November 11, 2021

Triveni Engineering & Industries Ltd.: Long-term rating upgraded, short-term rating reaffirmed; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	351.93	287.65	[ICRA]AA(Stable); Upgraded from [ICRA]AA- (Positive)
Fund based- Working Capital Facilities	1565.00	1565.00	[ICRA]AA(Stable); Upgraded from [ICRA]AA- (Positive)
Non-fund based-Working Capital Facilities	593.44	593.44	[ICRA]A1+; reaffirmed
Long Term / Short Term - Unallocated	0.00	64.28	[ICRA]AA(Stable)/[ICRA]A1+; long-term rating upgraded from [ICRA]AA- (Positive), short term rating reaffirmed
Commercial Paper^	50.00	50.00	[ICRA]A1+; Reaffirmed
Total	**2560.37**	**2560.37**	

* *Instrument details are provided in Annexure-1 ^carved out of working capital limits # No CP is outstanding as on October 07, 2021*

Rationale

The rating action for the debt programmes of Triveni Engineering & Industries Limited (TEIL) factors in the expectation of healthy growth in operating profits as well as strengthening of debt protection metrics in FY2022 and FY2023. The ratings note the higher domestic and international sugar prices, along with increased ethanol volumes and improved blended distillery realisations with favourable change in ethanol mix emerging from the commencement of expanded capacities in Q4 FY2022 and Q1 FY2023. ICRA expects the company's revenues in FY2022 to remain stagnant, notwithstanding higher revenues from the distillery division, offset by lower sugar volumes (both domestic and exports). Further, higher sucrose diversion towards B-heavy molasses/juice-based ethanol would moderate the inventory levels and hence lower its working capital borrowing levels especially in FY2024. Additionally, TEIL has forayed into production of country liquor in FY2021, thus, further facilitating forward integration. Moreover, TEIL's grain-based distillery of 60 kilo litres per day (KLPD) is expected to commence its operations in Q4 FY2022, which is likely to strengthen its operational profile and improve revenue diversification.

The ratings continue to factor in TEIL's large scale of operations with 61,000 tonnes of cane per day (TCD) of crushing capacity. Further, its forward integration into distillery and co-generation provides alternate revenue streams and cushion against the cyclicality from the sugar business to some extent. The ratings also take into account TEIL's healthy gross recovery rate at 11.8% in FY2021, supported by increased proportion of high-yielding cane in the varietal mix and cane developmental activities undertaken by the company. 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 likely to be less volatile than the historical levels, driven by the expected continuation of MSP and the industry's focus on diverting of excess cane towards ethanol production.

The ratings remain constrained, however, 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 UP's

(GoUP), sugar international trade, sugar 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. Further, ICRA does not expect any material moderation in capital structure and debt coverage metrics.

Key rating drivers and their description

Credit strengths

Among largest sugar producers in India with efficient operations – With 61,000 TCD of sugar capacity, TEIL continues to be one of the largest sugar manufacturers in the country. It was ranked the second largest sugar producer in the country in SY2021, with a high recovery rate. 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. The recovery rate slightly moderated to 11.8% in FY2021 (PY: 11.93%) on account of unfavourable agro-climatic conditions. The net recovery rate moderated to 11.12% in FY2021 (PY: 11.57%) due to higher diversion towards B-heavy molasses. However, increased contribution from the distillery division with higher proportion of ethanol production from B-heavy molasses would offset the impact of moderated recovery rate on its operating margin.

Forward-integrated operations supported by Government policies in addition to engineering business to provide cushion against cyclicality 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 the sugar business. The company is increasing its distillery capacity from 320 KLPD to 540 KLPD by Q4 FY2022 and further to 660 KLPD by Q1 FY2023, resulting in higher forward integration, thus strengthening its operating profile. Moreover, steady revenue contribution from the engineering business leads to some diversification of the revenue stream and outstanding backlog of ~Rs. 1,699 crore as on September 30, 2021 provides healthy medium-term revenue visibility. The sugar business (including co-generation) continues to account for 80-85% of the company's revenue, followed by distillery contribution of ~11% and the balance being derived from the engineering business. The distillery expansion plans would enable increased contribution to revenues going forward as well as moderate the seasonality associated with sugar business, given the distillery operates for over 300 days in the year.

Profitability likely to improve owing to steady sugar realisations and higher volumes from distillery segment – TEIL's overall operating profitability and cash accruals are expected to benefit from firm sugar realisations both internationally and domestically, along with better distillery performance including commercialisation of the grain-based distillery in FY2022. From FY2023 onwards, the company is likely to divert higher cane towards production of ethanol through B-heavy molasses and/or sugarcane juice with the expanded capacity becoming operational. TEIL's operating margins will be supported by likely continuation of MSP, remunerative prices of ethanol and the industry's focus on diverting of excess cane towards ethanol production, resulting in improved domestic demand supply balance. Further, with increase in sugar sacrifice towards B-heavy based ethanol, the working capital debt and hence the total debt levels are anticipated to reduce in FY2023-FY2024.

Strong capital structure and healthy coverage metrics – The company has a conservative capital structure with debt to equity of 0.6 times as of March 2021 (PY: 1.2 times). Improved capital structure and profitability resulted in better coverage indicators in FY2021, with interest cover of 10.9 times (PY: 7.1 times) and debt to OPBIDTA at 1.8 times (PY: 2.8 times). Going forward, the debt metrics are expected to remain healthy over the medium term, driven by favourable cash accruals.

Credit challenges

Profitability of UP-based sugar mills continues to depend on GoUP policy on cane prices – TEIL's profitability, along with other UP-based sugar mills, continues to be vulnerable to the GoUP's policy on cane prices. The cane price is determined by the GoUP at the start of the crushing season. Thus, the company's performance can be impacted by a disproportionate increase in cane price. Further, its profitability remains vulnerable to the Government's policies on exports, MSP and remunerative ethanol prices. 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 are likely to prevent the piling up of cane arrears. However, UP-SAP is likely to be revised upwards by Rs. 25/quintal, which could limit the 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 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 affect 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 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 in curtailing 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 and average cushion of around Rs. 570 crore in drawing power from July 2020 to August 2021. ICRA expects TEIL to comfortably meet its debt repayment obligations in medium term. Moreover, the company is in process of expanding its grain/molasses/juice distillery capacities at an investment of around Rs. 360 crore is planned over FY2022-FY2023. With respect to the proposed capex, TEIL has sanction of Rs. 166 crore (Rs. 40 crore availed till September 30, 2021).

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 trigger a rating 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; or any significant decline in ethanol realisations or any material change in Government policies that result in moderation of profitability and debt coverage metrics on a sustained basis. The specific metrics that could lead to a rating downgrade include 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 manufacturing 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 320 KLPD spread across seven locations in UP. The company 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	FY2020A	FY2021A
Operating Income (Rs. crore)	4,455.3	4,677.8
PAT (Rs. crore)	314.7	293.4
OPBDIT/OI (%)	12.6%	12.0%
PAT/OI (%)	7.1%	6.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	1.3
Total Debt/OPBDIT (times)	2.8	1.8
Interest Coverage (times)	7.1	10.9
DSCR(times)	3.0	2.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, A: Audited

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 as of Sep 30, 2021 (Rs. crore)	Date & Rating in		Date & Rating in FY2021	Date & Rating in FY2020			Date & Rating in FY2019	Date & Rating in FY2018				
					Nov 11, 2021	Apr 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	287.65	287.65	[ICRA]AA (Stable)	[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	1565.00		[ICRA]AA (Stable)	[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 – Working Capital Facilities	Short Term	593.44		[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
4	Unallocated	Long Term/ Short Term	64.28		[ICRA]AA(Stable)/[ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	-	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	-	-	-	-	-	-
5	Commercial Paper^	ShortTerm	50.00		[ICRA]A1+	[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 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: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based – Term Loans	2018-2020	4.0%-5.5%*	2023-2025	287.65	[ICRA]AA (Stable)
NA	Fund based – Working Capital Facilities	NA	NA	NA	1565.00	[ICRA]AA (Stable)
NA	Non-fund based-Working Capital Facilities	NA	NA	NA	593.44	[ICRA]A1+
NA	Long Term / Short Term - Unallocated	NA	NA	NA	64.28	[ICRA]AA(Stable)/ [ICRA]A1+
Yet to be placed	Commercial Paper	NA	NA	NA	50.00	[ICRA]A1+

Source: *Company*under interest rate subvention*

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
Triveni Turbine Limited	21.85%	Equity Method
Mathura Wastewater Management Private Limited	100.00%	Full Consolidation
Aqwise-Wise Water Technologies Limited	25.04%	Equity Method

Source: *Company*

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

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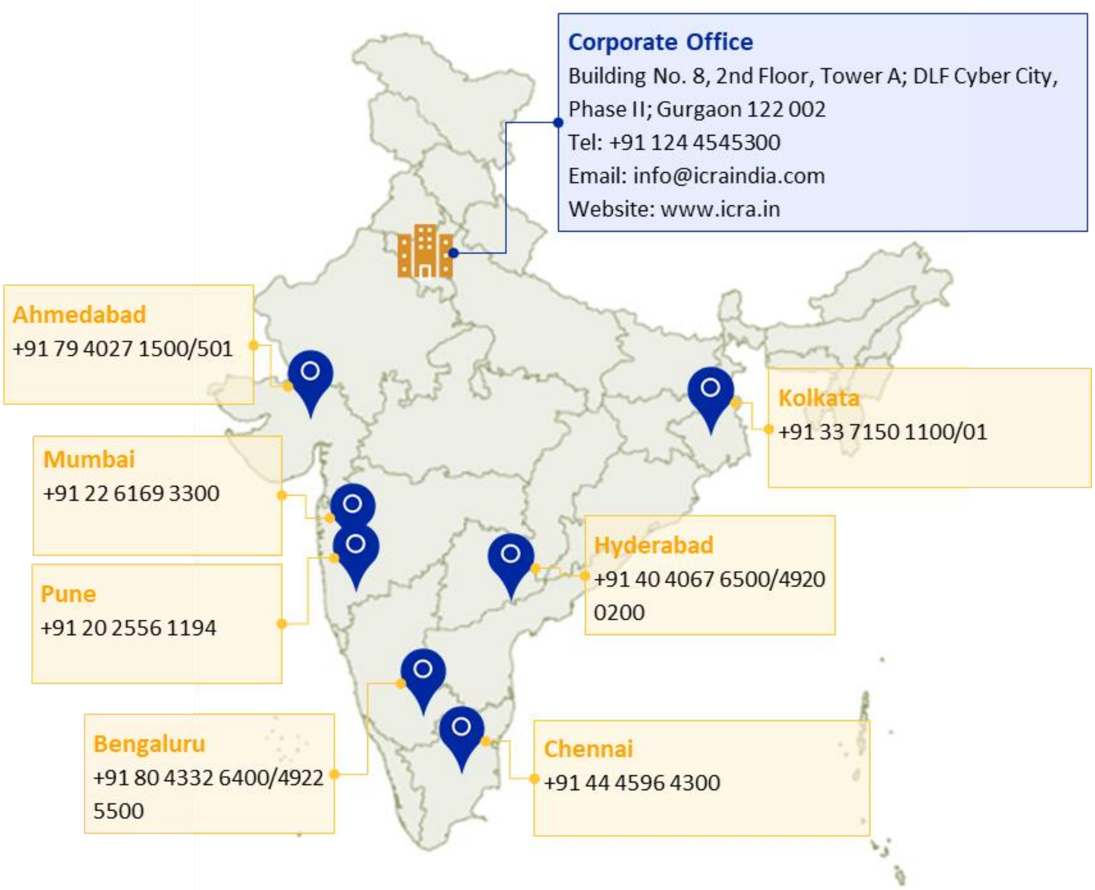

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