Press Release

Ankur Biochem Private Limited

March 14, 2023

Ratings

Instrument/Facility	Amount (Rs Cr.)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	310.58	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Assigned	Simple
Long Term/ Short Term Bank Facility	2.50	IVR BBB+/ Stable/ IVR A2 (IVR Triple B Plus with Stable Outlook and IVR A Two)	Assigned	Simple
Total	**313.08** **(Three hundred and thirteen crore and eight lakhs only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Ankur Biochem Private Limited (ABPL) derives comfort from the experienced promoters and competent management team, reputed clientele, improvement in operating performance in FY22, and proactive measures taken to tap into the growing ethanol blending arena. These rating strengths are partially offset by the significant debt funded capital expenditure plan, volatility in the prices of rice grain and coal, and regulated nature of liquor and ethanol industry.

Key Rating Sensitivities:

Upward Factors

- Continuous inflow of ethanol procurement orders with improvement in scale of operations, profitability and cash accruals
- Sustained improvement in working capital cycle

Downward Factors

- Any significant cost and time overrun in the proposed capacity expansion plan

- Steady deterioration in capital structure and coverage indicators

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters and competent management team**

Ankur Biochem Private Limited (ABPL) was founded by Mr Mahendra Sharma in 2010 and the Company started operations in 2012. This was the first venture of Mr Mahendra Sharma in distillery operations, having had multiple years of experience in diversified businesses like iron and steel, real estate, salt, etc. However, as on date, Mr Mahendra Sharma has had an experience of more than 10 years in distillery operations. The co promoters of ABPL, Mr Prashant Jaiswal and Mr Prem Kumar have multi decades worth of experience in alcohol manufacturing and distillery operations. These promoters are ably assisted by the youngest promoter of ABPL, Mr Abhishek Sharma, son of Mr Mahendra Sharma. Further the promoters are joined by a competent management team with multiple years of experience in distillery operations.

- **Reputed clientele**

The ENA manufacturing and bottling operations of ABPL are reliant on prestigious names in the alcohol industry for fulfilment of their demand. Steady relationship with these reputed organisations over the years have ensured stability in ABPL's business. The clients include United Spirits, IFB Agro, Allied Blenders and Distillers, Mohan Maekin, etc. The newly started (beginning of August 2023) ethanol manufacturing operations from the 100KLPD plant have already secured orders from both state run OMCs (IOCL, BPCL, and HPCL) and private players like Reliance and Nayara Energy and with the upcoming operations of additional 300KLPD ethanol plant, orders from oil companies are bound to increase as there is a tremendous shortage of ethanol required for achieving the Government of India's 20% ethanol blending programme with petrol by FY26. The reputation of clients reduces the credit risk to a large extent and provides security to the continuation of business.

- **Improvement in operating performance in FY22**

While the Total Operating Income of ABPL increased from INR257.03 crore in FY21 to INR287.92 crore in FY22 (+12% YoY), primarily driven by higher realisations and volume growth of ENA, the EBITDA increase was much higher at 52% YoY to INR57.40 crore in FY22.

This was largely because of drop in raw material prices, which consequently lifted the EBITDA margin up from 14.69% in FY21 to 19.94% in FY22. Infomerics, however, considers this as an aberration and have assumed EBITDA margins in line with historical margins after adjusting for the ethanol operations in the projected period FY23-25. As a result of improved EBITDA, PAT also improved from INR12.36 crore in FY21 to INR18.92 crore in FY22 (+53% YoY) and so did the GCA, which improved from INR27.90 crore in FY21 to INR43.06 crore in FY22 (+54% YoY).

- **Proactive measures taken to tap into the growing ethanol blending arena**

ABPL has been proactive to tap into the growing ethanol blending arena, which requires 20% blending of ethanol with petrol by FY26 by setting up a 100KLPD convertible ethanol plant, which came into operation in August 2022. Further, it is in the process of setting up an additional 300KLPD convertible ethanol plant – funding closures for this expansion is done and the plant is expected to be operational in Q1FY24. The Company has already signed a Long-term Offtake Agreement (LTA) in January 2022, with leading public sector oil marketing companies like HPCL, BPCL and IOCL for a tenure of 10 years. As per the agreement these OMCs will jointly offtake a minimum of 5.28 crore litres of Ethanol (around 160 KLPD) in a particular ESY (Ethanol Supply Year) from ABPL. Further, ABPL has also started to sell ethanol to private sector players like Reliance and Nayara Energy. In order to fulfil Government's 20% ethanol blending mandate by FY26, there would be a total annual requirement of around 1500 crore litres across the country. Thus, there is a huge demand-supply gap with respect to ethanol, and ABPL has taken proactive steps by commissioning an additional 300KLPD ethanol plant and the produce from this plant would be easily absorbed by the OMCs. Our projected financials indicate that ABPL would be able to achieve a total operating income, EBITDA, and PAT of ~INR1200 crore, ~INR177 crore, and ~INR86 crore respectively in FY25. To put things into perspective, ABPL achieved a a total operating income, EBITDA, and PAT of ~INR288 crore, ~INR57 crore, and ~INR19 crore respectively in FY22.

Key Rating Weaknesses

- **Significant debt funded capital expenditure plans in the near term**

The Company completed a 100KLPD expansion plan (capex of around INR167 crore) and started commercial production in August 2022. This project was funded by bank debt to the tune of ~INR100 crore and the balance was through internal accrual. Further, the Company is in the process of commissioning an additional 300KLPD ethanol plant which is expected to be operational in Q1FY23, the estimated project cost of which is INR161 crore. This project has also been funded by bank debt to the tune of INR126 crore; INR30 crore will be funded through internal accrual and INR 5 crore will be funded through unsecured loan. On account of these debt funded capex programmes, the capital structure has weakened, however, Infomerics believes that with the full-fledged operation of 400KLPD ethanol plants, revenues would get a very high boost, given the overall shortage of ethanol in the country and the debt repayments along with interest repayments will be adequately covered.

- **Volatility in the prices of rice grain and coal**

The key raw material used by ABPL for manufacturing ENA and Ethanol is rice grain, which is an agricultural commodity dependent on monsoons and witnessing high volatility in prices. Further, the captive power source of the Company is fully dependent on coal, the prices of which are also volatile in nature. Prices of ENA and Ethanol are largely controlled by the Central and State Governments, and thus there is limited flexibility to pass on the increased prices of rice grain and coal to the end consumers. As a result of this, the margins and profitability of the Company could get negatively impacted, which would further impact the debt coverage ratios negatively.

- **Regulated nature of liquor and ethanol industry**

The liquor industry in India is very regulated with each State Government independently deciding the taxes and duties structure besides licensing the production and distribution of liquor. Thus, any adverse changes in taxes/duties or licencing requirements may impact the production and sales of ABPL negatively. That apart, the ethanol prices are also decided by the Central Government.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)
Criteria of assigning rating outlook

Liquidity – Adequate

The Company has a moderate current ratio of 1.01x as on March 31, 2022. Current ratio is remaining between 1.21x and 1.61x in FY23-25. The GCAs of each of the years between FY22 and FY25 comfortably cover the debt repayments due in the respective years. The Operating Cycle was 68 days in FY22, it is expected to remain within 55-68 days in FY23-25. The average utilisation of working capital limits is moderate at around 84% between December 2021 and November 2022. Capex of around INR150 crore is planned for FY23 and it will be funded primarily through debt. The free cash and cash equivalents as on 31.03.2022 stood at INR14.70 crore.

About the Company

ABPL's core business was ENA production along with by products, DDGS and CO2 till July 2022 through its existing 100KLPD distillery plant. Beginning August 2022, the Company started producing Ethanol through the newly installed 100KLPD plant. Besides ENA, by products of alcohol, and Ethanol, the Company also has a bottling operation dedicated to the job work of Allied Blenders and Distillery from which the net income is bottling charges. It also has franchisee and distribution rights of Mohan Meakins (Old Monk Rum) in the state of Jharkhand, bottling of which is done in its bottling plant, against payment of royalty to Mohan Meakins. The Company also has sand mining rights in the state of West Bengal and till March 2022 it was also engaged in the indigenous production of its country liquor brand, Ankur, which has since been discontinued. The contribution of these two business segments in the overall revenue pie is very small. The Company is in the process of installing an additional 300KLPD fully convertible ethanol plant, which should be complete by April-May 2023. Funding closure for this plant is complete.

Financials (Standalone):

INR in Crores

For the year ended* / As on	**31-03-2021**	**31-03-2022**
	Audited	**Audited**
Total Operating Income	257.03	287.92
EBITDA	37.76	57.40
PAT	12.36	18.92
Total Debt	120.23	174.22

Tangible Net worth (Adjusted)	102.11	135.99
EBIDTA Margin (%)	14.69	19.94
PAT Margin (%)	4.80	6.54
Overall Gearing ratio (Adjusted) (X)	1.18	1.28

**Classification as per informerics' standards*

Status of non-cooperation with previous CRA: India Ratings has classified Ankur Biochem Private Limited as "Non cooperating" vide its press release dated July 28, 2022.

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loans	Long Term	228.61	IVR BBB+/ Stable	-	-	-
2.	Cash Credit	Long Term	81.97	IVR BBB+/ Stable	-	-	-
3.	Bank Guarantee	Long Term/ Short Term	2.50	IVR BBB+/ Stable/ IVR A2	-	-	-

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About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs Cr.)	Rating Assigned/ Outlook
Term Loan 1	-	-	September 2030	29.13	IVR BBB+/ Stable
Term Loan 2	-	-	March 2031	35.00	IVR BBB+/ Stable
Term Loan 3	-	-	June 2024	4.90	IVR BBB+/ Stable

Term Loan 4	-	-	September 2030	39.20	IVR BBB+/ Stable
Term Loan 5	-	-	March 2031	50.00	IVR BBB+/ Stable
Term Loan 6	-	-	March 2031	21.00	IVR BBB+/ Stable
Term Loan 7	-	-	September 2030	10.78	IVR BBB+/ Stable
Term Loan 8	-	-	September 2030	18.60	IVR BBB+/ Stable
Term Loan 9	-	-	March 2031	20.00	IVR BBB+/ Stable
Cash Credit 1	-	-	-	20.00	IVR BBB+/ Stable
Cash Credit 2	-	-	-	13.00	IVR BBB+/ Stable
Cash Credit 3	-	-	-	22.00	IVR BBB+/ Stable
Cash Credit 4	-	-	-	10.00	IVR BBB+/ Stable
Cash Credit 5	-	-	-	4.00	IVR BBB+/ Stable
Cash Credit 6	-	-	-	10.00	IVR BBB+/ Stable
Cash Credit 7	-	-	-	2.97	IVR BBB+/ Stable
Bank Guarantee	-	-	-	2.50	IVR BBB+/ Stable/ IVR A2

Annexure 2: List of companies considered for consolidated analysis: NA

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-AnkurBiochem-mar23.pdf

Annexure 4: Detailed explanation of covenants of the rated facilities: Not Applicable.

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.