April 07, 2021

Triveni Engineering & Industries Ltd.: Ratings reaffirmed; outlook on long-term rating revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loans	486.93	351.93	[ICRA]AA- (Positive); reaffirmed and outlook revised to Positive from Stable
Fund-based – Working Capital Facilities	1580.0	1565.0	[ICRA]AA- (Positive); reaffirmed and outlook revised to Positive from Stable
Non-fund based – BG/LC	593.44	593.44	[ICRA]A1+; reaffirmed
Unallocated/Proposed	0.63	0.0	-
Commercial Paper^	50.0	50.0	[ICRA]A1+; reaffirmed
Total	**2,711.0**	**2,560.37**	

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

Rationale

The rating outlook revision to Positive reflects the expected improvement in Triveni Engineering & Industries Ltd.'s (TEIL's) revenues and debt coverage metrics. Further, the company recorded healthy profitability in FY2021 and is expected to maintain a strong credit profile in FY2022 as well. The expansion in revenues as well as profits in FY2021 is likely to be driven by healthy growth in domestic sugar sales volumes, sizeable sugar exports backed by higher export realisations and increase in diversion of B-heavy molasses to ethanol (higher ethanol volumes and realisations), which is expected to result in lower sugar inventories and in turn, lower total debt as on March 31, 2021. While the operating profits are likely to moderate in FY2022 due to the lower export subsidy (~Rs. 6.0/kg for SY2021 against Rs. 10.4/kg for SY2020), the debt coverage metrics are likely to remain at healthy levels, given the likelihood of reduced debt levels compared to the historical levels. Further, ICRA notes that the introduction of the minimum support price (MSP) for sugar in FY2019 gives some protection against any downside in the operating profits in sugar surplus years compared to the past. Over the medium term, TEIL's operating profits are expected to remain less volatile than the historical levels supported by the expected continuation of MSP and the industry's focus on diverting of excess cane towards ethanol production that would allow better inventory management as well. This coupled with the management's intent of limiting dependence on external debt would allow the company to maintain comfortable coverage indicators. The ratings continue to factor in TEIL's forward integration into distillery and cogeneration, which would provide alternate revenue streams and cushion against the cyclicality from sugar business, to some extent. The ratings also take into account TEIL's position as one of the largest sugar millers in the country with healthy gross recovery rate at 11.89% in FY2020 (11.77% in FY2019) on the back of higher proportion of high yielding, early maturing cane variety in its cane mix and increased operational efficiencies. TEIL also plans to expand its distillery capacities (to 520 kilo litres per day (KLPD) from 320 KLPD by 2022), which would further strengthen its operational profile. Moreover, steady contribution from the engineering business will result in some diversification of the company's revenue stream.

However, the ratings 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 profitability of sugar mills, including TEIL, remain vulnerable to the policies of the Government of Uttar Pradesh (GoUP) and the Central Government on cane prices, as well as the policies of the latter on sugar trade, sugar and ethanol pricing.

Key rating drivers and their description

Credit strengths

Among largest sugar producers in India with efficient operations; sustained improvement in recovery rates – With 61,000 TCD of sugar capacity, TEIL continues to be one of the largest sugar manufacturers in the country. There was ~9% increase in crushing and improvement in recovery rate. The recovery rate (not factoring in the diversion of B-heavy molasses for ethanol production) remained healthy at 11.89% in FY2020 compared to 11.77% in FY2019. This was supported by an increased proportion of high-yielding cane in the varietal mix, cane developmental activities undertaken by the company and improving operational efficiency. Going forward, higher production of ethanol from B-heavy molasses is likely to moderate sugar recovery rates to an extent. The net sugar recovery rate after the diversion of B-heavy molasses for ethanol production is lower at 11.57% in FY2020 and with higher diversion in FY2021, the net recovery is expected to further moderate. However, increased contribution from the distillery division and engineering division is likely to largely check the adverse impact of the same on TEIL's overall profit margins.

Forward-integrated operations supported by Government policies to provide cushion against cyclicity in sugar business – TEIL's operations are forward integrated with a co-generation capacity of 104.5 mega watt (MW) and a distillery capacity of 320 KLPD, which provide alternate revenue streams and cushion against cyclicality in its sugar business. Further, the company is undertaking expansion of its distillery capacity (from 320 KLPD to 520 KLPD, considering higher diversion of B-heavy molasses for ethanol production) by 2022, resulting in higher forward integration, thus strengthening the operating profile of the company. Moreover, steady revenue contribution from the engineering business results in some diversification of the revenue stream and outstanding backlog of ~Rs. 990 crore as of December 2020 provides revenue visibility over the medium term. Sugar business (including co-generation) continues to account for 80-85% of the company's revenue followed by distillery contribution of upto 10% and the balance being contributed by the engineering business. Moreover the engineering business contribution to TEIL's profit before interest and tax (PBIT) has increased to around 14% in FY2020.

Downside in operating profits limited compared to historic levels during years of surplus sugar production – With the introduction of the MSP in FY2019, the downside in the OPBIDTA has been arrested compared to the previous surplus years of sugar production. Over the medium term, TEIL's OPBIDTA and debt metrics are expected to be less volatile than the historical levels, supported by the expected continuation of MSP and also the industry's focus on diverting of excess cane towards ethanol production.

Improvement in financial profile in FY2020 and the current fiscal – Steady performance across business segments led to an improvement in the company's financial performance in FY2020, as marked by higher internal accrual generation, reduction in debt levels and improvement in debt protection metrics. Moreover, maintaining the momentum, TEIL's is expected to report healthy profitability in FY2021, supported by higher sugar sales and improved distillery performance backed by higher diversion of B-heavy molasses for ethanol and higher ethanol realisations. This along with the expected decline in total debt as on March 2021 (lower working capital borrowings supported by liquidation of sugar stocks through exports and increased domestic sales volumes) is likely to result in further improvement in capital structure and healthy debt coverage metrics in FY2021. ICRA notes that with the decline in the export subsidy, the operating profit is likely to moderate in FY2022 from the FY2021 levels. However, the debt coverage metrics are expected to remain healthy.

Credit challenges

Profitability remains vulnerable to policy interventions by Government – Profitability of sugar mills including TEIL, remains vulnerable to the GoUP and the Central Government's policies on cane prices. Thus, the company's performance may be impacted by any disproportionate increase in cane price in any particular year. Further, the profitability remains vulnerable to the Central Government's policies on exports, export subsidy, MSP and remunerative ethanol prices. The recent measures taken by the Central Government and the GoUP have supported sugar prices and liquidity of sugar mills. The continuation of Government support in the form of remunerative ethanol prices and subsidies for exports are also likely to prevent the piling up of cane arrears.

Profitability of sugar mills remain vulnerable to industry cyclicality and agro-climatic risks – Being an agri-commodity, the sugar cane crop is dependent upon 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 impact the yields and recovery rate. Nonetheless, TEIL has been exploring other varieties to mitigate this risk to certain extent. In addition, the cyclicality in sugar production results in volatility in sugar prices. However, the sharp contraction in the sugar prices is 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 is expected to help curtail 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 is adequate supported by steady internal accrual generation and cushion in the form of undrawn bank lines (~Rs. 425 crore as of December 2020 against drawing power available). For the nine months that ended in December 2020, the average cushion in the form of undrawn bank lines stood at ~Rs. 520 crore against drawing power available. Moreover, with healthy internal accrual generation, TEIL has prepaid term loans of ~Rs. 125 crore in the current fiscal. TEIL will be incurring capex of ~Rs. 250 crore over the next two fiscals towards enhancement of its distillery capacity. The same is proposed to be funded through a mix of debt and internal accruals. However, cash accrual generation over the medium term is expected to be more than sufficient to meet the debt repayment obligations.

Rating sensitivities

Positive factors – A sustained period of firm sugar prices driven by favourable demand–supply dynamics, resulting in lower volatility of cash flows from the sugar business and sustained operating profitability and debt coverage metrics, may result in an upgrade in TEIL's ratings.

Negative factors – The outlook may be revised to Stable if there is any significant decline in sugar prices, recovery rate or an increase in cane costs; or any significant decline in ethanol realisations resulting in moderation of profitability and debt coverage metrics 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	ICRA has considered the financial statements of TEIL; List of entities consolidated are provided in Annexure 2

About the company

TEIL is predominantly an integrated sugar manufacturing company, which is also involved in the manufacture of high-speed gears and project implementation in the fields of water and waste water treatment and pollution control. It is the third largest domestic sugar manufacturer with a combined capacity of 61,000 TCD, power cogeneration of 104.5 MW and distillery capacity of 320 KLPD spread across seven locations in UP. The company also runs engineering businesses that include a gear division in Mysore that manufactures 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	FY2019	FY2020
Operating Income (Rs. crore)	3,195.9	4,455.3
PAT (Rs. crore)	196.1	314.7
OPBDIT/OI (%)	11.2%	12.6%
RoCE (%)	12.9%	17.9%
Total Outside Liabilities/Tangible Net Worth (times)	2.3	2.0
Total Debt/OPBDIT (times)	4.8	2.8
Interest Coverage (times)	5.2	7.1
DSCR (times)	1.6	3.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: TEIL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years									
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020			Date & Rating in FY2019	Date & Rating in FY2018				
					April 7, 2021	-	Mar 30, 2020	Feb 24, 2020	Sep 27, 2019	Jan 30, 2019	Dec 22, 2017	Dec 11, 2017	Aug 28, 2017	May 5, 2017	Apr 12, 2017
1	Fund based – Term Loans	Long Term	351.93	154.64	[ICRA]AA- (Positive)	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A (Stable)
2	Fund based – Working Capital Facilities	Long Term	1565.0	--	[ICRA]AA- (Positive)	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A (Stable)
3	Non-fund based – BG/LC	Short Term	593.44	-	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
4	Unallocated/Proposed	Long Term/ Short Term	-	-	-	-	[ICRA]AA- (Stable)-/ [ICRA]A1+	-	-	-	-	-	-	-	-
5	Commercial Paper^	Short Term	50.0	-	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund based – Term Loans	2018-2020	4.5-5.5%*	2023-2025	351.93	[ICRA]AA- (Positive)
NA	Fund based – Working Capital Facilities	NA	NA	NA	1565.0	[ICRA]AA- (Positive)
NA	Non-fund based – BG/LC	NA	NA	NA	593.44	[ICRA]A1+
Unplaced	Commercial Paper^	NA	-	-	50.0	[ICRA]A1+

Source: *Company*under interest rate subvention*

Annexure-2: List of entities considered for consolidated analysis

Company Name	TEIL's 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
Triveni Turbine Limited	21.85%	Equity Method
Mathura Wastewater Management Private Limited	100%	Full Consolidation
Aqwise-Wise Water Technologies Limited	25.04%	Equity Method

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