December 22, 2023(Revised)

KBK Biotech Private Limited: Long term rating reaffirmed; short term rating assigned; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Proposed term loan	225.47	0.00	-
Long-term fund-based - Cash credit	0.00	75.00	[ICRA]BB(Stable); reaffirmed/assigned
Long-term fund-based - Term loans	0.00	60.00	[ICRA]BB(Stable); reaffirmed/assigned
Long-term fund-based - Working capital demand loan	0.00	124.47	[ICRA]BB(Stable); reaffirmed/assigned
Long-term non-fund based - Letter of credit^	0.00	(35.00)	[ICRA]BB(Stable); reaffirmed/assigned
Short-term non-fund based - Bank guarantee	0.00	1.00	[ICRA]A4; assigned
Short-term non-fund based - Bank guarantee^^	0.00	(5.00)	[ICRA]A4; assigned
Total	**225.47**	**260.47**	

**Instrument details are provided in Annexure-I; ^ sub-limit of long-term fund-based WCDL; ^^ sub-limit of long-term fund-based cash credit facility*

Rationale

The ratings for the bank lines of KBK Biotech Private Limited (KBKBPL) favourably factor in the company's presence in the ethanol and industrial alcohol segment with an operational 88.5-KLPD grain-based distillery capacity, along with a healthy operational performance and strong demand potential for ethanol in the country. The ratings also factor in the favourable location of the company's current and upcoming facility in one of the major rice producing districts of Andhra Pradesh and the long-term offtake agreement with major oil marketing companies (OMCs) for the sale of nearly 22% of the ethanol to be produced from the upcoming capacity.

The healthy demand for ethanol in the country on account of the ethanol-blending programme and the presence of offtake contracts with public sector OMCs offer revenue visibility and partly mitigate the market risk over the medium term. The company's contracts with Bharat Petroleum Corporation Limited (BPCL), India Oil Corporation Limited (IOCL) and Hindustan Petroleum Corporation Limited (HPCL) have ensured an annual offtake quantity of minimum 3.3 crore (i.e. 22% of installed capacity) litres from January 2024 for a period of 10 years for the supply of denatured anhydrous absolute alcohol. The company also participates in tenders floated by reputed private oil marketing players for the supply of ethanol, thus ensuring offtake of the production.

The company will be procuring rice/broken rice, which is the major raw material, from the Food Corporation of India {FCI, rated {[ICRA]AAA(CE)/(Stable)} to manufacture ethanol for the upcoming capacity. The company also enjoys locational advantages due to the proximity of its plants in Andhra Pradesh to ample raw material sources, along with its ability to reach out to various oil blending depots in the nearby areas.

ICRA also notes that KBKBPL 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) in place, which are likely to support its profitability and cash flows in the medium term.

However, the ratings remain constrained by the company's exposure to sizeable project-related risks as the upcoming project is significantly larger than its current operational capacity. Moreover, there would be significant dependence on borrowings with the Rs. 202.0-crore project proposed to be funded with Rs. 150-crore debt (fully tied up) and Rs. 52.0-crore equity (of which Rs. 39-crore unsecured loans have been infused till October 2023-end and the remaining equity has been infused in November 2023). The funding risk for the project is majorly mitigated as the entire debt funding has been tied up and equity mobilisation by the promoters has been completed. The project remains exposed to residual project implementation risks with timely completion of the project within the budgeted cost and a healthy ramp up and stabilisation of the capacity being a key monitorable.

ICRA notes that the repayments for the existing loan begin from Q1 FY2024 and with only 88.5 KLPD being operational, there could be cash flow mismatches that would require additional funds from promoters to timely meet these obligations. The company has a moderate financial risk profile and will have significant debt servicing obligations compared to its projected cash accruals in the near to medium term. KBKBPL will also remain exposed to regulatory risks associated with the ethanol business, given that ethanol price is fixed annually by OMCs even as the raw material and fuel prices change in line with the market demand and supply position.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that the company will continue to benefit from the established presence of the company, ensuring stability of revenues, and a healthy demand outlook for ethanol in the long term assuring the offtake.

Key rating drivers and their description

Credit strengths

Established presence with moderate scale of operations - The company has been manufacturing extra-neutral alcohol (ENA) and impure spirit (IS) since July 2019 with an existing plant capacity of 88.5 KLPD. The company has an established presence, supported by the extensive knowledge of the promoters in managing similar kinds of businesses. In FY2023, the company increased its production capacity to 88.5KLPD from 59KLPD, which was commissioned within the stipulated timeline and budgeted cost. Since the commercialisation of the company's operations in FY2020, it has reported healthy revenue growth with Rs. 171.6 crore posted for FY2023. However, the scale of operations continues to be moderate. The revenue is expected to scale up with the commissioning of the increased capacity in the near to medium term.

Offtake agreements with oil marketing companies (OMCs) with minimum guaranteed volume provide stability to revenues - KBKBPL has entered into long-term offtake agreements with OMCs for a period of 10 years, beginning January 2024, for the supply of a minimum 3.3-crore litre (~22% of capacity post expansion) of ethanol produced by the company annually, providing adequate revenue visibility post the commencement of operations and limiting the market risk. The company also participates in tenders for ethanol supply floated by reputed market players and has existing arrangements with multiple customers, thus ensuring offtake of the entire production. Notwithstanding the presence of this supply contract for part of the capacity and the favourable demand prospects for ethanol supply, some part of the production would remain vulnerable to price risks with the company participating in market tenders.

Healthy demand potential for ethanol, Government incentives to support demand - The long-term demand outlook for ethanol and bio-fuel 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, on the basis of which the company shall be eligible for 50% interest subsidy (up to 6% p.a.) of the actual interest paid on the term loan availed for setting up an ethanol plant. These incentives are likely to support the project's viability.

Strategic location of upcoming project in Andhra Pradesh - The existing as well as the proposed facility of the company is located at Chinnabrahmadevam village in the east Godavari district of Andhra Pradesh, which is one of the major rice producing districts in the state. Further, there is ample availability of rice in the neighbouring areas as well from local suppliers, thus providing logistics convenience to the company. The location will also help the company supply to various oil blending depots situated close to the plant.

Credit challenges

Residual project execution risks for the ongoing capacity expansion - The company has a grain-based distillery with a capacity of 88.5 KLPD, which it is expanding by 397 KLPD, exposing it to sizeable project execution risks. The capital outlay of the project is ~ Rs. 202.0 crore, which would be largely funded by debt. The commercial operations are expected to commence from June 2024. As of October 2023, nearly 82% of the project cost has been incurred, funded largely through external debt and unsecured loans from directors. 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.

Further, the company has entered into long-term offtake agreements with OMCs for only partial capacity (22% 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. However, ICRA draws comfort from the company's existing operations with stable capacity utilisation and healthy demand for ethanol in the country.

Significant dependence on debt in capital structure; moderate debt coverage indicators- The financial risk profile of the company is moderate with a tangible net worth of Rs.28.9 crore as on March 31, 2023 and significant dependence on external borrowings with an outstanding total debt of Rs. 138.8 crore. This sizeable amount of debt in the capital structure resulted in a high gearing ratio of 4.8 times and total debt/OPBITDA of 8.9 times for FY2023. Further, a sizeable portion of the new project cost is funded through debt, keeping the dependence on borrowings very high and resulting in a further moderation of the leverage indicators.

The debt coverage indicators are expected to be muted in the near term with the repayment obligations for the existing debt to commence in the current fiscal even though the project is expected to be commissioned from FY2025. This may result in cash flow mismatch and require additional support from promoters to ensure the timely servicing of the debt obligations. However, the presence of a one-year moratorium period for the balance debt, the long repayment tenure of over six years and the in-principle approval from DFPD entitling the project to interest subvention will support the debt servicing in the long run, thus aiding viability. Further, the healthy cash accruals, driven by the scaling up of business with the commissioning of the project, will also ensure timely servicing of the debt obligations.

Susceptibility of profitability to volatility in raw material costs and price of fossil fuels- The primary raw materials used by KBKBPL are broken rice and maize which are agro-commodities. The prices of raw materials are prone to significant fluctuations as their availability depends on the monsoon. Further, power and fuel costs constitute a sizeable portion of the cost structure, making the profitability susceptible to any increase in the cost of fossil fuels used for power generation.

Risks associated with operating in a regulated industry- KBKBPL'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, cessation of any scheme or any material decrease in ethanol pricing would have an adverse impact on the company's financials. Nonetheless, the Central Government's move to prepone the ethanol blending target to 2025 has created a strong demand for ethanol and supports the financial performance of distillery units manufacturing ethanol.

Liquidity position: Stretched

The liquidity position of the company is likely to remain stretched with a substantial amount of capex being undertaken by the company to expand its production capacity, largely to be funded through debt with sizeable debt repayments that will result in further cash outflow. Further, any delay in the commissioning of the project for enhanced capacity may adversely impact the cash accruals to a certain extent. Additionally, the commencement of repayments for the existing debt before the commissioning of the enhanced capacity is also likely to put pressure on the cash flows with the debt repayments being sizeable corresponding to the annual cash accruals in FY2024.

Rating sensitivities

Positive factors – Achievement of financial closure and timely commencement of the project within the budgeted cost would support an upgrade. Additionally, a sustained improvement in the scale of operations and financial risk profile along with healthy cash flows could trigger an upgrade.

Negative factors – Any significant delay in the commencement of operation of the new project or stabilisation of the unit's operation and/or cost overruns, could trigger a downgrade. Pressure on the ratings could also arise if there is any adverse impact on the company's profitability, leading to a deterioration of the debt protection metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for entities in Chemical Industry](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

Andhra Pradesh-based KBK Biotech Private Limited was incorporated in 2015 and is engaged in the manufacturing of extra neutral alcohol (ENA), impure spirit (IS) and distillers dried/wet grains with soluble (DDGS). The company's commercial operations started in July 2019. From March 2020, the company started manufacturing hand sanitizers. The company has a grain-based distillery with a capacity of 88.5 KLPD (enhanced from 59 KLPD in August 2022) and a captive power generation plant of 2.1 MW with majority of the capacity being diverted towards the production of ethanol from FY2023 onwards. The company is enhancing its ethanol production capacity by 397 kilolitres per day (KLPD) at its existing plant at Chinnabrahmadevam village in the East Godavari district of Andhra Pradesh and is also increasing its power generation capacity by 9.0MW.

Key financial indicators (audited)

KBKBPL	FY2022	FY2023	H1 FY2024 (Prov)
Operating income	151.4	171.6	103.5
PAT	6.2	6.6	4.2*
OPBDIT/OI	11.0%	9.1%	11.5%
PAT/OI	4.1%	3.8%	4.1%
Total outside liabilities/Tangible net worth (times)	2.7	5.7	5.6
Total debt/OPBDIT (times)	2.8	8.9	6.6
Interest coverage (times)	3.0	4.1	2.6

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; * An adjustment for payment of tax was made in the provisional financials*

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 as on October 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Dec 22, 2023	Jul 05, 2023	Mar 27, 2023	-	-
1	Long-term fund-based – Proposed term loan	Long Term	0.00	-	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-
2	Long-term fund-based - Cash credit	Long Term	75.00	-	[ICRA]BB (Stable)	-	-	-	-
3	Long-term fund-based - Term loans	Long Term	60.00	13.17	[ICRA]BB (Stable)	-	-	-	-
4	Long-term fund-based working capital demand loan	Long Term	124.47	104.24	[ICRA]BB (Stable)	-	-	-	-
5	Long-term non-fund based - Letter of credit^	Long Term	(35.00)	-	[ICRA]BB (Stable)	-	-	-	-
6	Short-term non-fund based - Bank guarantee	Short Term	1.00	-	[ICRA]A4	-	-	-	-
7	Short-term non-fund based - Bank guarantee^^	Short Term	(5.00)	-	[ICRA]A4	-	-	-	-

^ sub-limit of long-term fund-based WCDL; ^^ sub-limit of long-term fund-based cash credit facility

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based - Cash credit	Simple
Long-term fund-based - Term loans	Simple
Long-term fund-based working capital demand loan	Simple
Long-term non-fund based - Letter of credit^	Simple
Short-term non-fund based - Bank guarantee	Very Simple
Short-term non-fund based - Bank guarantee^^	Very Simple

^ sub-limit of long-term fund-based WCDL; ^^ sub-limit of long-term fund-based cash credit facility

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 I: 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	-	-	-	75.00	[ICRA]BB (Stable)
NA	Long-term fund-based - Term loans	FY2024	NA	FY2024	60.00	[ICRA]BB (Stable)
NA	Long-term fund-based - Working capital demand loan	FY2024	NA	FY2031	90.00	[ICRA]BB (Stable)
NA	Long term fund-based - Working capital demand loan	FY2024	NA	FY2030	20.00	[ICRA]BB (Stable)
NA	Long term fund-based - Working capital demand loan	FY2024	NA	FY2029	2.97	[ICRA]BB (Stable)
NA	Long term fund-based - Working capital demand loan	FY2024	NA	FY2028	11.50	[ICRA]BB (Stable)
NA	Long-term non-fund based - Letter of credit^	-	-	-	(35.0)	[ICRA]BB (stable)
NA	Short-term non-fund based - Bank guarantee	-	-	-	1.00	[ICRA]A4
NA	Short-term non-fund based - Bank guarantee^^	-	-	-	(5.00)	[ICRA]A4

Source: Company; ^ sub-limit of long-term fund-based WCDL; ^^sub-limit of long-term fund-based cash credit facility

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

Annexure II: List of entities considered for consolidated analysis-NA

Corrigendum

The Key financial indicators on page-4 have been corrected for H1 FY2024.

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