

October 09, 2024

E20 Greenfuels Private Limited: [ICRA]BB (Stable)/[ICRA]A4+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based - Term loan	95.00	[ICRA]BB(Stable); assigned
Long term - Fund-based - Cash credit	80.00	[ICRA]BB(Stable); assigned
Short term - Non-fund based - Bank guarantee	8.00	[ICRA]A4+; assigned
Total	183.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating for E20 Greenfuels Private Limited (EGPL) 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 revenue visibility for the company over the medium term. The contract with Bharat Petroleum Corporation Limited (BPCL), Indian Oil Corporation Limited (IOCL) and Hindustan Petroleum Corporation Limited (HPCL) ensures an annual offtake quantity of 4.63 crore litres of ethanol (i.e. 60% of the installed capacity) for a period of 10 years. The balance quantity is expected to be supplied to the OMCs on an open tender basis. The project also enjoys the locational advantage of being close to ample raw material sources, along with its ability to reach out to various oil blending depots in the nearby areas.

However, the ratings remain constrained by EGPL's nascent stage of operations with FY2024 being the first year of operations, and a muted financial risk profile characterised by high leverage and weak debt coverage indicators. Further, the company is planning to expand its capacity to 400 KLPD from 250 KLPD by FY2026, which will further increase the borrowings and impact its capital structure. Also, the brownfield expansion remains exposed to implementation risks with timely completion of the project within the budgeted cost along with a healthy ramp-up and stabilisation of the capacity being a key monitorable.

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

The Stable outlook on the [ICRA]BB 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 because of its advantageous location.

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 4.63 crore litres of ethanol (60% of the installed capacity) produced by it, annually. The balance quantity is sold to OMCs through open tenders floated quarterly. Thus, the offtake agreement for 60% of the installed capacity provides revenue visibility for the company over the medium term.

Healthy demand potential for ethanol, 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 Government's increasing focus on reducing crude oil import dependence. Further, the demand for ethanol is likely to continue, given the Central Government's aim to achieve 20 per cent ethanol blending target by 2025. The Government of India (GoI) has been supporting the industry through various measures, such as interest-subvention loans for ethanol capacity creation and expansion and remunerative prices, resulting in an improved domestic demand-supply balance. Favourable pricing, coupled with a relatively short credit period for ethanol supplies, has supported the profits and cash accruals of various distilleries.

Credit challenges

Project execution risk for brownfield expansion plans – The company is enhancing its capacity to 400 KLPD from 250 KLPD at an estimated capital outlay of Rs. 105 crore. This will be funded by a term loan of Rs. 76.5 crore (70% of the project cost) and the balance through internal accruals. The enhanced capacity is expected to commence operations by January 2026. Thus, the commissioning of the capacity within the scheduled timeframe and budgeted cost along with the stabilisation of operations remains important.

Significant dependence on debt in capital structure; weak debt coverage indicators – The financial risk profile of the company is weak with a negative net worth position as on March 31, 2024, and significant dependence on external borrowings with an outstanding debt of Rs. 132.36 crore. The sizeable amount of debt in the capital structure has resulted in a high gearing and weak coverage indicators. Further, a sizeable portion of the enhanced capacity is expected to be funded through debt which will impact its capital structure. Therefore, the company's ability to achieve healthy capacity utilisation and generate steady cash accruals will be important for a timely debt servicing.

Susceptibility of profitability to volatility in raw material costs - The primary raw materials used by EGPL are broken rice and maize, which are agro-commodities. The prices of broken rice and maize are prone to significant fluctuations and have been quite volatile in the recent past, as their availability depends on the monsoon. Nevertheless, the company's plant is located in a surplus rice state i.e. Haryana, thereby reducing the impact of price fluctuations to a considerable extent.

Risks associated with operating in a regulated industry - EGPL'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 scheme or any material decrease in ethanol pricing would have an adverse impact on the company's financials. Nonetheless, the Central Government's preponement 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: Adequate

The company's liquidity position remains adequate, driven by expected sufficient cash flow from operations against the debt obligations (principal repayment of Rs. 16-17 crore in FY2025 and FY2026). The company also has moderate cushion available in its working capital limits with an average utilisation of ~60% against the sanctioned limits during the past 12 months.

Rating sensitivities

Positive factors – ICRA could upgrade EGPL's rating if there is a sustained improvement in its scale and profitability, leading to healthy cash accruals along with an improvement in the debt coverage indicators and liquidity profile. Further, timely commencement of the brownfield expansion within the budgeted cost and stabilisation of operations would support an upgrade.

Negative factors – Pressure on the ratings could arise if any decline in revenues and profitability results in lower-than-expected cash accruals and weak debt coverage indicators. Any significant delay in brownfield expansion or in the stabilisation of its operations and/or cost overruns could also trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

M/S E20 Greenfuels Private Limited is promoted by the BIG Group and the TRDP Group. It is involved in the manufacturing and sales of ethanol and related by-products. The company currently operates a 250-KLPD ethanol manufacturing facility (250 KLPD for maize-based ethanol and 300 KLPD for damaged foodgrains) and a 6-MW power co-generation unit, at Sirsa, Haryana. It plans to expand the ethanol manufacturing capacity to 400 KLPD (440 KLPD for DFG and 400 KLPD for maize) by January 2026.

Key financial indicators

	FY2024*
Operating income (Rs. crore)	241.5
PAT (Rs. crore)	-15.1
OPBDIT/OI (%)	4.0%
PAT/OI (%)	-6.2%
Total outside liabilities/Tangible net worth (times)	-29.5
Total debt/OPBDIT (times)	24.9
Interest coverage (times)	1.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; OI: Operating income; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation, *Provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Oct 09, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Long term term loan - Fund based	Long term	95.00	[ICRA]BB (Stable)	-	-	-	-	-	-
Long term - Cash credit – Fund-based	Long term	80.00	[ICRA]BB (Stable)	-	-	-	-	-	-
Short term - Bank guarantee – Non-fund based	Short term	8.00	[ICRA]A4+	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund-based - Term loan	Simple
Long term - Fund-based - Cash credit	Simple

Short term - Non-fund based - Bank guarantee

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 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 - Term loan	FY2022	NA	FY2030	95.00	[ICRA]BB(Stable)
NA	Long term – Fund-based - Cash credit	NA	NA	NA	80.00	[ICRA]BB(Stable)
NA	Short term - Non-fund based - Bank guarantee	NA	NA	NA	8.00	[ICRA]A4+

Source: Company data, ICRA Research

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

Annexure II: List of entities considered for consolidated analysis- Not applicable

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