

May 11, 2022

## Sterling Distillers LLP: [ICRA]BB- (Stable) assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Proposed Term Loan	175.00	[ICRA]BB-(Stable); assigned
<b>Total</b>	<b>175.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The assigned rating favourably factors in the healthy demand for ethanol in the country along with near-term revenue visibility for Sterling Distillers LLP (SDL) that has also enabled the firm to enter into guaranteed off-take contract with public sector oil marketing companies (OMCs). The company's contract with Bharat Petroleum Corporation Limited (BPCL), India Oil Corporation Limited (IOCL) and Hindustan Petroleum Corporation Limited (HPCL) ensures an annual offtake quantity of 3.96 crore (i.e. 75.43% of installed capacity) litres for a period of 10 years for supply of Denatured Anhydrous Absolute Alcohol. The project also enjoys locational advantage due to its proximity to ample raw material sources, along with its ability to reach out to various unserved depots in Jharkhand, West Bengal and other neighbouring states. ICRA also notes that SDL will be entitled to receive various fiscal benefits under the National Biofuel Policy 2018, which are likely to support its profitability post-commencement of operations.

However, the rating remains constrained on account of significant project-related risks to which the firm is exposed, including delays in achievement of financial closure with sizeable dependence on borrowings, commissioning the project within the budgeted cost and time, stabilising the plant, and achieving the desired process parameters and cost efficiencies. Also, requisite approvals from the Pollution Control Board and the Department of Food and Public Distribution (DFPD) are yet to be received which poses significant risks in terms of timely commencement of operations. SDL will also remain exposed to regulatory risks associated with its ethanol business, given that its price is fixed annually by the OMCs. The ratings are further constrained by the risks associated with the entity's status as a limited liability partnership firm, including the risk of capital withdrawal by the partners.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that the firm will benefit from the extensive experience of its promoters along with Group's ability to ensure adequate raw material availability, given its location.

### Key rating drivers and their description

#### Credit strengths

**Offtake agreement with OMCs with minimum guaranteed volume provides stability to revenues** – The firm has entered into a long-term offtake agreement with oil manufacturing companies (OMCs) for a period of ten years for procurement of 3.96 crore litre (i.e. 75.43% of installed capacity) annually ethanol produced by the LLP, providing adequate revenue visibility, post commencement of operations.

**Healthy demand potential for ethanol** – The long-term demand outlook of ethanol and bio-fuel remain favourable on the back of a significant demand-supply gap along with the Government's increasing focus on reducing crude oil import dependency. Further, with the Central Government's aim to achieve 20% ethanol blending with petrol target by 2025, the demand for ethanol is likely to continue.

**Strategic location of the upcoming project being developed in West Bengal** – The proposed facility of the firm is located at East Bardhaman, in the Burdwan District of West Bengal, which lies in the vicinity of various rice producers, with rice/broken rice being the major raw material for manufacturing ethanol. The firm’s strategy of procuring most of its raw materials from the vicinity of its manufacturing facility is expected to provide SDL with logistics convenience. The location will also help the firm supply to various depots that are at present situated in northern and central West Bengal, eastern Bihar, north-eastern Jharkhand and some parts of Assam and North-Eastern states.

## Credit challenges

**Inherent project risks exist; firm yet to receive requisite approvals** – The capital outlay of the project is estimated at ~Rs. 196.9 crore, which would be largely funded by a term loan of Rs. 175.0 crore (~89% of the total project cost) and balance through promoters’ contribution. Till the end of March 2022, a cost of around Rs. 8.2 crore (4% of the total project cost) has been incurred, funded by the promoter’s contribution. The project plan envisages commencement of commercial operations from January 15, 2023, with significant activities on the ground yet to be initiated. While the firm has appointed an engineering procurement and construction (EPC) contractor for the project, many of the activities are yet to achieve financial closure. Also, requisite approvals from the Pollution Control Board and the Department of Food and Public Distribution (DFPD) are yet to be received which poses significant risks in terms of timely commencement of operations. However, ICRA draws comfort from the promoter’s past track record of successfully scaling businesses in different industries like cement, PP bags manufacturing, etc.

**Significant dependence on debt in capital structure; financial closure for the project is yet to be achieved** – The total estimated cost of the project is Rs. 196.9 crore, which will be funded by term loan of Rs. 175.0 crore keeping the dependence on borrowings very high. However, as on date, the debt has not been sanctioned. Also, the firm is proposing a long tenure of over 15 years for debt repayment pointing to adequate cash flows from operations for debt servicing.

**Risks associated with operating in a regulated industry** – SDL’s operations are vulnerable to the Government’s policies and schemes such as interest subvention, ethanol pricing and offtake, raw material availability and pricing, among others. Hence, 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 preponement of ethanol blending target to 2025 has created a strong demand for ethanol and supports the financial performance of the distillery units for manufacturing ethanol.

**Risks associated with the firm’s legal status as a limited liability partnership firm** – ICRA notes that SDL is a limited liability partnership (LLP) firm and any significant withdrawal of capital by the partners may adversely impact the firm’s net worth and liquidity position.

## Liquidity position: Stretched

The liquidity profile of the firm is likely to remain stretched. Any delay in achieving financial closure might lead to a delay in 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** – Negative pressure on the rating could arise on account of delay in commencement of operation or cost overruns or stabilisation of the unit’s operation.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the firm's standalone financial profile

## About the company

SDLLP was incorporated on August 18, 2021 to manufacture grain (rice/broken rice/ damaged food-grain and maize)-based ethanol. The company is setting up a 150-kilo litre per day (KLD) grain-based ethanol distillery along with 4.4-MW captive power generation plant in Burdwan, West Bengal.

## Key financial indicators

	FY2022 Provisional
Operating Income (Rs. crore)	0.0
PAT (Rs. crore)	0.0
OPBDIT/OI (%)	-
PAT/OI (%)	-
Total Outside Liabilities/Tangible Net Worth (times)	0.0
Total Debt/OPBDIT (times)	-
Interest Coverage (times)	-

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: Sterling Distillers LLP, ICRA Research

## Status of non-cooperation with previous CRA: Not Applicable

## Any other information: None

## Rating history for past three years

Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
2 Proposed Term Loan	Long-term	175.00	-	May 11, 2022	-	-	-	
				[ICRA]BB-(Stable)	-	-	-	

## Complexity level of the rated instrument

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 a firm'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: [www.icra.in](http://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	Long-term Fund-based – Proposed Term Loan	NA	NA	NA	175.00	[ICRA]BB-(Stable)

Source: Sterling Distillers LLP, ICRA research

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

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