

October 15, 2024

Sterling Distillers Private Limited: Rating upgraded to [ICRA]BB+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based- Cash Credit	50.0	35.0	[ICRA]BB+ (Stable); upgraded from [ICRA]BB (Stable)
Long term – Fund based – Term loan	160.0	150.0	[ICRA]BB+ (Stable); upgraded from [ICRA]BB (Stable)
Long term – Non-fund based – Bank guarantee	-	5.5	[ICRA]BB+ (Stable); upgraded from [ICRA]BB (Stable)
Long term – Non-fund based – Others	-	3.6	[ICRA]BB+ (Stable); upgraded from [ICRA]BB (Stable)
Total	210.0	194.1	

*Instrument details are provided in Annexure-I

Rationale

The upgrade in the rating for the bank lines of Sterling Distillers Private Limited (SDPL/the company) factors in the timely commissioning of the 150-klpd grain-based distillery in September 2023 within the estimated project cost of Rs. 196 crore along with a healthy ramp up in production thereafter. The rating continues to factor in the healthy demand for ethanol in the country and the presence of an offtake agreement with public sector oil marketing companies (OMCs), offering revenue visibility for SDPL in the near to medium term. 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 the supply of denatured anhydrous absolute alcohol with the balance quantity also to be procured by these OMCs on an open-tender basis.

The project also enjoys locational advantage due to its proximity to ample raw material sources and is able to reach out to various unserved depots in the nearby areas. ICRA also notes that SDPL will be entitled to receive various fiscal benefits under the National Biofuel Policy 2018, which are likely to support its profitability post the commencement of operations. Production from the plant has stabilised since December 2023 and the achievement of the desired process parameters and cost economics which are crucial for a successful ramp-up of operations will remain a key monitorable.

The ratings are constrained by the modest financial risk profile of the entity, as 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 a timely servicing of the debt. SDPL 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 Stable outlook on the [ICRA]BB+ rating reflects ICRA's expectation of healthy cash generation on the back of a strong demand for ethanol in the country, driven by the Govt's mandate for ethanol blending in auto fuels and the long-term offtake contract with various OMCs for 75% of the total capacity.

Key rating drivers and their description

Credit strengths

Offtake agreement with 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 3.96 crore litres (75.43% of installed

capacity) of ethanol produced by it, annually. The balance quantity shall also be procured by the OMCs through the open tenders floated by them, thus ensuring the offtake of the entire production and providing revenue visibility after the commencement of operations.

Successful commissioning of the project in a timely manner- SDPL commissioned a 150-KLPD grain-based distillery in September 2023 with a capital outlay of Rs. 182.15 crore, funded in a debt-equity ratio of 4.5:1. The project has been funded by a long-tenor debt of 10 years with a total debt of Rs. 150.0 crore. The operations started from September 2023 and stabilised by December 2023-end and the repayment obligations will begin from October 2024, providing adequate cushion for the stabilisation and ramp-up of operations. The company has been operating at near about 100% capacity utilisation since April 2024, and the operating performance will remain a key monitorable, going forward, as well.

Healthy demand potential for ethanol - The long-term demand outlook for ethanol and biofuel remains favourable on the back of a significant demand-supply gap along with the 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 the ethanol production capacity, including the interest subvention scheme. The interest subvention scheme will make SDPL 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 and such incentives are likely to support the credit profile of the company, going forward.

Strategic location of the project in West Bengal - The company's proposed facility is located in the Burdwan district of West Bengal. The site lies in close vicinity of various rice producers, ensuring ample supply of raw materials required for manufacturing ethanol. Further, the OMC depots are within 35-50 km of the plant. The proximity to these rice growing areas and OMC depots is expected to provide the company with logistics ease, thus strengthening the project's viability. The location will also help the company supply to various depots situated in northern and central West Bengal, eastern Bihar, north-eastern Jharkhand and some parts of Assam and northeastern states.

Credit challenges

Significant dependence on debt in capital structure, resulting in moderate financial risk profile - Of the total estimated project cost, Rs. 150.0 crore is funded through debt, keeping the dependence on borrowings very high. Owing to the high debt levels the overall leverage and coverage indicators will remain muted going forward. ICRA expects the gearing to remain around 3 to 4 times over the course of next two years while TD/OPBDITA is expected to remain around 3 to 4 times over the course of next three years. The company's ability to achieve healthy capacity utilisation and generate robust cash accruals will be important for a timely debt servicing. However, interest subvention on the project loan aids its viability to some extent. Further, a repayment tenor of eight years with a step-up of the repayments will support the company's debt servicing ability.

Susceptibility of profitability to agro-climatic risks and price of fossil fuels - SDPL has set up a grain-based distillery which can use broken rice, maize etc. as raw material for the production of ethanol. As the inputs are agri-commodities, the pricing and availability is prone to agro-climatic risks. In the past, SDPL used rice from the Food Corporation of India (FCI) for the production of ethanol; however, after the halt on the sale of rice by FCI to the distilleries, the company shifted to maize for the production of ethanol. Moreover, as the prices of these commodities are decided by the GoI through the minimum support price (MSP) mechanism as well, the profitability remains exposed to government actions as well. Additionally, power cost is a major expense for the company and the power is generated using fossil fuels and, thus, the costs also remain vulnerable to fossil fuel prices.

Risks associated with operating in a regulated industry - SDPL'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 company'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.

Liquidity position: Adequate

The liquidity profile of the company is expected to remain adequate, supported by a healthy cash flow from operations of Rs. 50-60 crore FY2026 onwards and the availability of fund-based limits with no major capex plans and moderate repayment obligations.

Rating sensitivities

Positive factors –The rating may be upgraded by a sustained improvement in the operations of the distillery resulting in revenue scale-up along with steady profitability and a healthy cash flow generation which leads to improvement in the coverage and the leverage metrics.

Negative factors – A sustained moderation in the production and/or increase in raw material prices an/or unfavorable regulatory developments which negatively impact the profitability and weakening of the leverage and coverage metrics may result in a rating downgrade. Any large debt funded capex resulting in a moderation in the sustained moderation of the credit profile will be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings is based on the company's standalone financial profile

About the company

Sterling Distillers Private Limited (erstwhile Sterling Distillers LLP), initially incorporated as an LLP¹, has commissioned a 150-kilolitre per day (KLD) grain-based (rice, broken rice, damaged foodgrain and maize) ethanol distillery along with a 4.4-MW captive power generation plant in Burdwan, West Bengal, which began commercial operations in September 2023.

Key financial indicators

Standalone SDPL	FY2023	FY2024	5M FY2025*
Operating income	0.0	108.4	200.5
PAT	0.0	-3.1	14.2
OPBDIT/OI (%)	-	4.7%	11.4%
PAT/OI (%)	-	-2.9%	7.1%
Total outside liabilities/Tangible net worth (times)	5.7	8.7	0.9
Total debt/OPBDIT (times)	-	21.2	3.4
Interest coverage (times)	-	1.2	4.8

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. crore; *Provisional

¹ The entity was incorporated as an LLP on August 18, 2021; however, its constitution was changed to a private limited company w.e.f. July 31, 2023

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Oct 15, 2024	Date	Rating	Date	Rating	Date	Rating
Fund based – Proposed term loan	Long term	-	-	-	-	11-May-22	[ICRA]BB-(Stable)	-	-
Fund based – Cash Credit	Long term	35.0	[ICRA]BB+(Stable)	09-Aug-23	[ICRA]BB (Stable)	-	-	-	-
				31-Mar-24	[ICRA]BB (Stable)	-	-	-	-
Fund based – Term Loan	Long term	150.0	[ICRA]BB+(Stable)	31-Mar-24	[ICRA]BB (Stable)	-	-	-	-
Non-fund based – Bank guarantees	Long term	5.5	[ICRA]BB+(Stable)	-	-	-	-	-	-
Non-fund based – Others	Long term	3.6	[ICRA]BB+(Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – Term loan	Simple
Fund based – Cash credit	Simple
Non-fund based – Bank guarantee	Very Simple
Non-fund based – Others	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 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- Cash credit	FY2023	6M MCLR+1.00%	FY2032	35.0	[ICRA]BB+ (Stable)
NA	Long term – Fund-based – Term loan	NA	NA	NA	150.0	[ICRA]BB+ (Stable)
NA	Long term – Non-fund based – Bank guarantee	NA	NA	NA	5.5	[ICRA]BB+ (Stable)
NA	Long term – Non-fund based – Others	NA	NA	NA	3.6	[ICRA]BB+ (Stable)

Source: Sterling Distillers 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

Girishkumar Kadam

+91 22 6114 3441

girishkumar@icraindia.com

Prashant Vasisht

+91 124 4545 322

prashant.vasisht@icraindia.com

Varun Gogia

+91 9871156542

varun.gogia1@icraindia.com

Mohika Kundara

+91 9599133619

mohika.kundara@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

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



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.