationale

The rating upgrade factors in Triveni Engineering & Industries Limited's (TEIL) higher revenue diversification, driven by enhancement of the distillery capacity to 660 kilolitres per day (KLPD) which will be further raised to 860 KLPD by March 2024. Further, the engineering and country liquor businesses provide alternative revenue streams and cushion against the cyclicality of the sugar business. ICRA notes that increased contribution from the distillery and engineering segments lends more stability to the cash flows.

The ratings continue to draw comfort from TEIL's large scale of operations with a crushing capacity of 61,000 tonnes of cane per day (TCD). The company's profitability is likely to remain comfortable owing to firm sugar realisations and higher volumes from the distillery operations. The company's credit metrics remain strong even though the debt levels are expected to rise by year-end on the back of increased inventory holding.

The ratings, however, remain constrained by the vulnerability of TEIL's profitability to the cyclical nature of the sugar industry (though the sharp fall in sugar prices has been curtailed after the introduction of MSP) and agro-climatic risks related to cane production. Further, the profitability of sugar mills, including TEIL, is exposed to the policies of the Government of UP (GoUP) and the Central Government on cane prices, international trade, domestic quota, sugar and ethanol pricing and interest subvention loan for distillery capacity expansion.

The Stable outlook on the rating reflects ICRA's opinion that TEIL will continue to benefit from its healthy operational profile and comfortable credit metrics.

Key rating drivers and their description

Credit strengths

Among the largest sugar producers in India with efficient operations - TEIL is one of the largest sugar manufacturers in the country with 61,000 TCD of sugar capacity, and it continues to have healthy recovery rates even though these have slightly moderated to 11.49% in FY2023 (PY: 11.78%) on account of unfavourable agro-climatic conditions. The net recovery rate moderated to 10.21% in FY2023 (PY: 10.73%) due to higher cane diversion towards B-heavy molasses. While crushing is expected to be slightly lower by ~3-5% YoY in FY2024, the gross recovery is expected to improve by 20-30 bps.

Forward-integrated operations and engineering business guard against cyclicality in sugar business – TEIL's operations are forward-integrated with a distillery capacity of 660 KLPD and a co-generation capacity of 104.5 megawatt (MW), which provide alternative revenue streams and offer cushion against the cyclicality in the sugar business. The company is increasing its distillery capacity to ~860 KLPD by March 2024 from 660 KLPD, strengthening its operating profile. Moreover, a steady revenue contribution from the power transmission and water businesses has diversified the revenue stream and an outstanding backlog of ~Rs. 1,546 crore as on December 31, 2023 provides healthy medium-term revenue visibility.

As of 9M FY2024, TEIL's revenue diversification has improved with the sugar business (including co-generation) accounting for ~58% of the company's gross revenue in 9M FY2024, compared to 75-80% historically. Distillery accounted for ~32% of the gross revenue in 9M FY2024 and the balance was derived from the engineering business. The expansion of the distillery would increase the segment's contribution to the revenues as well as moderate the seasonality associated with the sugar business, given that the distillery will operate for around 330 days in the year. Moreover, the planned capacity expansion in power transmission and healthy order inflows in the engineering segment are expected to support a sustained scale-up in revenue and improve the overall margins, going forward.

Strong capital structure and healthy coverage metrics – The company has a healthy capital structure with debt to equity of 0.4 times as on March 31, 2023 (PY: 0.8 times), which is estimated to increase to 0.5 times as on March 31, 2024, with higher utilisation of working capital limits on account of increased inventory holding. A strong capital structure and comfortable operating profitability ensured that the coverage metrics continued to be healthy in FY2023 with interest cover of 10.9 times (PY: 11.6 times), total debt/OPBDITA of 1.5 times (PY: 2.5 times), TOL/TNW of 0.7 times (PY: 1.2 times) and DSCR of 9.5 times (mainly due to extraordinary gain of ~Rs. 1400 crore; PY: 2.9 times). Going forward, the credit metrics are expected to remain healthy over the medium term, driven by favourable cash accruals and comfortable operating profits.

Credit challenges

Profitability vulnerable to policy interventions by the Government - TEIL's profitability, along with other sugar mills, continues to be vulnerable to the GoUP and the Central Government's policy on cane prices. Thus, the company's performance can be adversely impacted by a disproportionate increase in cane prices in any particular year. Further, the profitability remains vulnerable to the Government's policies on international trade, domestic quota, sugar MSP, remunerative ethanol prices and interest subvention loan for distillery capacity expansion. The continuation of Government support in the form of remunerative ethanol prices and interest subvention for the debt-funded distillery capex is likely to prevent the piling up of cane arrears. However, the UP state-advised price (UP-SAP) was revised upwards by Rs. 20/quintal for SY2024, which could limit the profitability. Nevertheless, firm domestic prices and increased contribution from ethanol supplies are likely to offset this risk to some extent for integrated sugar mills.

Profitability of sugar mills vulnerable to industry cyclicality and agro-climatic risks - Being an agri-commodity, the sugarcane crop is dependent on climatic conditions and is vulnerable to pests and diseases that may not only impact the yield per hectare but also the recovery rate. These factors can have a significant impact on the company's profitability. Further, high dependence on a single crop variety may affect the yield and recovery rate. However, TEIL has been exploring other varieties to mitigate this risk to a certain extent. In addition, the cyclicality in sugar production results in a volatility in sugar prices. However, the sharp downfall in sugar prices has been curtailed after the introduction of MSP by the Central Government in June 2018. Over the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice-based ethanol will help curtail the excess supply of sugar, resulting in lower volatility in sugar prices and hence, in the cash flows from the sugar business.

Environmental and Social Risks

Environmental considerations: Sugar entities like TEIL are directly exposed to climate risks, which affect sugarcane production and yield. Further, excessive or deficient rainfall affects cane availability. However, the company's sugar facilities are in UP, having high sugar recovery rates and longer crushing season with adequate availability of cane, thereby mitigating the climatic risks to a certain extent. Nevertheless, the company remains exposed to raw material availability which can be impacted by red rot and unseasonal and heavy rainfall as was seen in the recent past.

Social considerations: The worldwide societal shift to less sugar-intensive food products, considering the health issues related to high sugar consumption, could structurally reduce the demand for sugar products. However, such changes in consumer behaviour or any other drivers of change are expected to be relatively slow-paced. Therefore, while TEIL remains exposed to the aforementioned social risk, it is not likely to materially affect its credit profile in the medium term, given the increasing sucrose diversion towards ethanol.

Liquidity position: Adequate

TEIL's liquidity position remains adequate, driven by healthy cash flow from operations against the debt obligation. Also, the company had an average cushion of around Rs. ~600 crore in drawing power (DP) for the 11 months ended February 2024. ICRA expects comfortable cushion to be available over the near term as well, though higher inventory holding requirements had increased the working capital requirements in the recent past after the export ban of sugar and capping of sucrose diversion for SY2024. ICRA expects TEIL to comfortably meet its annual consolidated debt repayment obligations of Rs. ~125 crore in FY2025 and Rs. ~96 crore in FY2026 through cash accruals. Moreover, the company is likely to incur a capex of Rs. ~275 crore in FY2025, to be funded largely from internal accruals.

Rating sensitivities

Positive factors – An upgrade will be backed by a healthy improvement in the scale of business and profitability coupled with the diversification in revenues, leading to an improvement in the debt coverage metrics while maintaining a strong liquidity position.

Negative factors – ICRA could revise the ratings downwards if there is any sharp decline in revenue and profitability along with a significant drop in the ethanol business that would weaken the debt coverage metrics. A specific metric that may drive an unfavourable rating action could be TOL/TNW above 1.2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Sugar Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financial statement of TEIL; the list of entities consolidated are enlisted in Annexure II

About the company

TEIL is an integrated sugar manufacturing company with a current cane crushing capacity of 61,000 TCD, distillery capacity of 660 kilolitres per day (KLPD) (to be enhanced to 860 KLPD by March 2024) and co-generation capacity of 104.5 megawatt (MW) spread across seven locations in Uttar Pradesh (UP). TEIL forayed into the production of country liquor in FY2021, thus, facilitating forward integration. The company runs engineering businesses that include a gear division in Mysore, manufacturing high-speed gears. It also has a water business division in Noida, which is involved in water treatment equipment and plants.

Key financial indicators (audited)

Consolidated	FY2022	FY2023	9MFY2024*
Operating income	4,290.9	5,616.8	3,918.0
PAT#	364.9	1,775.5	234.5
OPBDIT/OI	14.8%	11.0%	9.7%
PAT/OI	8.5%	31.6%	6.0%
Total outside liabilities/Tangible net worth (times)	1.2	0.7	-
Total debt/OPBDIT (times)	2.5	1.5	-
Interest coverage (OPBDIT/Interest expense) (times)	11.6	10.9	10.2

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *provisional; #PAT excluding share of profits from associates*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as on Feb 29, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022			Date & rating in FY2021
					Mar 28, 2024	Mar 24, 2023	Jun 24, 2022	Jan 18, 2022	Nov 11, 2021	Apr 07, 2021	-
1	Fund based - Term loan	Long term	321.93	281.38	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	-
2	Fund based - Working capital facilities	Long term	1825.00	--	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	-
3	Non-fund based - Working capital facilities	Short term	963.44	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
4	Unallocated limits	Long term/short term	-	--	-	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	-
5	Commercial paper*	Short term	300.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

** carved out of working capital limits*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based - Term loan	Simple
Long term – Fund-based - Working capital facilities	Simple
Short term - Non-fund based - Working capital facilities	Very Simple
Commercial paper*	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term - Fund based - Term loan	2018-2023	4.0%-5.0%*	2023-2028	321.93	[ICRA]AA+ (Stable)
NA	Long term – Fund-based - Working capital facilities	NA	NA	NA	1825.00	[ICRA]AA+ (Stable)
NA	Short term - Non-fund based - Working capital facilities	NA	NA	NA	963.44	[ICRA]A1+
Yet to be placed	Commercial paper	NA	NA	NA	300.00	[ICRA]A1+

*Source: Company; *effective as interest rates are subvention*

[Please click here to view details of lender-wise facilities rated by ICRA]

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Triveni Engineering Ltd	100.00%	Full Consolidation
Triveni Energy Systems Ltd	100.00%	Full Consolidation
Svastida Projects Limited	100.00%	Full Consolidation
Triveni Entertainment Ltd	100.00%	Full Consolidation
Triveni Industries Limited	100.00%	Full Consolidation
Triveni Sugar Limited	100.00%	Full Consolidation
United Shippers & Dredgers Limited	100.00%	Full Consolidation
Gaurangi Enterprises Limited	100.00%	Full Consolidation
Triveni Foundation	100.00%	Full Consolidation
Mathura Wastewater Management Private Limited	100.00%	Full Consolidation
PALI ZLD PVT LTD (PALI)	100.00%	Full Consolidation

Source: Company

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About ICRA Limited:

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