Press Release

Ankur Biochem Private Limited

March 21, 2024

Ratings

Instrument/Facility	Amount (Rs Cr.)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	413.08 (enhanced from 310.58 and includes proposed cash credit of 0.36)	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed/ Assigned	Simple
Long Term/ Short Term Bank Facilities	30.00 (enhanced from 2.50)	IVR BBB+/ Stable/ IVR A2 (IVR Triple B Plus with Stable Outlook and IVR A Two)	Reaffirmed/ Assigned	Simple
Total	**443.08 (INR Four Hundred and Forty Three 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 financial performance in FY23 and current fiscal, and proactive measures taken to tap into the growing ethanol blending arena. These rating strengths are partially offset by the deterioration in capital structure in FY23 and FY24 and expected improvement in FY25, 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

- Steady deterioration in revenues and profitability
- 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 ethanol manufacturing operations from the 100KLPD plant (beginning of August 2022) and the 300KLPD plant (from October 2023) have already secured orders from both state run OMCs (IOCL, BPCL, and HPCL) and private players like Reliance and Nayara Energy. 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 financial performance in FY23 and current fiscal**

The operating income (TOI) of the Company almost doubled from INR287.92 crore in FY22 to INR575.11 crore in FY23 as a result of the 100KLPD Ethanol plant coming into operation from August 2022. The EBITDA in absolute term increased by ~36% from INR53.87 crore in FY22 to INR72.97 crore in FY23. The reason for the low pace of EBITDA increase compared to the pace of increase of TOI was because of significant prices increases of key raw materials, grain and coal in FY23 compared to FY22. The PAT improved very modestly from INR18.92 crore in FY22 to INR19.61 crore in FY23 because of significant increase of depreciation and interest charges in FY23 compared to FY22 as additional loans were taken to finance the capex with regard to the 100KLPD ethanol plant. The gross cash accruals (GCA) of the Company improved from INR39.52 crore in FY22 to INR45.52 crore in FY23. The PAT margin deteriorated from 6.54% in FY22 to 3.41% in FY23 primarily because of increase in depreciation and interest charges in FY23 as noted earlier. There has also been improvement in the results of current fiscal (9MFY24) vis-à-vis 9MFY23 – TOI improved by ~24% YoY from INR414.54 crore in 9MFY23 to INR515.42 crore in 9MFY24. EBITDA improved by ~11% YoY from INR51.16 crore in 9MFY23 to INR56.80 crore in 9MFY24. EBITDA margin, however, dropped from 12.34% in 9MFY23 to 11.02% in 9MFY24.

- **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 and further setting up a 300KLPD convertible ethanol plant, which came into operation in October 2023. 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. However, since the overall requirements of PSU OMCs for ethanol blending norms are far more than the ethanol produced by all domestic players in India, all ethanol production by domestic companies are absorbed by the OMCs. 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 400KLPD 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 ~INR1415 crore, ~INR183 crore, and ~INR83 crore respectively in FY25. To put things into perspective, ABPL achieved a a total operating income, EBITDA, and PAT of ~INR575 crore, ~INR73 crore, and ~INR20 crore respectively in FY23.

Key Rating Weaknesses

- **Deterioration in capital structure in FY23 and FY24 and expected improvement in FY25**

On account of the capex related to the 100KLPD ethanol plant and the 300KLPD ethanol plant, both of which were primarily funded by bank debt, the capital structure continued to deteriorate in FY23 and is expected to deteriorate in FY24, and the debt coverage indicators were/are also getting affected. The Overall Gearing ratio considering quasi equity increased from 1.46x on March 31, 2022 to 1.85x on March 31, 2023 and is expected to increase further to 2.14x on March 31, 2024. Post improvement of revenue in FY25 (when the 400KLPD ethanol plants starts operating for the full year) the Overall Gearing is dropping to 1.40x and further dropping to 0.96x on March 31, 2026. The interest coverage ratio dropped from 4.73x in FY22 to 3.41x in FY23. It is expected to drop further to 3.01x in FY24 before expected improvement to 3.96x in FY25. The DSCRs are remaining comfortable between 1.78x and 2.43x during FY24-26.

- **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 had an adequate current ratio of 1.11x as on March 31, 2023, without considering current portion of long term debt, this ratio works out to 1.25x as on March 31, 2023. Current ratio is remaining between 1.34x and 1.89x between March 31, 2024 and March 31, 2026. The GCAs of each of the years between FY24 and FY26 comfortably cover the debt repayments due in the respective years. The Operating Cycle was 53 days in FY22, it is conservatively expected to remain above 80 days in FY24-26. The average utilisation of working capital limits is low at 52% between January 2023 and December 2023. Minor routine capex is planned between FY24 and FY26, and those would be funded through internal accrual. The free cash and cash equivalents as on 31.03.2023 stood at INR8.69 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 has recently installed an additional 300KLPD fully convertible ethanol plant, which came into operation in October 2023.

Financials (Standalone):

INR in Crores

For the year ended* / As on	**31-03-2022**	**31-03-2023**
	Audited	**Audited**
Total Operating Income	287.92	575.11
EBITDA	53.87	72.97
PAT	18.92	19.61
Total Debt	174.22	283.29
Tangible Net worth (including Quasi Equity)	135.98	160.58
EBIDTA Margin (%)	18.71	12.69
PAT Margin (%)	6.54	3.41
Overall Gearing ratio (considering quasi equity) (X)	1.28	1.76

**Classification as per informerics' standards*

Status of non-cooperation with previous CRA: India Ratings has continued the ratings of Ankur Biochem Private Limited in the Issuer Not Cooperating category due to non submission of information by ABPL vide press release dated July 24, 2023.

Any other information: N.A.

Rating History for last three years:

Sr. No.	**Name of Instrument/ Facilities**	**Current Rating (Year 2023-24)**			**Rating History for the past 3 years**		
		Type	**Amount outstanding (Rs. Cr.)**	**Rating**	**Date(s) & Rating(s) assigned in 2022-23 (Mar 14, 2023)**	**Date(s) & Rating(s) assigned in 2021-22**	**Date(s) & Rating(s) assigned in 2020-21**
1.	Term Loans	Long Term	214.72	IVR BBB+/ Stable	IVR BBB+/ Stable	-	-

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2022-23 (Mar 14, 2023)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
2.	Cash Credit (including proposed)	Long Term	198.36	IVR BBB+/ Stable	IVR BBB+/ Stable	-	-
3.	Bank Guarantee	Long Term/ Short Term	30.00	IVR BBB+/ Stable/ IVR A2	IVR BBB+/ Stable/ IVR A2	-	-

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About Infomerics Ratings:

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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	26.35	IVR BBB+/ Stable
Term Loan 2	-	-	March 2031	34.62	IVR BBB+/ Stable
Term Loan 3	-	-	June 2024	2.10	IVR BBB+/ Stable
Term Loan 4	-	-	September 2030	35.80	IVR BBB+/ Stable
Term Loan 5	-	-	March 2031	48.95	IVR BBB+/ Stable
Term Loan 6	-	-	March 2031	20.57	IVR BBB+/ Stable
Term Loan 7	-	-	September 2030	9.84	IVR BBB+/ Stable
Term Loan 8	-	-	September 2030	16.99	IVR BBB+/ Stable
Term Loan 9	-	-	March 2031	19.50	IVR BBB+/ Stable
Cash Credit 1	-	-	-	38.75	IVR BBB+/ Stable
Cash Credit 2	-	-	-	26.50	IVR BBB+/ Stable
Cash Credit 3	-	-	-	37.75	IVR BBB+/ Stable
Cash Credit 4	-	-	-	27.25	IVR BBB+/ Stable
Cash Credit 5	-	-	-	32.50	IVR BBB+/ Stable
Cash Credit 6	-	-	-	35.25	IVR BBB+/ Stable
Proposed Cash Credit	-	-	-	0.36	IVR BBB+/ Stable

Bank Guarantee 1	-	-	-	5.50	IVR BBB+/ Stable/ IVR A2
Bank Guarantee 2	-	-	-	5.00	IVR BBB+/ Stable/ IVR A2
Bank Guarantee 3	-	-	-	5.00	IVR BBB+/ Stable/ IVR A2
Bank Guarantee 4	-	-	-	2.00	IVR BBB+/ Stable/ IVR A2
Bank Guarantee 5	-	-	-	8.00	IVR BBB+/ Stable/ IVR A2
Bank Guarantee 6	-	-	-	4.50	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-mar24.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.