March 27, 2024

Kribhco Green Energy Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based – Term loan	911.5	[ICRA]A (Stable); assigned
Long term – Unallocated limits	88.5	[ICRA]A (Stable); assigned
Total	**1000.0**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating favourably factors in the strong parentage of KRIBHCO Green Energy Private Limited (KGEPL) with 100% ownership of Krishak Bharati Cooperative Limited (KRIBHCO) and expectations of financial and operational support from the parent. KRIBHCO has extended corporate guarantees towards the term loans availed by KGEPL, although they do not have all the attributes of a strong corporate guarantee.

KGEPL is setting up three grain-based ethanol plants of 270 klpd capacity each in Hazira (Gujarat), Nellore (Andhra Pradesh) and Jagtial (Telangana) with a total capex of around Rs. 1,000 crore, which is to be funded by a debt of around Rs. 911 crore and the balance with equity from KRIBHCO. The rating factors in the healthy demand prospects for ethanol in the country and the presence of a 10-year offtake contract with public sector oil marketing companies (OMCs), aiding revenue visibility for KGEPL.

The projects also enjoy locational advantages due to their proximity to ample raw material sources, along with their ability to reach out to various oil blending depots in the nearby areas. ICRA also notes that KGEPL 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 after the commencement of operations. The main benefit of this incentive will be interest subvention of around 50%.

However, the rating remains constrained by significant project-related risks, including commissioning the projects within the budgeted cost and time and achieving the desired process parameters and cost efficiencies. The project is being implemented by a reputed lumpsum turnkey (LSTK) contractor, which mitigates the risk to a certain extent. 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 commissioning of the plant for timely servicing of the debt. Moreover, of the three sites, one of the sites is facing delays in execution due to local issues, which if extended for a longer time can result in material cost and time overruns.

Further, KGEPL will also remain exposed to regulatory risks associated with the ethanol business, given that its price is fixed annually by OMCs even as the raw material and fuel prices change in line with the market demand and supply. The company's profitability remains exposed to the fluctuations in the price of maize which has been quite volatile in the recent past, and thus remains a key monitorable for the healthy operations of the business.

The Stable outlook on the rating reflects ICRA's expectation of stable revenues for the company and a healthy demand outlook for ethanol in the long term along with the management's ability to ensure adequate raw material availability, given the location of the plants.

Key rating drivers and their description

Credit strengths

Strong parentage of KRIBHCO – KGEPL is a 100%-owned subsidiary of KRIBHCO. KRIBHCO, the holding entity, has a very long-standing association with the farmers of the country and has been working in the field of agriculture inputs and fertilisers for the past three decades. More than 9,000 primary agricultural cooperative societies (PACS) are shareholders of KRIBHCO. Hence, KRIBHCO's position and experience provides opportunity for tie-up of raw material for KGEPL.

The board of KRIBHCO had earmarked Rs. 250-crore equity for KRIBHCO Green Energy Private Limited at a debt-equity ratio of 70:30, whereas the lenders have sanctioned a term loan at 90:10 debt-equity ratio. Accordingly, Rs. 87 crore has already been invested by KRIBHCO and around Rs. 32-crore equity will be issued towards the Nellore land, leaving sufficient cushion for any financial support to Kribhco Green Energy Private Limited.

KRIBHCO has also provided corporate guarantee for the debt availed by KRIBHCO Green Energy Private Limited. There will be adequate support from KRIBHCO if KGEPL faces any challenges in debt repayment.

Offtake agreements with oil marketing companies provide revenue visibility - The company has entered into long-term offtake agreements with OMCs for a period of 10 years for the supply of the entire quantity of ethanol annually produced by it, thus ensuring offtake of the entire production and providing revenue visibility, after the commencement of operations.

Achievement of complete financial closure and infusion of large quantum of equity mitigates funding risk - KGEPL is setting up three grain-based ethanol plants of 270-klpd capacity each in Hazira, Nellore and Jagtial with a total capex of around Rs. 1,000 crore, which is to be funded by a debt of around Rs. 911 crore and the balance with equity from Kribhco. The company has already achieved financial closure for the complete debt amount of Rs. 911 crore availed for a tenor of eight years, including a 1-year moratorium period. Further, the company has received majority of the requisite statutory approvals for commissioning of the plant. The achievement of complete financial closure is likely to support the timely commencement of operations.

Healthy demand potential for ethanol; Government incentives in the form of interest subvention - - 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, under 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 viability of the projects.

Strategic location of the upcoming project in Andhra Pradesh and Telangana - The proposed facilities of the entity are located at Hazira, Nellore and Jagtial. The sites are in close vicinity to the maize growing areas, ensuring ample supply of raw materials from the neighbouring places. Further, the OMC depots are also in the range of 100-120 km to the plant location. The proximity to these maize growing areas and OMC depots is expected to provide the company with logistics ease, thus strengthening the projects' viability.

Credit challenges

Inherent project risks; delays at Jagtial site due to local issues - The total capital outlay of the three projects is estimated at ~Rs. 1,012 crore. The units at Hazira and Nellore are around 40% completed as on date. Construction at Jagtial has not yet started due to protests from the local people. The state government has asked to keep it on hold. The completion target was one year initially which has been delayed and now mechanical completion is expected to be completed by July 2024-end. The Hazira and Nellore sites are expected to be commissioned by August-September 2024. The commissioning of the projects within the scheduled timeframe and budgeted cost would remain crucial for the viability of the projects in the near to medium term.

Significant dependence on debt, resulting in moderate financial risk profile - Of the total estimated cost of the project, Rs. 911 crore will be funded through debt, keeping the dependence on borrowings very high. The company's ability to achieve healthy capacity utilisation and generate steady cash accruals will be important for timely debt servicing. However, the DFPD's approval would entitle the project to interest subvention, aiding viability. Further, the presence of DSRA, a moratorium period of one year and the long tenure of seven years for repayment point to adequate cash flows from operations for debt servicing.

Susceptibility of profitability to volatility in raw material costs - The primary raw materials used by KBKBPL are maize and broken rice 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 company's cost structure, making the profitability susceptible to any increase in the cost of fossil fuels used for power generation.

Liquidity position: Adequate

KGEPL's liquidity will remain adequate to meet the funding requirements of the projects as the entire debt tie-up has been completed, while the equity contribution from the promoter has been received. ICRA expects the promoter to support the projects by infusing additional equity, as per the requirements.

Rating sensitivities

Positive factors – A timely commencement of operation within the budgeted cost and a successful ramp-up and stabilisation of the plants could improve the rating.

Negative factors – Pressure on the rating could arise on account of delays in starting the operations, or material cost overruns, or issues with the stabilisation of the plants, impacting the cash flow generation and debt servicing capability. Further, any material deterioration in the parent's credit profile or weakening in the linkages can lead to a rating revision.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	ICRA factors in the parentage of KRIBHCO while assigning the ratings for KGEPL. There is a track record of support from KRIBHCO in the form of corporate guarantees backing the bank lines of KGEPL. ICRA expects KRIBHCO to support KGEPL in a situation of distress
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of KGEPL

About the company

Kribhco Green Energy Private Limited was incorporated on September 30, 2021. The company is a 100% subsidiary of Krishak Bharati Cooperative Limited. KGEPL is setting up three grain-based ethanol plants of 270-klpd capacity each in Hazira, Nellore and Jagtial with a total capex of around Rs. 1,000 crore, which is to be funded by a debt of around Rs. 911 crore and the balance by equity from Kribhco. The Hazira and Nellore sites are expected to be commissioned from October 2024, whereas construction at the Jagtial site has not yet started.

Key financial indicators (audited): **As KGEPL is a project company which is likely to start operation from FY2025, the key financial indicators have not been included.**

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 Feb 29, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 27, 2024	-	-	-
1	Term loans	Long term	911.5	95.0	[ICRA]A (Stable)	-	-	-
2	Unallocated limits	Long term	88.5	-	[ICRA]A (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long term – Unallocated limits	NA

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	**Term loan**	July 2023	7.60%	FY2033	911.5	[ICRA]A (Stable)
NA	**Unallocated limits**	NA	NA	NA	88.5	[ICRA]A (Stable)

Source: Company

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

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

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About ICRA Limited:

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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.

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