

June 28, 2023

HARP Chemicals Private Limited: [ICRA]BB- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	100.00	[ICRA]BB- (Stable); assigned
Long-term – Unallocated Limits	20.00	[ICRA]BB- (Stable); assigned
Total	120.00	

*Instrument details are provided in Annexure-I

Rationale

The rating action for HARP Chemicals Private Limited's (HCPL) factors in the healthy demand outlook for ethanol in India and the strategic location of its 125-kilolitres per day (KLPD) grain-based distillery for producing ethanol in Sangrur, Punjab. The ethanol distillery is being constructed in a major rice producing state, enabling the company to enjoy locational advantages owing to access to ample raw material sources and proximity with oil manufacturing depots and Food Corporation of India (FCI) warehouses. ICRA also notes that HCPL is covered under fiscal benefits under the National Biofuels Policy 2018, which will support profitability during operations, with approval from Department of Food and Public Distribution (DFPD). Also, company has received a capital subsidy from Punjab government wherein the interest cost on terms loans will be partially reimbursed (50% of the interest cost), under the Interest Subvention Scheme applicable for 5 years from the commencement of operations.

However, the rating is constrained by inherent risks associated with greenfield projects, including material time and cost overruns; and achieving desired cost efficiencies. The proposed project is expected to commence operations by around beginning of 2024, following which the stabilisation of operations and cash accrual generation will remain a key monitorable. Also, HCPL's debt protection metrics are expected to remain modest in the initial years on account of high debt funding. However, gradual improvement is expected in the same, driven by scaling up of accrual generation. Further, HCPL's profitability is likely to be exposed to volatility in prices of its key raw material, broken rice. The regulated nature of the ethanol industry in India further exposes the company to regulatory risks, given that the basic price of ethanol is fixed by the Government.

The Stable outlook on the long-term rating reflects ICRA's opinion that HCPL will benefit from the healthy demand for ethanol in the near to medium term and the strategic location of its distillery, which strengthen the project's metrics.

Key rating drivers and their description

Credit strengths

Healthy demand potential for ethanol – Over the years, the Government of India has increased its focus on blending petrol with ethanol owing to its benefits of reducing carbon emissions, promoting biofuels and renewable energy, and savings in forex reserves. The demand outlook for ethanol is healthy as reflected by the Government's continued efforts to achieve higher blending targets. Going forward, the demand potential will continue, aided by an ethanol blending target of 20% by 2025.

Strategic location of upcoming project in Punjab, major rice producing state, to strengthen project metrics – The proposed plant is located at Sangrur, Punjab, which is in the vicinity of various rice suppliers ensuring ample resources of key raw material—broken rice—for the company. Further, the site is located near the blending depots of Oil Marketing Companies (OMCs) (~70 km from Indian Oil Corporation Limited) with adequate transport and road connectivity for sourcing other

requirements, such as paddy straw and cane trash for biofuel. The strategic location of the plant strengthens the project's metrics.

Credit challenges

Inherent risks associated with greenfield projects – The capital outlay of the project is estimated at Rs. 137.9 crore (excluding working capital margin), funded through a term loan of Rs. 100 crore (73% of total project cost) and balance equity/promoter contribution of Rs. 37.9 crore (27%). As of April 30, 2023, HCPL has incurred ~22% of the total project cost towards manufacturing set up and equipment. The project is in relatively initial stages of construction, with expected commissioning by around beginning of 2024. Commissioning of the project with no material time/cost overruns remains a key monitorable. Moreover, post commissioning, stabilisation of operations over the near term will be key for generating adequate cash flows for timely debt servicing. However, the company's promoters have prior experience in the distillery and associated businesses, which provides some comfort on project execution as well as stabilisation of operations, post commissioning.

Risks associated with operating in a regulated industry – HCPL's operations are exposed to Government's policies such as ethanol prices, offtake norms, raw material availability, and interest subvention schemes, among others. Any material change in these regulations can impact the operational profile of the company over the long-term. Nonetheless, the Government's preponement of ethanol blending target of 20% by 2025 will continue to elevate the demand prospects of ethanol and support financial performance of distilleries manufacturing ethanol.

Volatility in raw material prices – The primary raw material for HCPL for manufacturing ethanol is broken rice, along with paddy straw and other feedstock required for fuelling the boiler. Thus, any change in prices of these commodities could affect company's profitability.

Liquidity position: Stretched

HCPL's liquidity profile is likely to remain stretched over the near term on account of limited cash balances and accrual generation. While the debt repayment is expected to commence from September 2024, steady ramp up of production to generate adequate cash flows will remain a monitorable. However, the company is also required to maintain DSRA (one quarter's principal and interest obligation; partially already created), which can be utilised in case of any shortfall in accrual generation to meet debt servicing obligations.

Rating sensitivities

Positive factors – Commencement of operations without any material time/cost overruns and/or tie-up for assured offtake with OMCs in the near term could result in a rating upgrade.

Negative factors – Negative pressure on the rating could arise in case of any considerable delay in project commissioning or sizeable cost overruns; adversely impacting the cash flow generation in the early stages, after commencement of commercial operations.

Analytical approach

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

About the company

Incorporated in 2021, HCPL is setting up 125-KLPD, integrated grain-based ethanol distillery plant along with a 2.75-MW captive power generation plant at Sangrur district, Punjab. The manufactured ethanol will be sold to OMCs and private oil manufacturers under the Government of India's Ethanol Blended Petrol (EBP) programme.

Key financial indicators (audited)

HCPL - Standalone	FY2022
Operating income	0.0
PAT	0.0
OPBDITA/OI	-
PAT/OI	-
Total outside liabilities/Tangible net worth (times)	98.0
Total debt/OPBDITA (times)	-
Interest coverage (times)	-

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jun 28, 2023			
1 Term loan	Long-term	100.00	2.00	[ICRA]BB-(Stable)	-	-	-
2 Unallocated Limits	Long-term	20.00	-	[ICRA]BB-(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	Long-term Fund-based – Term Loan	2023	~9.5%	2033	100.00	[ICRA]BB- (Stable)
NA	Long-term – Unallocated Limits	-	-	-	20.00	[ICRA]BB- (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 – Not Applicable

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