March 24, 2023

Triveni Engineering & Industries Ltd.: Rating reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term loan	287.65	321.93	[ICRA]AA(Stable); reaffirmed
Fund-based - Working capital facilities	1,615.00	1595.00	[ICRA]AA(Stable); reaffirmed
Non-fund based - Working capital facilities	593.44	593.44	[ICRA]A1+; reaffirmed
Long term/Short term – (Unallocated)	14.28	-	-
Commercial paper^	200.00	300.00	[ICRA]A1+; reaffirmed/assigned
Total	**2,710.37**	**2810.37**	

**Instrument details are provided in Annexure-1; ^carved out of working capital limits*

Rationale

The reaffirmation of the ratings continues to factor in Triveni Engineering & Industries Limited's (TEIL) large scale of operations with a crushing capacity of 61,000 tonnes of cane per day (TCD). Its forward integration into distillery, country liquor and co-generation coupled with its presence in the engineering business provides alternative revenue streams and offers cushion against the cyclicality of the sugar business. Further, the monetisation of its stake in Triveni Turbines Ltd has resulted in a net cash inflow (net of buyback) of Rs ~550 crore which is to be utilised largely towards incremental capex in the engineering and sugar/distillery businesses, and partly towards working capital debt reduction. The engineering businesses are expected to drive revenue diversification over the medium term with their improving scale of operations.

The reaffirmation of the ratings also factors in the expected improvement in the company's coverage metrics, benefitting from the reduced working capital borrowings with increased diversion of sugar towards ethanol, besides the availability of cash from the monetisation of investments. The higher diversion towards ethanol would be driven by enhancement of the distillery capacity to 660 KLPD during 9M FY2023 (from 360 KLPD as on March 31, 2022). ICRA notes some moderation in profitability during 9M FY2023 on account of slightly lower recovery at the beginning of the season, higher raw material costs, revision in wages as well as operationalisation of new distilleries. Notwithstanding these issues that impacted the operating profits in recent quarters, structurally the rising contribution of the distillery segment to the operating income lends more stability to the company's cash flows.

Further, elevated domestic and international sugar prices and increased ethanol volumes would support TEIL's operating profits. Over the medium term, TEIL's operating profits are likely to be less volatile than the historical levels, driven by the expected continuation of MSP and excess cane diversion towards ethanol production by the industry.

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 is curtailed after the introduction of MSP) and agro-climatic risks related to cane production. Further, the credit profile of the sugar mills, including TEIL, remains vulnerable to the changes in regulations as well as international trade.

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 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 one of the highest recovery rates in UP. The recovery rate slightly moderated to 11.78% in FY2022 (PY: 11.80%) on account of unfavourable agro-climatic conditions. The net recovery rate moderated to 10.73% in FY2022 (PY: 11.12%) due to higher cane diversion towards B-heavy molasses. While crushing is expected to be higher by ~12-14% YoY in FY2023, the gross recovery is expected to be largely stable or slightly lower.

Over the medium term, higher diversion towards ethanol may moderate the net recovery rates to some extent, the impact of which is likely to be offset by the increased contribution from the distillery division with a favourable feedstock mix.

Forward-integrated operations and engineering business guard against cyclicality in sugar business – TEIL's operations are forward-integrated with a co-generation capacity of 104.5 megawatt (MW) and a distillery capacity of 660 KLPD, which provide alternative revenue streams and offer cushion against the cyclicality in the sugar business. The company is increasing its distillery capacity to ~885 KLPD by Q4 FY2024 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. 1,857 crore as on December 31, 2022 provides healthy medium-term revenue visibility. Over FY2022-9M FY2023, TEIL's revenue diversification has improved with the sugar business (including co-generation) accounting for ~64% of the company's gross revenue in 9M FY2023 and 68% in FY2022, compared to 80-85% historically. Distillery accounted for ~26% of the gross revenue in 9M FY2023 and 21% in FY2022 and the balance is 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.

Strong capital structure and healthy coverage metrics – The company has a conservative capital structure with debt to equity of 0.8 times as of Mar 31, 2022 (PY: 0.6 times) and estimated to come down to 0.4 times as on March 31, 2023. A healthy capital structure and higher operating profitability resulted in better coverage indicators in FY2022, with interest cover of 11.6 times (PY: 10.9 times) and DSCR of 2.9 times (PY: 2.3 times). Going forward, the credit metrics are expected to remain healthy over the medium term, driven by favourable cash accruals. The interest coverage remained healthy but moderated to 7.5 times in 9M FY2023 due to lower OPBIDTA (11.6 times in FY2022), partly because of higher operating expenses and lower operating leverage at the newly commissioned distillery capacities during the initial stabilisation period, relatively low realisation form grain-based ethanol and certain one-offs. However, interest coverage is expected to improve for FY2023 as a whole, as Q4FY2023 is expected to be a seasonally strong quarter.

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 sugar international trade, domestic quota, sugar MSP, remunerative ethanol prices and interest subvention loan for distillery capacity expansion. However, the recent measures taken by the Central Government and the GoUP supported sugar prices and the liquidity of sugar mills.

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) has recently been revised upwards by Rs. 25/quintal for SY2022 and continued for SY2023. Any further increases in UP-SAP could limit profitability. Nevertheless, firmed up 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 depends 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 the recovery rate. Nonetheless, TEIL has been exploring other varieties to mitigate this risk to a certain extent. In addition, the cyclicality in sugar production results in volatility in sugar prices. However, the sharp contraction in sugar prices could be curtailed after the Central Government introduced MSP in June 2018. Over the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice is expected to help reduce the excess supply of sugar, resulting in lower volatility in sugar prices and in turn, cash flows from the sugar business.

Liquidity position: Adequate

TEIL's liquidity position is adequate with likely healthy cash flow from operations over the next 12 months. Also, the company had an average cushion of around Rs. ~400 crore in drawing power (DP) for the 12 months ended January 2023 (excluding funds received from divestment of stake in associate). ICRA expects comfortable cushion to be available over the near term as well. ICRA expects TEIL to comfortably meet its annual consolidated debt repayment obligations of Rs. ~167 crore in FY2024 and Rs. ~102 crore in FY2025. Moreover, the company is likely to incur a sizeable capex of Rs. ~400-450 crore in FY2024 to be funded from debt of Rs 184 crore and the balance largely from internal accruals.

Rating sensitivities

Positive factors – An improvement in the overall scale of business, along with higher diversification in revenues with increased contribution from the distillery, engineering and water treatment businesses may lead to an upgrade. Further, a significant improvement in gross recovery rates and a sustained period of firm sugar prices driven by favourable demand-supply dynamics would lower the volatility in cash flows from the sugar business (excluding distillery) and improve the operating profitability and debt coverage metrics, thereby triggering an upgrade.

Negative factors – The ratings can be downgraded if there is any sharp decline in sugar prices, cane crushing volumes, recovery rate, or an increase in cane costs. Any significant decline in ethanol realisations or any material change in Government policies that moderate the profitability and debt coverage metrics on a sustained basis may cause a downgrade. A specific metric that could lead to a downgrade is interest cover below 10 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Sugar Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the financial statement of TEIL; the list of entities consolidated are enlisted in Annexure-2.

About the company

TEIL is predominantly an integrated sugar manufacturing company, which is also involved in the manufacturing of high-speed gears and project implementation in the fields of water and waste-water treatment and pollution control. It is one of the largest domestic sugar manufacturers with a combined capacity of 61,000 TCD, power co-generation of 104.5 MW and distillery capacity of 660 KLPD across seven locations in 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	FY2021	FY2022
Operating income (Rs. crore)	4,677.8	4,290.9
PAT (Rs. crore)*	293.4	364.9
OPBDIT/OI (%)	12.0%	14.8%
PAT/OI (%)	6.3%	8.5%
Total outside liabilities/Tangible net worth (times)	1.3	1.2
Total debt/OPBDIT (times)	1.8	2.5
Interest coverage (times)	10.9	11.6

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *excludes Income from Associates*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)					Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Feb 01, 2023 (Rs. crore)	Date & Rating on		Date & Rating in FY2022			Date & Rating in FY2021	Date & Rating in FY2020		
					Mar 24, 2023	Jun 24, 2022	Jan 18, 2022	Nov 11, 2021	Apr 7, 2021	-	Mar 30, 2020	Feb 24, 2020	Sep 27, 2019
1	**Fund based – Term loans**	Long Term	321.93	221.96	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	**Fund based – Working capital facilities**	Long Term	1595.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	**Non-fund based – Working capital facilities**	Short Term	593.44	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	**Unallocated**	Long Term/ Short Term	-	-	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	-	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-
5	**Commercial paper^**	Short Term	300.00	-	[ICRA]A1+	[ICRA]A1+	[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
Fund-based term loan	Simple
Fund-based - Working capital facilities	Simple
Non-fund based - Working capital facilities	Very Simple

Long term/Short term - Unallocated	NA
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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund based – Term loans**	2018-2022	4.0%-5.0%*	2023-2027	321.93	[ICRA]AA (Stable)
NA	**Fund based – Working capital facilities**	NA	NA	NA	1595.00	[ICRA]AA (Stable)
NA	**Non-fund based - Working capital facilities**	NA	NA	NA	593.44	[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-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Triveni Engineering Ltd	100.00%	Full Consolidation
Triveni Energy Systems Limited	100.00%	Full Consolidation
Svastida Projects Limited	100.00%	Full Consolidation
Triveni Entertainment Limited	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 Private Limited	100.00%	Full Consolidation

Source*: Company,* ***Note:*** *ICRA has taken a consolidated view of the parent (TEIL)*

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