Press Release
K G Spirits LLP
July 12, 2023
Rating Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	100.00	ACUITE BB+ | Reaffirmed & Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	100.00	-	-

Rating Rationale

Acuité has reaffirmed and withdrawn its long term rating of **'ACUITE BB+' (read as ACUITE double B plus)** on the Rs 100.00 crore bank facilities of K G Spirits LLP. The rating is being withdrawn on account of the request received from the firm and the NOC received from the banker as per Acuité's policy on withdrawal of ratings.

Rationale for the Reaffirmation

The rating reflects the firm's exposure to significant project execution risk related to its ongoing project and expected leveraged capital structure. These weaknesses are offset by the extensive experience of one of the partners, positive industry outlook buoyed by support from the government.

About the Company

Established in 2021, K G Spirits LLP is a Jharkhand based firm, which was set up with the objective to set-up a 200 KLPD grain-based distillery plant for production of Ethanol (Fuel) with co-generation of 5 MW power for meeting captive power requirement of the distillery. The total cost of project is Rs.217.87 Cr and the commercial operation date is July 2023.

Standalone (Unsupported) Rating

Not Applicable

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of KGS to arrive at the rating.

Key Rating Drivers

Strengths

Experienced partner coupled with favorable industry outlook

The key partner of the company Mr.Rakesh Kumar has around four decades of experience in distillery industry, this includes a decade of experience in the ethanol industry. Going forward, the long-term demand outlook of ethanol and bio-fuel remain favourable on the back of a significant demand-supply gap, along with the Government's focus on reducing crude oil import dependency. Further, with the Central Government's aim to achieve 20 per cent ethanol blending target by 2025, the demand for ethanol is likely to continue. To increase indigenous production of ethanol, the Government is taking multiple interventions for enhancement and augmentation of the ethanol production capacity including interest subvention scheme. Acuité derives comfort from the experience of the key partner and healthy demand for ethanol.

Secured off-take

The firm has negligible off take or demand risk, as under the Ethanol Blending Program (EBP) of India, the firm has entered into a long-term offtake agreement with some oil marketing companies (OMCs) namely Bharat Petroleum Corporation Limited (BPCL), Indian Oil Corporation Limited (IOCL) and Hindustan Petroleum Corporation Limited (HPCL) to supply 5.28 crore litres per annum grain-based Ethanol. Acuité believes KGS's ability to execute the supply of ethanol will be a key rating monitorable .

Weaknesses

Exposure to implementation risk due to early stages of project development

K G Spirits LLP is scheduled to commence its project in July 2023 and has completed the civil construction structure as on January 2023. The firm is exposed to execution risk as ~80 per cent of the project cost is yet to be incurred. The management expects the plant to commence operations in the beginning of July 2023. Ability to execute the project in a timely manner with no cost or time overruns and early stabilization of the project are key credit sensitivities. Acuité would continue to monitor the project progress, and the track record of operations, once commercialised, and take rating actions appropriately.

Expected leveraged capital structure

The firm's capital structure is expected to remain below average marked by low networth base and high gearing over the medium term. The tangible net worth of the firm improved to Rs.5.72 Cr as on 31st March, 2022 due to equity infusion by the promoters. Gearing of the firm will increase and is expected to remain at high levels in FY2024-25 as the firm plans to avail long term facility from bank for its pending construction, plant and machinery purchase and installation. The total cost of project is Rs.217.87 Cr which is to be funded majorly from external borrowings and remaining from promoter's contribution. The financial closure has been achieved. In this project, up to January 2023, the firm has incurred Rs.44.22 Cr which has been funded by term loan of Rs. 18 Cr. and promoter's funding of Rs. 26.22 Cr. In FY23-24, the firm is expected to use the remaining sanctioned amount, and with this the gearing level is expected to increase in FY23-24. The promoters are resourceful and will infuse any incremental funding requirement if the situation arises. The scheduled time for completion of the project is July 2023. Acuité believes that going forward the financial risk profile of the firm is expected to be below average due to leveraged capital structure over the medium term.

Inherent risk of capital withdrawal in a partnership firm

The Firm is susceptible to the inherent risk of capital withdrawal given its constitution as a partnership. Any significant withdrawal from the partner's capital will have a negative bearing on the financial risk profile of the firm. However, the firm has given the undertaking to bank that the capital will not be withdrawn till the tenure of the bank loan.

Rating Sensitivities

Timely completion of the project without any cost or time overrun
Timely stabilisation of operations

Material covenants

None

Liquidity Position

Stretched

The firm's liquidity position is expected to support debt servicing in the near-to-medium term on account of presence of escrow accounts to ensure timely repayment. Furthermore, debt service reserve account (DSRA) requirement for meeting six months' interest servicing requirement shall be created by the firm upfront upon achieving COD. Net cash accrual is expected to be adequate, post completion too. The promoters are expected to infuse equity and unsecured loans to support the business. However, timely implementation of the project and generation of expected cash accrual will be key rating sensitivity factors

Outlook: Not Applicable

Not Applicable

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.	(0.02)	0.00
PAT Margin	(%)	0.00	0.00
Total Debt/Tangible Net Worth	Times	0.65	0.00
PBDIT/Interest	Times	(11.45)	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
- Rating Process and Timeline: https://www.acuite.in/view-rating-criteria-67.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, Acuité 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.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Feb 2023	Term Loan	Long Term	100.00	ACUITE BB+ | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Term Loan	25 Aug 2022	10	30 Jun 2032	Simple	100.00	ACUITE BB+ | Reaffirmed & Withdrawn

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.