

Press Release

Brahmaputra Biochem Private Limited

January 02, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 75.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE BBB minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 75.00 crore bank facilities of Brahmaputra Biochem Private Limited. The outlook is '**Stable**'.

BBPL, incorporated in 2010, has established a grain-based distillery unit in Assam to produce potable and industrial grade alcohol viz. Extra neutral alcohol (ENA), Distillers Dried grain Solubles (DDGS) and impure spirit. The commercial operations commenced from April 2016. The installed capacity for ENA is 60,000 litres/day along with 3150 litres/day of impure spirits. The company also plans to sell liquid CO2 of around 30 tons/day. The company also has 2MW captive power plant. The company is promoted by Mr. Jagmohan Singh Arora, Mr. Kuljeet Singh Arora and Mr. Arjun Arora.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of BBPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced Management

BBPL was incorporated in 2010, and the commercial operations of the company commenced in April 2016. The company is promoted by Mr. Jagmohan Singh Arora, Mr. Kuljeet Singh Arora and Mr. Arjun Arora. The promoters have experience of over four decades in various industries. The management is associated with J. K. Arora Group of companies since 1965. The group is engaged in various businesses such as dairy product processing since 1965, Marble mining industry since 1982, and hotel industry since 2008. Acuité believes that BBPL will benefit from its established position in various industries, experienced management and established relationships with customers and suppliers.

• Financial incentives and subsidies from state and central government

BBPL is entitled to interest subsidy of 3 percent on working capital limits, capital subsidy from central government which is 30 per cent of total cost of plant and machinery or Rs.27.50 crore whichever is lower. The company has 99% VAT exemption (upto the cost of plant & machinery) for 7 years from State Government and 100 per cent insurance premium subsidy. Acuité believes these benefits are likely to provide benefits in stabilising and scaling up its operations. These incentives have been reflected in moderate financial risk profile of the company despite two years' of operations. The Gearing (debt-equity) of the company stood moderate at 1.53 times as on 31 March 2018. Interest coverage ratio (ICR) was 1.92 times for FY2018 and debt-EBITDA stood at 3.75 times for FY2018.

• Improvement in Business Risk profile

BBPL manufactures grain-based alcohol of two types, Extra Neutral Alcohol (ENA) and impure Spirit, along with by-products such as CO2. ENA is highly purified potable alcohol, which finds applications in the liquor industry as well as the pharmaceutical and the cosmetic industry for industrial purposes. Due to better quality and cheaper prices, there is an increasing awareness and demand for the grain-based alcohol in the domestic liquor industry. The operation of the company has been limited with track record of two years. The commercial operation of the company has commenced in April 2016. The unit was only operational for 125 days in 1st year due to local issues faced by the company. In

FY2018, the company has achieved revenues of Rs.102.77 crore for FY2018 which is second year of operations. Further, the company has achieved revenues of ~Rs.79.14 crore from April-November 2018. Acuité believes the company's ability to scale up its operations will remain a key rating sensitivity factor.

Weaknesses

- **Susceptibility of operations to regulatory changes which are inherent in the liquor industry**

The Indian liquor industry is highly regulated by the Government. Regulation and taxation of the alcohol industry is under the purview of the state governments. The regulations at the state level are also prone to frequent changes and result in significant uncertainty in terms of licensing, distribution, pricing and tax structure. The industry also remains heavily taxed, with taxes averaging to over 30%. However the risk of taxation for BBPL has been mitigated at a certain extent as the company has 99 % waiver of VAT (upto the cost of plant & machinery) for 7 years. Also the controls over distribution and pricing restrict industry growth to an extent; some of these restrictions indirectly act as entry barriers for competition and consequently favour well-established players.

- **Susceptibility of profitability and price fluctuation in raw material**

The company is engaged in manufacturing of grain based Extra Neutral Alcohol (ENA). The major raw materials consumed by the company are maize and rice. The dependence of growth of such agro products are highly dependent on the agro-climatic conditions. The profitability of the company is exposed towards the price fluctuation of these seasonal commodities.

Outlook: Stable

Acuité believes that BBPL will maintain 'Stable' outlook over the medium term from its experienced management. The outlook may be revised to 'Positive' in case the company registers a substantial increase in its scale of operations and profit margins, while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the company's financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	102.77	38.04	0.10
EBITDA	Rs. Cr.	19.47	4.13	0.08
PAT	Rs. Cr.	4.58	-10.27	0.01
EBITDA Margin	(%)	18.95	10.85	79.99
PAT Margin	(%)	4.45	-26.99	12.59
ROCE	(%)	12.08	-0.32	0.07
Total Debt/Tangible Net Worth	Times	1.53	1.79	1.52
PBDIT/Interest	Times	1.92	0.43	3.19
Total Debt/PBDIT	Times	3.75	18.82	930.84
Gross Current Assets (Days)	Days	81	159	50767

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.96	ACUITE BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.98	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	26.07	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	26.30	ACUITE BBB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.88	ACUITE A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.88	ACUITE A3
Proposed	Not Applicable	Not Applicable	Not Applicable	0.93	ACUITE BBB- / Stable

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Kunal Khera Analyst - Rating Operations Tel: 02249294042 kunal.khera@acuiteratings.in	

About Acuité Ratings & Research:

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