

November 07, 2024

SNJ Bio Products Private Limited: Long-term rating upgraded to [ICRA]BB (Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Fund-based – Term Loan	77.00	77.00	[ICRA]BB (Stable); Upgraded from [ICRA]BB- (Stable)
Long-term/Short-term – Unallocated	1.00	1.00	[ICRA]BB (Stable)/[ICRA]A4; Long-term rating upgraded from ICRA]BB- (Stable), Short-term rating reaffirmed
Total	78.00	78.00	

*Instrument details are provided in Annexure-I

Rationale

The upgrade in the long-term rating for SNJ Bio Products Private Limited (SBPPL) factors in the advanced stage of completion of its 75- kilo-litres-per-day (KLPD) grain-based ethanol distillery, which is being set up in Bareilly, Uttar Pradesh. Almost the entire project cost has been incurred as on date and the distillery is expected to get commissioned by November 2024, without any significant cost or time overrun. The ratings also continue to factor in the healthy demand outlook for ethanol in India and the strategic location of the distillery in Uttar Pradesh, which is 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 are expected to support project metrics, post commencement of operations.

However, the ratings are constrained by SBPPL's limited track record of operations, given that its facility is yet to commence commercial operations and achieve desired cost efficiencies subsequently. Moreover, sizeable debt availed to fund the project is expected to result in weak debt protection metrics over the near term. The company's ability to achieve healthy capacity utilisation and generate steady cash accruals will be closely monitored. Further, SBPPL's profitability will be exposed to the volatility in key raw material prices and regulatory risks associated with the ethanol business, as ethanol price is fixed annually by OMCs.

The Stable outlook on the long-term rating reflects ICRA's opinion that the 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 – The long-term demand outlook for ethanol and biofuel remains healthy on the back of significant demand-supply gap along with the Government's aim to achieve ethanol blending target of 20% by 2025. 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. Moreover, to increase indigenous production of ethanol, the Government is taking multiple initiatives to enhance production capacity, including the interest subvention scheme.

Strategic location of upcoming project in Uttar Pradesh, major rice producing state, to strengthen project metrics – SBPPL's proposed distillery is located in Bareilly, Uttar Pradesh, a major rice producing state. Thus, the company is expected to benefit

from availability and easy access to broken rice, its key raw material. Further, the plant is in proximity to 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

Limited track record of operations – The facility is yet to commence commercial operations and thus the company is yet to demonstrate its ability to regularly secure orders and manage its operations. Timely scaling up of operations and generating adequate internal accruals will be key for supporting the company's credit profile.

Debt protection metrics to remain subdued over the near term due to sizeable debt funding of the project – The total capital outlay of the project is estimated at Rs. 110.1 crore, being largely funded through a term loan of Rs. 77 crore (70% of total project cost), and the balance through equity/promoter contribution. The high quantum of debt in the capital structure is expected to keep the debt protection metrics moderate over the near term. However, the interest subvention on term loan wherein the company will get reimbursement of 50% of the interest cost for five years post commencement of operations, provides some comfort. SBPPL's ability to achieve healthy capacity utilisation and internal accrual generation, post commencement of operations, will be key factors for improving the credit metrics.

Volatility in raw material prices – The key raw materials for SBPPL for manufacturing ethanol are broken rice, maize, etc. along with rice husk for fueling the boiler. Any adverse fluctuation, especially in the prices of key raw materials, can impact the company's profitability, given that prices for the finished product (ethanol) are fixed for the entire ethanol supply year (ESY).

Risks associated with operating in a regulated industry – SBPPL's operations are exposed to revision in 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 move to prepone the ethanol blending target of 20% by 2025 will continue to boost the demand prospects of ethanol and support financial performance of distilleries that manufacture ethanol.

Liquidity position: Stretched

The liquidity profile of the entity is likely to remain stretched with limited cash balance and accrual generation in the near term. While debt repayment will commence from FY2026, a steady ramp-up of production to generate adequate cash flows will remain a key monitorable. The company is also required to maintain a debt service reserve account (DSRA), equivalent to one quarter's principal and interest obligation after six months from the date of commencement of operations. Availing working capital limits from the bank in a timely manner will be key for scaling up the company's operations.

Rating sensitivities

Positive factors – Ratings could be upgraded once company demonstrates scale up of operations and profitability, leading to healthy cash accrual generation and improvement in liquidity position.

Negative factors – Negative pressure on the ratings could arise on account of considerable pressure on accrual generation, exerting pressure on the company's debt protection metrics and liquidity position.

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 75-KLPD integrated grain-based ethanol distillery plant along with 2.5-MW captive power generation plant at Bareilly district, Uttar Pradesh. The manufactured ethanol will be sold to OMCs under the Government of India's Ethanol Blended Petrol program.

Key financial indicators

SBPPL – Standalone	FY2023	FY2024*
Operating income	-	0.0
PAT	- 0.0	- 0.2
OPBDIT/OI	-	-
PAT/OI	-	-
Total outside liabilities/Tangible net worth (times)	47.5	5.8
Total debt/OPBDIT (times)	- 1,041.4	- 344.3
Interest coverage (times)	-	-

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

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

The company is expected to start generating revenues in FY2025

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Nov 7, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund-based – Term Loan	Long term	77.00	[ICRA]BB (Stable)	14-Aug-23	[ICRA]BB- (Stable)	-	-	-	-
Unallocated	Long term / short term	1.00	[ICRA]BB (Stable)/ [ICRA]A4	14-Aug-23	[ICRA]BB- (Stable)/ [ICRA]A4	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Fund-based –Term Loan	Simple
Long-term/ Short -term – Unallocated	Not Applicable

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	~10.3%	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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