June 08, 2023

Betul Biofuel Private Limited: [ICRA] BB- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term- Fund based- Term loan	90.00	[ICRA]BB- (Stable); assigned
Total	**90.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating favourably factors in the healthy demand for ethanol in the country and the presence of an offtake contract with public sector oil marketing companies (OMCs), aiding the revenue visibility for Betul Biofuel Private Limited (BBPL) over the medium term. The company's contract with Bharat Petroleum Corporation Limited (BPCL), Indian Oil Corporation Limited (IOCL) and Hindustan Petroleum Corporation Limited (HPCL) ensures an annual offtake quantity of 1.98 crore (i.e. 66% of installed capacity) litres for a period of 10 years for the supply of denatured anhydrous absolute alcohol; the balance quantity will also be supplied to the OMCs on open-tender basis.

ICRA notes that the project execution has reached an advanced stage. A capex of ~Rs. 67 crore has been incurred till May 2023 and the company has achieved financial closure for the entire debt amount. The terms of the debt with a comfortable tenure of nine years, including a moratorium period of two years, would support the viability of the project in the medium term. The financial closure and the advanced stage of the project are likely to support the commencement of operations on time.

The project also has the locational advantages of being close to ample raw material sources, besides being able to reach out to various oil blending depots in the nearby areas. ICRA also notes that BBPL will be entitled to receive various fiscal benefits under the National Biofuel Policy 2018 with approval from the Department of Food and Public Distribution (DFPD), which are likely to support its profitability post the commencement of operations.

However, the rating remains constrained by significant project-related risks, including commissioning the project within the budgeted cost and time and achieving the desired process parameters and cost efficiencies with a major component of equity mobilisation pending. Further, a sizeable portion of the total project cost is funded through debt, resulting in significant dependence on external borrowings and necessitating the generation of healthy cash accruals post the commissioning of the plant for timely servicing of debt.

BBPL will also remain exposed to regulatory risks associated with the ethanol business as its price is fixed annually by OMCs even as the prices of raw materials and fuel change in line with the market demand and supply position. The company proposes to use maize as the major raw material and its profitability remains exposed to the fluctuations in the price of maize. Maize prices, which have been volatile historically, remain a key monitorable.

The Stable outlook on the [ICRA]BB- rating reflects expectations of stable revenues for the company post commissioning of the plant and a healthy demand outlook for ethanol in the long term along with the management's ability to ensure adequate raw material availability, given its location.

Key rating drivers and their description

Credit strengths

Offtake agreement with oil marketing companies (OMCs) with minimum guaranteed volume provides stability to revenues – The company has entered into a long-term offtake agreement with OMCs for a period of 10 years for the supply of 1.98 crore litres (66% of installed capacity) of ethanol produced by it, annually. The balance quantity shall also be procured by the OMCs

through open tenders floated quarterly, thus ensuring offtake of the entire production and providing revenue visibility post commencement of operations.

Advanced stage of project execution and financial closure to fund project cost likely to aid timely commencement of operations - The company is setting up a 100-KLPD grain-based distillery with a capital outlay of Rs. 115.8 crore, funded in a debt-equity ratio of 3.5:1. The company has already achieved financial closure for the debt component of Rs. 90.0 crore for funding the project cost (of which Rs 57.0 crore has been utilised as on May 31, 2023) for a tenor of nine years, including two years' moratorium period. Further, the company has received majority of the requisite statutory approvals for commissioning the plant with orders already placed for major plant and machinery. The management envisages the operations to start by August 2023. The financial closure and the advanced stage of the project are likely to support the timely commencement of operations.

Healthy demand potential for ethanol and Government incentives to support demand - The long-term demand outlook for ethanol and biofuel remains favourable on the back of a significant demand-supply gap along with the Central Government's aim to achieve 20% ethanol blending with petrol by 2025. Further, to increase the indigenous production of ethanol, the Government is taking multiple initiatives to enhance ethanol production capacity, including the interest subvention scheme. The interest subvention scheme will make the company eligible for 50% subsidy (up to 6% p.a.) on the actual interest paid on the term loan availed for setting up the ethanol plant. These incentives are likely to support the project's viability.

Strategic location of project in Madhya Pradesh – The proposed facility is located in the Betul district of Madhya Pradesh. The site is in close vicinity to the maize growing areas, ensuring ample supply of raw materials. Further, the OMC depots are within 100-120km of the plant. The proximity to these maize growing areas and OMC depots is expected to provide the company with logistics ease, thus strengthening project's viability.

Credit challenges

Inherent project risks like execution within scheduled timeframe and budgeted cost – The total capital outlay for setting up the project is Rs. 115.8 crore. As of March 2023, a total cost of around Rs. 66.6 crore (58% of the total project cost) has been incurred to complete the civil works and orders have been placed for the procurement of plant and machinery, funded through debt and equity. Though the company has received majority of the statutory approvals, the project's execution on a timely basis would depend on equity infusion from the promoters for funding the balance project cost as only ~44% of the required equity has been brought in by the promoters. Thus, the commissioning of the project within the scheduled timeframe and budgeted cost would remain crucial for the project's viability in the near to medium term.
ICRA notes that the promoters don't have prior experience in distillery operations but the presence of reputed equipment suppliers like Siemens India Limited and KBK Chem Engineering Private Limited as the EPC contractor mitigates the project risk to an extent, though concerns over stabilisation remain. Further, the company has entered into long-term offtake agreements with OMCs for only partial capacity (66% of the installed capacity) of the plant and the balance quantity is yet to be tied up. Hence, the scale of operations will depend on the annual offtake quantity, going forward, exposing the company to market risks to some extent for the balance quantity.

Significant dependence on debt, resulting in moderate financial risk profile – Of the total estimated project cost, Rs. 90.0 crore will be funded through debt, keeping the dependence on borrowings very high. The company's ability to achieve healthy capacity utilisation and generate healthy cash accruals will be important for timely debt servicing. However, interest subvention on the project loan aids its viability. Further, the presence of DSRA, a moratorium period of two years (including nine months post commissioning of the plant) and the long repayment tenure of seven years point to adequate cash flows from operations for debt servicing.

Susceptibility of profitability to volatility in raw material costs- The primary raw material used by BBPL is maize which is an agro-commodity. The price of maize is prone to significant fluctuations and has been quite volatile in the recent past, as its

availability depends on the monsoon. In order to ensure a steady availability of maize, the company is constructing a grain silo to store the required raw material. Further, the company plans to use broken rice as the raw material in case of a sharp rise in the price of maize, thus reducing the impact of raw material price fluctuations on its profitability and eliminating the dependence on a single crop.

Risks associated with operating in a regulated industry – BBPL's operations are vulnerable to the Government's policies and schemes such as interest subvention, ethanol pricing and offtake, raw material availability and pricing, etc. Hence, the cessation of any schemes or any material decrease in ethanol pricing would have an adverse impact on the firm's financials. Nonetheless, the Central Government's pre-ponement of the ethanol blending target to 2025 has created a strong demand for ethanol and, thus, supports the financial performance of the distillery units for manufacturing ethanol.

Liquidity position: Stretched

The liquidity profile of the company is likely to remain stretched with a large part of the project cost being funded through debt, resulting in significant cash outflows on account of debt repayment obligations post the commissioning of the plant. Any delay in infusion of the balance equity might also lead to a delay in the commissioning of the project, adversely impacting the business risk profile of the firm.

Rating sensitivities

Positive factors – Timely commencement of operation within the budgeted cost along with sustained improvement in scale and profitability leading to healthy cash flows could lead to an upgrade.

Negative factors – Pressure on the rating could arise on account of delay in commencement of operations, or cost overruns, or stabilisation of the unit's operation.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

Betul Biofuel Private Limited (BBPL) is a private limited company, incorporated on May 28, 2021. It has its registered office in the Betul district of Madhya Pradesh and will be involved in the manufacturing and sales of ethanol, biofuels and related products. The company is setting up a 100-kilo-litres-per-day (KLD) grain-based ethanol distillery, mainly using maize as the basic raw material, in the Betul district. The unit will also be setting up a 2.5-MW captive power generation plant at the site. The company will also be producing animal feed up to 65 TPD and carbon dioxide up to 24 TPD as by-products. Commercial operation at the proposed plant is scheduled to commence in August 2023.

Key financial indicators (audited)

Betul Biofuel Private Limited (standalone)	FY2022 (Audited)
Operating income (Rs. crore)	0.0
PAT (Rs. crore)	0.0
OPBDIT/OI (%)	-
PAT/OI (%)	-
Total outside liabilities/Tangible net worth (times)	8.3
Total debt/OPBDIT (times)	-
Interest coverage (times)	-

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					June 08, 2023	-	-	-
1	Fund based – Term loan	Long Term	90.00	60.00	[ICRA] BB- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – Term loan	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 are available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term - Fund based- Term Loan**	June 2022	8.55%	June 2031	90.00	[ICRA]BB- (Stable)

Source: *Betul Biofuel Private Limited*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91-124-4545304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Anupama Arora
+91-124-4545303
anupama@icraindia.com

Tanya Agarwal
+91-124-4545844
tanya.agarwal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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