

## Press Release

### Shreebalaji Biosolutions Fuels LLP

February 01, 2023



## Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	106.82	ACUITE BB-   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	106.82	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has assigned its long term rating of '**ACUITÉ BB-**' (read as **ACUITE Double B Minus**) on the Rs. 106.82 Cr. bank facilities of Shreebalaji Biosolutions Fuels LLP (SBF LLP). The outlook is '**Stable**'.

### Rating Rationale

The rating assigned reflects the strong support from Government of India for Ethanol Blended Petrol Programme (EBP) wherein the firm derived the benefits from its under-construction project of ethanol manufacturing. The project progress as of December 31, 2022 stands at 85% and is likely to achieve CoD in April 2023 as against the previous estimates of January 2023. Further, the firm has entered into an off-take agreement with Oil Marketing Companies (OMC's) for a term of ten years, thus mitigating demand risk to a certain extent. However, the rating is constrained by the nascent stages of operations and profitability is yet to be established. Further, the firm is likely to witness extensive competitive pressures, as numerous ethanol manufacturing plants are likely to come up under the EBP programme.

### About the Company

SBF is a limited partnership firm, headquartered in Madhya Pradesh and was incorporated in 2021. The firm has been incorporated for manufacturing of Ethanol for blending with fuel. The firm is to supply ethanol to the OMC's in the nearby vicinity. The firm is managed by the partners Mr. Manish R V Singh and Mr. Madhav Mittal.

### Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of SBF LLP to arrive at the rating.

### Key Rating Drivers

#### Strengths

#### Secured Off-Take Agreement partly mitigates demand risk

The installed plant capacity has been planned for 120 KLPD, wherein, the plant will manufacture approx. 3.76 Cr litres per annum when utilised at 100% capacity. The firm has already entered into off-take agreement with OMC's for a term of 10 years. The agreement hosts a purchase commitment of 2.31 Cr litres of ethanol per annum from the firm. Though the

agreement determines the sale price and purchase rates for raw materials under the terms of the agreement, its impact of the profitability is yet to be seen.

Additionally, the agreement stipulates that the OMC's shall pay the value of the order received from SBF within 21 days from receipt of the delivery of ethanol.

Acuité believes that SBF has mitigated the supply risk and demand risk to a certain extent, and, this shall help the firm in the nascent years to establish itself in the industry.

### **Favourable regulatory regime**

The Government of India has been encouraging the EBP programme such that, it has scaled up the targets of blending from 10% to 20%. The timeline to achieve the 20% blending has been set as 2030. To facilitate achieving of new blending targets, a "grid" which networks distilleries to OMC depots and details quantities to be supplied has been worked out. State-wise demand profile has also been projected, keeping in view distances, capacities and other sectoral demands. Thus, SBF is likely to benefit from the Government's active participation in EBP programme since it is located at a distance of 6 kilometres from the nearest OMC depot. Acuite believes that while that the industry scenario is likely to remain conducive over the medium term thereby leading to quick stabilisation of operations. On the flip side, with increase in number of manufacturers, the competitive pressures may exert pressure on projected profitability levels.

### **Weaknesses**

#### **Delay in project execution**

The project cost is estimated at Rs. 124.79 Cr, out of which Rs. 106.82 Cr is financed through term loan from bank for which the firm has received the disbursement. The balance 17.97 Cr is to be contributed by partners. The firm was to commence commercial operations by January 2023 as per the Off-take agreement, however, there were delays in project execution which caused a delay in commencement of commercial operations to April 2023. Acuite learns through its interactions that the company has received extension from the OMC on the covenants to supply ethanol from January 2023. While the project is likely to achieve CoD in April 2023, any further delays in the execution is likely to lead to additional cost and risk of termination of agreement by the OMC.

### **Rating Sensitivities**

- Further delay in project execution
- Supply of ethanol as per the off-take agreement

### **Material covenants**

None

### **Liquidity Position**

#### **Adequate**

The firm has received disbursement of the term loan, thus ensuring adequate liquidity for completion of execution. Further, the partners have contributed capital for the project construction as envisaged.

### **Outlook: Stable**

Acuité believes the outlook on SBF will remain 'Stable' over the medium term on the back of favourable demand and regulatory support. The outlook may be revised to 'Positive' if the company is able to ramp up and stabilise its operations in the near to medium term thereby leading to adequate cash generation. Conversely, the outlook may be revised to 'Negative' in case of further delays in project execution leading to any adverse implications on its agreement with OMCs.

### **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	0.00	0.00
PAT	Rs. Cr.	(0.07)	0.00
PAT Margin	(%)	0.00	0.00
Total Debt/Tangible Net Worth	Times	0.00	0.00
PBDIT/Interest	Times	(49.16)	0.00

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

Not Applicable

### Any other information

Not Applicable

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

### Rating History:

None

### Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	106.82	ACUITE BB-   Stable   Assigned

## Contacts

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### About Acuité Ratings & Research

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