Press Release
TRUALT BIOENERGY LIMITED
September 29, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Issuer Rating (IR)	0.00	ACUITE BBB | Stable | Assigned	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite' has assigned its long term Issuer Rating (IR) of ACUITE BBB (read as Acuite triple B) to Trualt Bioenergy Ltd (TBL). The outlook is 'Stable'.

Rationale for rating assigned

The rating assigned derives strength from conducive operating environment in ethanol industry as a result of government's impetus on achieving 20% blending targets by 2025. The rating also derives strength from the geographic advantage that the company receives by operating as a single largest unit in the state of Karnataka and ample resource availability in the catchment area. In addition, the rating also favourably factors the management focus and intent to run its ethanol business separately from the business of the group.
The business risk profile of the company is expected to remain strong driven by huge supply and demand gap for ethanol in India and no risk related to off-take with a yearly contract with OMCs at the time of tender opening every year in the month of August-September. Further, the fluctuation in ethanol prices are lower as the prices are linked to the inputs used for production and also there is a differential pricing for the type of raw material used. Further, the government of India has introduced may reforms time and again in favour of industry with interest subvention schemes, lower GST rates, etc.
The rating also factors in the easy availability of raw materials like sugarcane syrup and molasses from its group companies who are into the manufacturing of sugar with a total crushing per day capacity of 76,000 tonnes and there is a business understanding between the companies with respect to supply of raw materials. Further, the raw material can also be procured from the other sugar factories in the Karnataka as out of the total 72 sugar factories in the state only 32 are having distillery units.
The company has total capacity of 1400 KLPD as on date of which 810 KLPD are added in January 2023 and is planning to add on further capacity totalling to 4000 KLPD by FY 2025 (including grain capacity of 1300 KLPD). The company has achieved a revenue of Rs 388.80 Cr till June 2023 and is expected to achieve a revenue of approx. Rs 2,000 Cr in FY 2024.
However, the above mentioned strengths are offset by the limited track record of operations of the company as a separate distillery unit. Further, with the expansion plans of the companies, the raw materials from the existing group companies with existing capacity may not be sufficient and the procurement of major raw material from outside may impact the operational efficiencies.
In addition, the rating is also constrained by the moderate financial risk profile as the company has plans to take an additional loan of Rs 1000 Cr over near to medium term for its identified capex plan. The completion of expansions as per the plan without any cost and time overruns is a key rating monitorable.

About the Company

Karnataka-based, Trualt Bioenergy Limited was incorporated on 31/03/2021 to carry on distillery such as Ethanol, RS, ENA, etc. and the company has commenced its commercial

operations in April 2023. The company is engaged in the manufacturing of distillery products such as Ethanol, RS, ENA etc. The present directors of the company are Mr. Vijay Kumar Nirani, Mr. Vishal Nirani and Mr. Chandrasekhar Kanekal.
MRN Group includes of five companies namely Nirani Sugars Ltd, Sri Sai Priya Sugars Ltd, MRN Cane Power India Ltd (MRN Canepower & Biorefineries Pvt Ltd merged), Badami Sugars Ltd, Shree Kedarnath Sugar and Agro Products Ltd. Further, the group has acquired 2 operational sugar units in February 2023 namely MRN Chamundi Canepower and Biorefineries Pvt Ltd and MRN Bhima Sugar and Power Pvt Ltd.
TBL's current capacity is carved out of the distillery units of Nirani Sugars Ltd with a capacity of 700 KLPD, Sri Sai Priya Sugars Ltd with capacity of 500 KLPD and MRN Cane Power India Ltd with capacity of 200 KLPD under Business Transfer Agreement and all the assets and liabilities with respect to distillery units are transferred.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of TBL to arrive at the rating.

Key Rating Drivers

Strengths

Healthy Business Risk Profile; leading to limited revenue risk

The Trualt Bioenergy Ltd is one of the few companies having only distillery unit (and not sugar manufacturing attached to it) and this carving out of the profitable business by group companies will lead to increase in operations of the company. As the distillery offers much higher and stable profit compared to sugar business, thus eliminating the cyclicality which is inherent in the sugar business. Further, the ethanol faces the huge supply and demand gap and further the demand is expected to increase in the near future as the demand is also directly pegged to increase in number of vehicles.
The company does not face any off-take risk as the contracts with OMCs are executed for a year at the time of opening of tender in the month of August and September for Ethanol Supply Year i.e. From December to November. Further, the fluctuation in ethanol prices is very minimal as pricing is linked to the cost of input and also the prices of ethanol are differential on the basis of input used for production.
The revenue of the company is expected to grow in medium term with an expansion plans of the company. Currently, the company is having the capacity of 1400 KLPD of which 810 KLPD was added in January 2023. The distillery units were able to record a revenue of Rs 1123 Cr in FY 2023 (Prov) with an operating margin of 14.4%. Further, the company has already achieved a revenue of Rs 388.80 Cr in Q1-FY 2023 and is expected to achieve a revenue of approx. Rs 2,000 Cr for FY 2024 with operating margins of around 17-18%.
Acuite believes that scale of operations of TBL may increase significantly in near to medium term backed by huge demand and additional capacity expansion plans of the company to support such demand.

Efficient working capit al management

The working capital operations of the company are expected to be efficient as unlike the sugar industry, there is a no requirement to maintain a high level of inventory which ultimately leads to elongated working capital cycle. Further, the raw materials like sugarcane syrup cannot be stored and is only available at the time of crushing season which is from October to April. The GCA days of the company are expected to remain in the range of 100-130 days in medium term. The inventory days are expected to remain around 45-50 days as the major inventory will comprise of the raw material in the form of B-Heavy Molasses and C- Heavy Molasses and for grain based distillery unit maize and rice. Further, the receivable days are expected to remain on an average of 45-50 days which is in line with the general payment terms agreed by OMCs of 45 days.
The company has not availed short term debt as on date and is also not planning for the same in medium term.
Acuite expects working capital operations of the company to be moderate backed by fixed payment mechanism with OMCs and maintaining a low inventory levels.

Strong demand push; to augur well for the business risk profile

India has high dependence on oil imports to meets its energy consumption requirement which created a potential opportunity of producing ethanol domestically, hence the Govt. of India (GoI) has introduced Ethanol Blending Programme (EBP) of blending the ethanol with gasoline to reduce its oil import. The EBP and ethanol sector has achieved a tremendous growth with introduction of various reforms by GoI time and again. However, there is still a long way to go as against the target of 20% blending level by 2025, only 10% blending levels are achieved till FY 2022.

Indian ethanol market is expected to grow by healthy CAGR of 31% between 2023-26 backed by the huge supply and demand gap for ethanol in India. The current ethanol production capacity in the country for ethanol blending with petrol and other uses is about 947 Cr litres(which includes 619 crore litres of molasses based production capacity and 328 crore litres of grain based production capacity). Against the required capacity by FY 2026 of 1500 Cr litres for 20% blending and other uses. Further, expecting the growth rate in vehicle segment of around 8-10% and pegging the same with ethanol demand, demand is expected to increase over the period of time.

The company wants to capture this opportunity by increasing its capacity to 4000 KLPD by FY 2025 (including 1300 KLPD grain based capacity) and aspire to become the Asia's largest ethanol producer.

Weaknesses

Limited track record of distillery unit as a separate business

TBL is first company to have its distillery unit without a sugar business attached to it and it is first year of operation of the company and track record is yet to be established. The input requirements of distillery units are highly dependent on the sugar manufacturer which keeps it susceptible to availability of smooth supply of raw materials from its group companies. However, to mitigate such risk there is a business understanding between the companies with respect to the supply of raw materials and also the distillery units are located in the vicinity of the sugar manufacturing group companies.

Further, the planned capacity expansion of distillery unit will require a sufficient inputs to increase the scale of operations. However, the raw materials from the group companies might not be sufficient to attain the full capacity utilization. To mitigate this risk to some extent, the inputs can be procured from other sugar manufacturers in state but that may impact the operational efficiencies if the cost charged by these companies are higher and also the logistics cost might increase. The higher installed capacity will also lead to higher fixed cost as well and for the better absorption of its fixed charges, the company has to operate at higher capacity utilization.

Acuite believes that successful completion of the expansion without compromising operational efficiencies is a key rating sensitivity.

Moderate Financial Risk Profile and anticipated increase in leverage levels in the initial years

The financial risk profile of the company remain moderate with moderate net worth, moderate gearing and strong debt protection metrics, The tangible net worth of the company stood at Rs 625.94 Cr as on March 31, 2023 (Prov) and is further expected to increase going forward due to equity infusion and accretion of profits. Further, the gearing (debt-equity) remains moderate and stood at 1.40 times as on March 31, 2023 (Prov) and TOL/TNW stood at 1.72 times as on March 31, 2023 (Prov). The company is planning an expansion of grain based distillery unit and is also planning an expansion in ethanol manufacturing. The capex will be partly funded by debt and partly by internal accruals. However, the leverage indicators are expected to remain moderate over the medium term backed by expected equity infusion and steady cash accruals generation by the company. Further, the coverage indicators stood strong with DSCR and ICR stood at 6.30 times for both as on March 31, 2023 (Prov). The coverage indicators are expected to remain strong in near to medium term backed by steady cash accruals to repay its debt obligation.

Acuite believes that ability of the company to generate a sufficient cash accruals to repay its debt obligation is a key rating sensitivity.

Input linkages with sugar business
The input of ethanol business are highly linked to the sugar business, and sugar mills are highly vulnerable to agro-climatic risk. The major input being sugarcane which is highly dependent on weather conditions and is also vulnerable to pest and disease. Hence, any impact on cane production will ultimately effect the distillery units as well.

ESG Factors Relevant for Rating

The Company has made prudent investments in technologies in its ethanol units, which will help them in enhancing operating efficiency and environment responsibility. Further, as per the requirement of proper waste management of the ethanol industry, the company has a CO2 plant attached to it for converting that into liquid and also has a proper liquid waste management mechanism. The Company focuses on environment responsibly through proactive investments that have incinerated waste, moderated water consumption, recycled effluents discharge and gainfully utilized byproducts. Further, the company has taken the initiatives of growing a tree in and around their manufacturing plants. From the social point of view, company is providing its employee safety and health training. And is also taking initiative in the form of medical policies for employees.

Rating Sensitivities

- Completion of expansion without any cost and time overruns.
- Ability of the company to generate steady cash accruals.
- Increase in scale of operations and profitability.

All Covenants

Not Applicable

Liquidity Position

Adequate
The liquidity position of the company is an adequate as the company is expected to generate sufficient net cash accruals to repay its debt obligations in medium term. Further, the working capital operations are also expected to remain moderate with GCA days expected to be around 100-130 days with efficient payment mechanism of 45 days of repayment terms with OMCs. The company has not availed any short-term bank finance and has loan tie-up with banks for capex planned in this financial year.

Outlook: Stable

The outlook on TBL will continue to remain 'stable' over a medium term backed by significantdemand and expected increase in scale of operations along with efficient management of working capital operations. The rating outlook may be revised to 'Positive' in case of sustainable growth in revenues while increasing its profitability and able to achieve operational efficiencies with timely execution of expansion plans. Conversely, the outlook may be revised to 'Negative' if the financial risk profile deteriorates with additional debt funding and expansion is not completed as per the plan and there is time and cost overrun.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	176.24	0.00
PAT	Rs. Cr.	75.93	(0.01)
PAT Margin	(%)	43.09	0.00
Total Debt/Tangible Net Worth	Times	1.40	0.00
PBDIT/Interest	Times	6.30	0.00

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

Not Applicable

Any other information

None

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
11 Aug 2023	Term Loan	Long Term	584.27	ACUITE BBB | Stable (Assigned)
	Proposed Bank Facility	Long Term	39.69	ACUITE BBB | Stable (Assigned)
	Term Loan	Long Term	250.04	ACUITE BBB | 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
Not Applicable	Not Applicable	Issuer Rating	Not Applicable	Not Applicable	Not Applicable	Simple	0.00	ACUITE BBB | Stable | Assigned

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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.

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