Press Release

Eastern India Cements Private Limited

November 09, 2023

Rating

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action	Complexity Indicator
Long Term Bank Facilities	115.32	IVR BB+; Stable (IVR Double B Plus with Stable outlook)	Assigned	Simple
Total	**115.32 (Rupees one hundred and fifteen crore and thirty-two lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Eastern India Cements Private Limited (EICPL) derives comfort from experienced promoters, assured off-take agreement with reputed clientele, extensive support of government in ethanol sector and growing demand for ethanol and its by-products. However, these rating strengths are partially offset by project implementation and stabilisation risk, susceptibility of operating margin to volatile raw material prices coupled with exposure to agro-climatic risk, exposure to government regulations and risk of termination of offtake agreement.

Key Rating Sensitivities:

Upward Factors

- Scaling up of turnover and profitability as envisaged
- Successful completion of project without any time or cost overrun and stabilization of project as envisaged.

Downward Factors

- Lower than envisaged sales and profitability thus impacting the cash flow and liquidity of the company.
- Any changes in Govt. policies negatively impacting the company
- Delay in completion of the project with cost overrun.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

The current promoters of the company are Mr. Amitabh Verma, Mr. Ashutosh Verma, Mr. Abinash Verma and Dr. Meenakshi Verma. Mr. Abinash Verma has an experience of around 20 years in Ethanol Industry by virtue of its working in Govt. of India as director in food processing department, mainly Sugar and Ethanol. He took voluntary retirement from Govt. in 2010 to join Indian Sugar Mills Association (ISMA) as Director General. Mr. Amitabh Verma is a retired IAS officer, has held several senior positions for 37 years both in the Central Government and the Bihar Government. The promoters are supported by qualified directors. The long-standing experience and reputation of the promoters play a major role in building long-term relationship with customers.

Purchase agreement with reputed clientele

EICPL has signed a 10-year purchase agreement with OMCs (Bharat Petroleum Corporation Limited (BPCL), Hindustan Petroleum Corporation Limited (HPCL), Indian Oil Corporation Limited (IOCL)) for purchase of ethanol. There are two depots of the OMCs nearby, one of HPCL at just ~2kms and another of BPCL at ~11kms.

Extensive support of government in ethanol Sector

The project is eligible for various government incentives including interest cost being borne by government to the extent of 4.77% for 5 years, capital subsidy of Rs.30 crore which the company will receive after completion of project in two instalments of Rs.15 crore each. This apart, EICPL is entitled to receive interest subsidy @ 6% p.a. on total loan availed from the Bank, for a period of 5 years, subject to a maximum of Rs.3 crore as per Jharkhand Industrial and Investment Promotion Policy, 2021 and Jharkhand Ethanol Production Promotion Policy, 2022. EICL is also eligible for one-time skill development subsidy of Rs 13,000 per employee which will be applicable for training of employees/ staffs who are domicile of Jharkhand and for incentive of 100% of net SGST per annum for 7 years from the date of production.

Growing demand for ethanol and its by-products

The demand for ethanol is driven by growing usage of the product as a biofuel. The rising consumption of alcoholic beverages is another major factor supporting market growth of ethanol. The by-product DDGS, meant for animal feed, is a very fast selling product, and very much is demand which the buyers may book in advance as anticipated by EICPL.

Key Rating Weaknesses

Project implementation and stabilisation risk

The company has taken up a green field project of around Rs. 144.31 crores to set-up an ethanol producing plant having installed capacity of 100 KLPD. The project is proposed to be funded by promoter's contribution of Rs. 28.99 crore and term debt of Rs. 115.32 crore i.e., at a debt equity ratio of 3.98:1. The company has already expended ~Rs.83 crore i.e. 57% of the estimated project cost till October 17, 2023 and expects to achieve the COD by December, 2023 (much before bank approved COD of August 2024). Majority of civil construction works have already been completed and most of the cost to be incurred are pertaining to plant & machinery; order for the same has already been placed and management is expecting that the same would be installed as per schedule. Till October 17, 2023, debt of Rs.69.58 crore and promoters' contributions (in the form of equity/unsecured loans) of Rs.13.54 crore have been utilized to fund the project. Financial closure for term debt has been achieved. Being in mid stage the project has exposure to project implementation risk and post project stabilisation risk in the initial period.

Susceptibility of operating margin to volatile raw material prices coupled with exposure to agro-climatic risk

With raw material costs accounting for majority of the overall cost and limited control over selling prices of ethanol, EICPL's profitability will be vulnerable to volatility in raw material (key ingredients – maize, rice and wheat) prices like other players in the industry as key raw materials, being agricultural crops, are seasonal in nature, the availability of the same is affected by factors such as changes in weather conditions, low or high rainfall, production levels, etc. However, the risk is partly mitigated by regular revision of prices for ethanol by the Government on regular intervals based on the prevailing raw material prices.

Exposure to government regulations and risk of termination of offtake agreement

Ethanol production and demand from OMC's are highly dependent on government regulations. This apart, as per the offtake agreement with OMCs, the principle can terminate its agreement by 30 days' notice if the supplier fails to supply in time or operate the business and any adverse changes in current law/directives comes from Government.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria for assigning Rating Outlook](#)
[Rating Methodology for Manufacturing Companies](#)
[Financial Ratios & Interpretation (Non- Financial Sector)](#)

Liquidity – Adequate

The project is under construction which is funded by debt equity mix with proposed term loan of Rs 115.32 crore. The term loan has a moratorium period of 15 months. The repayment will begin from July 2024. The company is expected to receive various government subsidies including 50% interest subvention of Department of Food and Public Distribution (DFPD) along with the interest subvention of State Government of Jharkhand of Rs.60 lakh per year. These subsidies are expected to support the debt repayment capabilities of the company. Overall, the liquidity of the company seems to be adequate in projected years.

About the Company

Eastern India Cements Private Limited (EICPL) was incorporated on May 12, 1987, for carrying out the business of cement manufacturing. The present promoters of the company are Mr. Amitabh Verma (Retired IAS officer), Mr. Ashutosh Verma, Mr. Abinash Verma and Dr. Meenakshi Verma. Presently, the company is setting up a Grain Based Ethanol Manufacturing/Processing plant with a capacity of 100 KLPD of fuel grade ethanol.

Financials (Standalone): The company has no operation for past 3 years and FY24 will be its first year of operation post commencement of the ethanol plant.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan	Long Term	115.32	IVR BB+; Stable (IVR	-	-	-

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				Double B Plus with Stable outlook)			

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	April 2032	115.32	IVR BB+; Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable**.**

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-EasternIndia-nov23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/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.