March 30, 2020

Triveni Engineering & Industries Ltd.: [ICRA]AA-(Stable)/ A1+ 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	490.00	486.93	[ICRA]AA- (Stable); reaffirmed
Fund based - Working Capital Facilities	1552.66	1580.00	[ICRA]AA- (Stable); reaffirmed
Non-fund Based - Working Capital Facilities	443.44	593.44	[ICRA]A1+; reaffirmed
Commercial Paper	50.00	50.00	[ICRA]A1+; reaffirmed
Proposed fund based facility	0.00	0.63	[ICRA]AA- (Stable); reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation factors in TEIL's efficient operations in its core business of manufacturing sugar and its by-products. Moreover, the company's forward integration into cogeneration and distillery as well as its presence in the engineering businesses continue to provide alternate revenue streams and cushion it from the cyclicality of the sugar business to a certain extent. The rating reaffirmation also factors in the continued support to the sugar industry from the Government. The Government continues to provide subsidies to sugar mills, which are linked to their meeting export commitment, and has fixed export targets at 6 million MT in SY2020, and has continued the buffer stock subsidy for another one year. In addition, the sugar prices remain supported by an increase in the minimum selling price of sugar to Rs. 31/ kg in February 2019 and regulated sugar sales. These measures are likely to support the profitability and cash accruals in the near term.

The recent downward revision in the expected sugar production for SY2020 along with sugar exports are likely to support the sugar prices in the near term. In the current year, while the lower power tariff will impact the co-gen division, the overall operating profitability is expected to remain healthy, driven by higher sugar realisations and an export subsidy of Rs 10.44/kg of sugar export for SY2020. Also, while the increase in the molasses reserved quota from 12.5% in SY2019 to 18% in SY2020 for state manufacturers of country-made liquor in UP is likely to result in a decline in the availability of the molasses for ethanol manufacture, the distillery segment's performance would be supported by the remunerative ethanol realisations.

While reaffirming the ratings, ICRA has taken note of the challenges arising out of the disruption caused by the n COVID 19 pandemic, which is likely to have some near- term impact on operation, including sugar offtake. ICRA will evaluate the impact if the situation persists and has a continued impact on company operations.

ICRA notes that the profitability of the UP-based sugar mills will remain vulnerable to the Government of Uttar Pradesh's (GoUP) policy on sugarcane prices, the Central Government's policies on import duties as well as the cyclical nature of the sugar industry. Agro-climatic risks related to sugarcane production and counterparty credit risk associated with the sale of power to the utilities in the state also impact these sugar mills.

TEIL's capitalisation and coverage indicators are likely to show an improvement in the medium term although they are still likely to remain modest in relation to the rating assigned. However, TEIL's cushion in drawing power provide comfort for the assigned ratings.

Key rating drivers

Credit strengths

Third largest sugar producer 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 manufacturing capacities in the country. The total sugar production increased by 9.4% in FY2019 backed by a 4.8% increase in crushing and improvement in recovery rate to 11.79% from 11.28%. Recovery rate stood at 11.1% in 9MFY20, which is almost inline of the recovery rate of 11.09% in 9MFY19. A high recovery rate helps in bringing down the cost of production significantly and is a strong differentiator from other operationally inefficient sugar mills. The recovery rate is expected to come down as TEIL is manufacturing ethanol from B-Heavy molasses in 3 of its units which hampers the recovery rate.

Forward integration into cogeneration and distillery provide buffer against volatile sugar operations - TEIL has a co-generation capacity of 104.5 MW and a distillery capacity of 320 kilo litres per day (KLPD), which provide additional revenue streams and help buffer against cyclicality in the sugar industry. With the commencement of the 160-KLPD distillery in Sabitgarh in April 2019, the company has achieved complete integration in terms of molasses. However revision in the tariff is expected to have an impact on the profitability from cogeneration segment.

Strong order book position and improved profitability of engineering businesses - Strong order intake in gear as well as water businesses has resulted in a strong order book of Rs. 1,393 crore as on December 31, 2019. Further, the gear business profitability has improved after sustained decline for two years till FY2017. The water business too has turned profitable. These businesses provide additional buffer against volatility in the sugar business and hence the improved performance/outlook of the same is a positive for the company.

Improved profitability backed by steady sugar realisation despite higher debt levels - The Government support measures have provided stability to sugar prices. In addition, higher sugarcane crush in 9MSY2020 has resulted in strong contribution from distillery and co-generation businesses, resulting in healthy cash accruals. The accruals are expected to improve further with the addition of the 160-KLPD distillery in April 2019. The debt levels though have increased from Rs. 1239.7 crore as on 31 March 2018 to Rs. 1725.9 crore as on 31 March 2019 on account of increased sugar stock and availing of soft loans for cane payments. Although the debt levels are high, it is substantially working capital debt, and the company continues to have sizeable cushion in its drawing power. Further, ICRA expects debt levels to come down because of liquidation of stocks and repayment of loans going forward.

Credit challenges

Profitability of UP-based sugar mills continue to depend on GoUP policy on sugarcane prices - The sugarcane price is determined by the GoUP at the start of the crushing season. Thus, the performance of the company may be impacted by a disproportionate increase in sugarcane price in any particular year. Nonetheless, the recent measures taken by the Central Government and the GoUP have supported sugar prices and the liquidity of the sugar mills.

Profitability of sugar mills remain vulnerable to industry cyclicality, agro-climatic risks and counterparty credit risk - Being an agricultural product, the sugarcane crop is dependent upon weather 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. In addition, the cyclicality in sugar production results in significant volatility in sugar prices. Nonetheless, aided by government support measures, the prices remain stable despite significant demand supply imbalance.

Liquidity position

TEIL's liquidity is **Adequate,** as it has maintained an average cushion of over Rs. 300 crore in the past 12-month period. In addition, the operating cashflows are expected to remain comfortable for meeting the expected repayment obligations averaging ~Rs 140 crore (average of FY 21 and FY 22 pls) annually in the coming years.

Rating sensitivities

Positive triggers – While ICRA doesn't foresee an upgrade in the near term, given the supply position in the country, a sustained period of firm sugar prices driven by favourable demand-supply dynamics and/or the pricing of sugarcane getting formally linked to sugar realisations, resulting in lower volatility of cash flows from the sugar business, may trigger an upgrade.

Negative triggers – Negative pressure on TEIL's rating could arise if, (1) led by crash in sugar prices/ increase in cane costs, there is a significant decline in tolling margin (calculated as difference of average sugar realisation and cane cost of production which is cane cost per MT divided by recovery rate) below Rs 3000/ MT or (2) Debt coverage indicators such as TD/OPBITDA or interest cover weakens significantly from estimated FY 2020 levels 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 consolidated the financials of the various Group entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among these

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 160 KLPD spread across seven locations in UP. The company also runs engineering businesses that include a gear division in Mysore which manufactures high-speed gears. It also has a water business division in Noida, which is involved in water treatment equipment and plants.

In FY2019, the company, on a consolidated basis, reported a net profit of Rs. 196.1 crore on an operating income (OI) of Rs. 3217.1 crore compared with a net profit of Rs. 100.9 crore on an OI of Rs. 3381.3 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. Crore)	3381.3	3217.1
PAT (Rs. Crore)	100.9*	196.1*
OPBDIT/OI (%)	8.6%	11.7%
RoCE (%)	9.9%	13.3%
Total Debt/TNW (times)	1.3	1.5
Total Debt/OPBDIT (times)	4.3	4.6
Interest coverage (times)	3.4	4.8

*excludes share of profit of associates

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

			Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years							
					Date & Rating	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018					Date & Rating in FY2017	
	Instrument	Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)	30-Mar-2020	27-Sep-2019	30-Jan-2019	22-Dec-2017	11-Dec-2017	28-Aug-2017	5-May-2017	12-Apr-2017	28-Jun-2016	24-May-2016
1	Fund based-Term Loan	Long Term	483.93	486.93	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A-(Positive)
2	Fund based-Working Capital Facilities	Long Term	1580.00	-	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A-(Positive)
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]A2+
4	Commercial Paper	Short Term	50.00	-	**[ICRA]A1+**	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A2+
5	Long Term / Short Term – Unallocated	Long Term/ Short Term	0.63	-	**[ICRA]AA-(Stable)/ [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 www.icra.in

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 - Working Capital Facilities	-	-	-	1580	[ICRA]AA-(Stable)
NA	Non-fund Based-Working Capital Facilities	-	-	-	593.44	[ICRA]A1+
NA	Commercial paper	-	-	-	50.0	[ICRA]A1+
NA	Term Loan 1	September 2018	9.85%*	June 2024	76.93	[ICRA]AA-(Stable)
NA	Term Loan 2	March 2019	9.00%*	March 2024	50.00	[ICRA]AA-(Stable)
NA	Term Loan 3	July 2019	9.55%*	June 2024	50.00	[ICRA]AA-(Stable)
NA	Term Loan 4	April 2019	9.00%^	June 2022	125.00	[ICRA]AA-(Stable)
NA	Term Loan 5	April 2019	9.00%^	April 2020	85.00	[ICRA]AA-(Stable)
NA	Term Loan 6	April 2019	8.90%^	May 2020	100.00	[ICRA]AA-(Stable)
NA	Unallocated	-	-	-	0.63	[ICRA]AA-(Stable) [ICRA]A1+

*interest subvention allowed at 50% of interest rate

^interest subvention allowed at 7% p.a. for a period of one year

Source: Triveni Engineering & Industries Limited

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

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 454 304
sabyasachi@icraindia.com

Sundeep Yadav
+91 124 4545 817
sundeep.yadav@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6169 3300
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999