Triveni Engineering & Industries Limited

Instrument	Amount (Rs Crore)	Rating Action
Fund Based Limits	1258.50	[ICRA]A (Stable) upgraded from [ICRA]A- (Positive)
Term Loans	334.90	[ICRA]A (Stable) upgraded from [ICRA]A- (Positive)
Non Fund Based Limits	327.94	[ICRA]A1 upgraded from [ICRA]A2+
Commercial Paper/Short Term Debt Programme	25.00	[ICRA]A1 upgraded from [ICRA]A2+

ICRA has upgraded the long term rating from [ICRA]A- (pronounced as ICRA A minus) to [ICRA]A (pronounced as ICRA A) assigned to the Rs 334.9 crore[1] term loans and the Rs. 1258.50 crore fund-based working capital limits of Triveni Engineering and Industries Limited (TEIL) [2]. ICRA has also upgraded the short term rating from [ICRA]A2+ (pronounced as ICRA A two plus) to [ICRA]A1 (pronounced as ICRA A one) assigned to the Rs. 25 crore short-term debt/ commercial paper programme and the Rs. 327.94 crore non-fund based working capital limits of TEIL. The outlook on the long term rating has been revised from positive to Stable.

The rating action takes into account the improved outlook for the company's core sugar business driven mainly by lower domestic sugar production induced by drought conditions prevailing in certain major producing states and export of 1.5 million MT of sugar in SY 2015-16. Given expectations of further reduction in domestic sugar production in SY 2016-17, the supply-demand situation is expected to remain favourable for domestic sugar companies in the near term. This has also been reflected in a significant improvement in sugar realisations over the last 12 months, which has benefited all sugar manufacturers including TEIL. This apart, TEIL has benefited substantially from an improvement in its sugar recovery rate by over 120 bps in SY 2015-16, which has resulted in lower cost of production for sugar. This improvement in recovery rate was on account of favourable climatic conditions and also varietal shift resulting in improved varietal mix. While the climatic factors cannot be relied on for the next sugar season, the availability of high sugared and high yielding plant crop as well as ratoon crop is expected to result in high recovery rates for the company in SY 2016-17 as well.

ICRA also notes that, the company has held onto a significant part of its sugar produced in the current season (87% as on March 31, 2016) which is expected to result in substantial income during the ongoing fiscal year with the average sugar price prevailing at ~Rs 34500 per MT. The co-generation operations along with the incidental co-gen plants have remained healthy while the performance of the distillery has improved on account of better ethanol realization (which now constitutes 87% of total alcohol production for the company). The improved performance of the sugar business and continued robust performance of the allied businesses of co-generation and distillery are expected to, in good measure; benefit the company's profitability in the current financial year.

ICRA however notes that profitability of UP based sugar mills will continue to remain vulnerable to the Government of UP (GoUP) policy on cane prices. This apart, profitability of sugar mills will also remain vulnerable to the cyclical nature of the sugar industry; agro-climatic risks related to cane production; govt and regulatory policies on import duties, cogeneration power and ethanol pricing and offtake; and counter party credit risk associated with the sale of power to the utilities in Uttar Pradesh (UP). Subdued demand and project delays on part of customers has impacted the gear and water businesses respectively, however, increasing focus on exports in gears, and also strong order booking in water business is expected to help in revival of scale and profitability in these businesses.

This apart TEIL's credit profile is tempered by the relatively high gearing arising out of high long term debt levels, on account of past debt-funded capital expenditure, and limited accruals in the last 3-4 years. Company also has large associated repayment obligations in the next few years although with the turnaround in sugar

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website* www.icra.in *or other ICRA Rating Publications.*

operations, the company's cash flow generation is expected to improve substantially and with no major capital expenditure plans, the company's long term leverage is expected to improve in the next two years.

Company Profile

The operations of TEIL principally consist of two businesses - sugar and allied businesses and the engineering business of high speed gears and water/wastewater treatment. TEIL is the third largest domestic sugar manufacturer with a combined capacity of 61,000 tcd, power cogeneration of 92 MW and distillery capacity of 160 klpd spread across 7 locations in Uttar Pradesh. The company also has engineering businesses, which includes a gear division in Mysore, manufacturing high-speed gears and a water business division in Noida, which is in the business of water treatment equipment and plants.

Recent Results

TEIL posted a loss after tax of Rs 12.3 crore on an operating income of Rs 1927.5 crore in FY 2016 as against a a loss after tax of Rs. 164.09 crore on an operating income of Rs. 2070.94 crore in FY 2015.

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