

December 06, 2022

K B D Industries LLP: [ICRA]B+ (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	26.63	[ICRA]B+(Stable); assigned
Long-term Fund-based- Proposed Term Loan	26.62	[ICRA]B+(Stable); assigned
Unallocated Limits	0.75	[ICRA]B+(Stable); assigned
Total	54.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating favorably factors in the healthy demand for ethanol in the country and presence of off-take contract with public sector oil marketing companies (OMCs) aiding revenue visibility for K B D Industries LLP (KBDIL) over medium term. The company's contract with Bharat Petroleum Corporation Limited (BPCL), India Oil Corporation Limited (IOCL) and Hindustan Petroleum Corporation Limited (HPCL) ensures an annual offtake quantity of 1.8 crore (i.e.100% of installed capacity) litres for a period of 10 years for supply of Denatured Anhydrous Absolute Alcohol. The project also enjoys locational advantages due to its proximity to ample raw material sources, along with its ability to reach out to various oil blending depots in the nearby areas. ICRA also notes that KBDIL will be entitled to receive various fiscal benefits under the National Biofuel Policy 2018 with presence of approval from Department of Food and Public Distribution (DFPD), which are likely to support its profitability post-commencement of operations.

However, the rating remains constrained on account of significant project-related risks to which the firm is exposed, including any delay in achievement of financial closure with sizeable dependence on borrowings, commissioning the project within the budgeted cost and time and achieving the desired process parameters and cost efficiencies. Also, requisite approval from the Pollution Control Board is yet to be received which poses certain risks in terms of timely commencement of operations. KBDIL will also remain exposed to regulatory risks associated with ethanol business given that its price is fixed annually by OMCs. The ratings are further constrained by the risks associated with the entity's status as a limited liability partnership firm, including the risk of capital withdrawal by the partners besides the partners being first generation entrepreneurs.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion on the stability of revenues for the firm and a healthy demand outlook for ethanol in the long term along with management's ability to ensure adequate raw material availability, given its location.

Key rating drivers and their description

Credit strengths

Offtake agreement with Oil Manufacturing Companies (OMCs) with minimum guaranteed volume provides stability to revenues – The firm has entered into a long-term offtake agreement with OMCs for a period of nine years four months for procurement of 1.8 crore (100% of installed capacity) litre annually ethanol produced by the LLP, providing adequate revenue visibility post commencement of operations.

Healthy demand potential for ethanol – The long-term demand outlook of the ethanol and bio-fuel remains favorable on the back of a significant demand-supply gap along with the government's increasing focus to reduce crude oil import dependency.

Further, with Central government's aim to achieve 20 per cent ethanol blending target by 2025, the demand for ethanol is likely to continue.

Strategic location of the upcoming project in Telangana – The proposed facility of the entity is located at Terlapadu Village in the Khammam district of Telangana. The site is in close vicinity to the rice growing area ensuring ample supply of rice from the neighboring areas. Further, the site is located near to oil marketing company's blending depots of Vijawada (45-50 km from Khammam) and Suryapet (100-110 km from Khammam). The proximity to these cities is expected to provide SDL with logistics ease, thus strengthening project's viability.

Credit challenges

Inherent project risks like execution within the scheduled timeframe and budgeted cost– The capital outlay of the project is estimated at Rs. 71 crore, which would be largely funded by a term loan of Rs. 53.25 crore (~75% of the total project cost) and balance through promoters' contribution. As of October 2022, a cost of around Rs. 2.5 crore (3.52% of the total project cost) has been incurred towards the acquisition of land, funded by promoters' contribution. Of the total project cost of Rs. 71 crore, a term loan of Rs. 26.625 crore sanctioned by IREDA, part equity has been brought in with the balance with balance to be brought in by March 2023 prior to seeking disbursement. For the balance Rs. 26.625 crore, the partners are in discussion with public sector banks. The terms for IREDA's sanctioned facility propose maintenance of two quarters principal and interest as debt service reserve account (DSRA) providing liquidity cushion. The project plan envisages commencement of commercial operations from April 1, 2024, with all the development activities on the ground are yet to be initiated. While the firm has proposed to appoint engineering procurement and construction (EPC) contractor, M/s Praj Industries (industry leader for the distillery equipment) for the project on fixed cost basis, the project execution would be dependent on financial closure. Though the Company has received majority of the requisite approvals for commencement of setting up of the unit, the permission from the Pollution Control Board is still awaited which poses certain risks in terms of timely commencement of operations. The company's ability to achieve healthy capacity utilisation and generate healthy cash accruals will be important for timely debt servicing.

Significant dependence on debt in capital structure; financial closure for the project is yet to be achieved – The total estimated cost of the project is Rs. 71 crore, which will be funded by term loan of Rs. 53.25 crore keeping the dependence on borrowings very high. However, presence of DFPD approval would entitle the project to interest subvention aiding viability. ICRA notes that as on date only 50% the debt has been sanctioned. As the debt sanctioned and under discussion has a one-year moratorium and long tenure of over 6 years for repayment, thus pointing to adequate cash flows from operations for debt servicing.

Risks associated with operating in a regulated industry – KBDIL's operations are vulnerable to the Government's policies and schemes such as interest subvention, ethanol pricing and offtake, raw material availability and pricing, etc. Hence, cessation of any schemes or any material decrease in ethanol pricing would have an adverse impact on the firm's financials. Further the prices of raw materials are prone to significant fluctuations as their availability depends on the monsoon. Nonetheless, the Central government pre-ponement of ethanol blending target to 2025 has created strong demand for ethanol and thus, support the financial performance of the distillery units for manufacturing ethanol. The LLP is also constructing a grain silos to store the required raw material for the operations and will use both broken rice and maize as the raw material, thus reducing the impact of price fluctuations and eliminating the dependence on a single crop.

Risks associated with the entity's legal status as a limited liability partnership firm – ICRA notes that KBDIL is a limited liability partnership firm and any significant withdrawal of capital by the partners may adversely impact the firm's net worth and liquidity position. The promoters are first generation entrepreneurs with no prior experience in setting and scaling up business.

Liquidity position: Stretched

The liquidity profile of the firm is likely to remain stretched. Any delay in achieving financial closure might lead to a delay in commissioning of the project, adversely impacting the business risk profile of the firm.

Rating sensitivities

Positive factors – Timely commencement of operation within the budgeted cost along with sustained improvement in scale and profitability leading to healthy cash flows could lead to an upgrade.

Negative factors – Negative pressure on the rating could arise on account of delay in commencement of operation or cost overruns or stabilization of the unit's operation.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the firm's standalone financial profile.

About the company

KBD Industries LLP (KBDILLP) was incorporated on February 26, 2021 under the Limited Liability Partnership Act, 2008 with the objective of carrying on the business of manufacturing and sales of Ethanol and related products. The LLP is setting up a 60-kilo litres per day (KLD) grain-based ethanol distillery, mainly using broken rice and maize as the basic raw material in Khammam, Telangana.

Key financial indicators

	FY2022
	Audited
Operating Income (Rs. crore)	0.00
PAT (Rs. crore)	(0.48)
OPBDIT/OI (%)	-
PAT/OI (%)	-
Total Outside Liabilities/Tangible Net Worth (times)	0.00
Total Debt/OPBDIT (times)	-
Interest Coverage (times)	-

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: KBD Industries LLP, ICRA Research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					December 06, 2022				
1	Term Loan	Long-term	26.63	26.63	[ICRA]B+ (Stable)	-	-	-	
2	Proposed Term Loan	Long-term	26.62	-	[ICRA]B+ (Stable)	-	-	-	
3	Unallocated Limits	Long-term	0.75	-	[ICRA]B+ (Stable)	-	-	-	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based- Term Loan	Simple
Fund based- Proposed Term Loan	Simple
Unallocated Limits	NA

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 a firm'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-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund-based –Term Loan	07.09.2022	NA	Q2, FY31	26.63	[ICRA]B+(Stable)
NA	Long-term Fund-based – Proposed Term Loan	NA	NA	NA	26.62	[ICRA]B+(Stable)
NA	Unallocated Limits	NA	NA	NA	0.75	[ICRA]B+(Stable)

Source: KBD Industries LLP, ICRA research

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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Branches



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