

August 14, 2023

SNJ Bio Products 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	77.00	[ICRA]BB- (Stable); assigned
Long-term/ Short-term – Unallocated	1.00	[ICRA]BB- (Stable)/[ICRA]A4; assigned
Total	78.00	

*Instrument details are provided in Annexure-I

Rationale

The rating action for SNJ Bio Products Private Limited (SBPPL) factors in the healthy demand outlook for ethanol in India and advantages derived from the strategic location of its 75-KLPD (kilo litres per day) grain-based ethanol distillery coming up in Bareilly, Uttar Pradesh, a major rice producing state. Thus, the company is expected to benefit in terms of easy access to its key raw material as well as proximity to depots of oil marketing companies (OMCs). ICRA also notes that SBPPL is covered under fiscal benefits of the National Biofuels Policy 2018, which is expected to support profitability during operations.

However, the ratings are constrained by the inherent project-related risks to which the company is exposed, including time and cost overruns and achieving desired cost efficiencies. The project is proposed to commence operations from H2 CY2024, following which the stabilisation of operations and cash accrual generation will remain key monitorables for timely debt servicing. However, its coverage metrics are expected to remain comfortable over the near term owing to lower interest costs in the initial years, aided by the State’s interest subvention scheme. SBPPL’s profitability will be exposed to the volatility in key raw material prices and regulatory risks associated with the ethanol business, given that ethanol price is fixed annually by OMCs.

The Stable outlook on the long-term rating reflects ICRA’s opinion that company will benefit from the healthy demand for ethanol in the near to medium term, supported by its strategic location that strengthens 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 ethanol blended petrol owing to its benefits of reducing carbon emissions, promoting biofuels and renewable energy, and saving 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 the ethanol blending target of 20% by 2025.

Strategic location of upcoming project in Uttar Pradesh, major rice producing state, to strengthen project metrics – SBPPL’s proposed distillery is coming up in Bareilly, Uttar Pradesh, a major rice producing state. Thus, the company is expected to benefit from availability and easy access to its key raw material—broken rice. Further, the site is located near the blending depots of OMCs with adequate transport and road connectivity for sourcing other requirements, such as rice husk for biofuel. The strategic location of the plant strengthens the project’s metrics.

Credit challenges

Inherent risks associated with greenfield projects – The total capital outlay of the project is estimated at Rs. 104.8 crore, which is being funded through a term loan of Rs. 77 crore (74% of total project cost) that has already been sanctioned; and balance equity/promoter contribution of Rs. 27.8 crore (26%). As of July 2023, SBPPL had incurred ~7% of the total project cost towards land and some manufacturing set up. The promoters are also expected to bring in 50% of their contribution by mid-August, following which the draw down of loan is expected in stages. The project is in relatively initial stages of construction, with expected commissioning by the second half of 2024. However, timely commissioning and further stabilisation of operations with generation of adequate cash flows remain key monitorables for timely debt servicing.

Volatility in raw material prices – The key raw material for SBPPL for manufacturing ethanol is broken rice, along with rice husk for fuelling the boiler. Any adverse fluctuation, especially in the prices of rice, can impact the profitability of the company, given that prices for ethanol are typically fixed for the entire ethanol supply year (ESY).

Risks associated with operating in a regulated industry – SBPPL’s operations are exposed to Government 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.

Liquidity position: Stretched

The liquidity profile of the entity is likely to remain stretched with limited cash balances and accrual generation. While the debt repayment will commence from Q4 FY2025, steady ramp up of production to generate adequate cash flows will remain monitorable. However, the company is also required to maintain DSRA (one quarter’s principal and interest obligation after six months from the date of commencement of operations), which can be utilised in case of any shortfall in accrual generation to meet debt servicing obligations.

Rating sensitivities

Positive factors – Timely commencement of operations without significant cost overruns would be a positive for the rating. Moreover, post start of commercial operations, sustained improvement in scale and profitability leading to healthy cash accruals could lead to an upgrade.

Negative factors – Negative pressure on the rating could arise on account of considerable delay in commencement of operation/cost overruns or delays in stabilisation of the company’s 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, SBPPL is setting up a 75-KLPD, integrated, grain-based ethanol distillery plant along with a 2.5-MW captive power generation plant at Bareilly district, Uttar Pradesh. The company has been promoted by members of the Jindal family. The manufactured ethanol will be sold to OMCs under the Government of India’s Ethanol Blended Petrol (EBP) programme.

Key financial indicators

SBPPL	FY2023*
Operating income	-
PAT	-
OPBDIT/OI	-
PAT/OI	-
Total outside liabilities/Tangible net worth (times)	1.0
Total debt/OPBDIT (times)	-
Interest coverage (times)	-

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore *provisional
SBPPL has been recently incorporated and is currently under project stage with no operations in FY2023.

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 July 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Aug 14, 2023	-	-	-
1 Fund-based – Term Loan	Long-term	77.00	0.00*	[ICRA]BB- (Stable)	-	-	-
2 Unallocated	Long-term/ Short-term	1.00	-	[ICRA]BB- (Stable)/ [ICRA]A4	-	-	-

*Yet to be disbursed by bank

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Fund-based – Term Loan	Simple
Long-term/ Short-term – Unallocated	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	Fund-based – Term Loan	FY2024	9.90%	FY2032	77.00	[ICRA]BB- (Stable)
NA	Unallocated	NA	NA	NA	1.00	[ICRA]BB- (Stable)/[ICRA]A4

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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