# Patel Agri Industries Private Limited

## January 17, 2023

**Rating**

| Facility | Amount (Rs. Crore) | Rating | Rating Action | Complexity Indicator |
|---|---|---|---|---|
| Long-Term Bank Facilities | 347.46 (Increased from Rs.41.46 crore) | IVR BBB/Stable (IVR Triple B with Stable Outlook) | Revised and removed from Issuer Not Cooperating category | Simple |
| **Total** | **347.46 (INR Three hundred forty-seven crore and forty-six lakhs only)** | | | |

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

Earlier the rating assigned to the bank facilities of Patel Agri Industries Private Limited (PAIPL) was placed under issuer not cooperating category due to non-submission of required information by the company. However, now the company has submitted required information for review of its ratings. The revision in the ratings assigned to the bank facilities of PAIPL considers comfort from its adequate track record under moderately experienced promoters, proximity to paddy growing areas, stable operating performance in FY22 coupled with moderate capital structure and satisfactory debt protection matrices. The rating also considers the emerging prospect of ethanol sector and PAIPL's ongoing project of 250 KLPD grain-based Ethanol plant and 10.40 MW Co-generation power plant for which the company already has a long-term offtake agreement with Oil marketing companies (OMC's) that ensures revenue visibility and relatively lower counterparty credit risk. Further the rating continues to drive comfort from policy initiatives by the Government and entitlement of various government subsidies providing additional support and PAIPL's prudent working capital management. These rating strengths are however remain constrained due to susceptibility of its operating margin to volatile raw material prices coupled with exposure to agro-climatic risk, ethanol project execution and stabilisation risk and exposure to government regulations.

**Key Rating Sensitivities:**

**Upward factors**

- Sustained growth in scale of operations with improvement in profitability and consequent improvement in gross cash accruals.
- Effective working capital management with improvement in operating cycle and liquidity.
- Successful completion of project without any time or cost overrun and stabilization of project as envisaged.

**Downward Factors**

- Significant decline in operating income and profitability leading to deterioration in debt coverage indicators
- Withdrawal of unsubordinated unsecured loan amounting to Rs.12.01 crore leading to moderation in the capital structure with deterioration in TOL/TNW to over 6x
- Ethanol project gets delayed with cost and time overrun.

**List of Key Rating Drivers with Detailed Description**

**Key Rating Strengths**

- **Experienced promoters**

The company started commercial operation since 2015 and having over five years of operational track record. Mr. Dilip Kumar (Director) along with other three directors, is currently handling all the activities. All the promoters are involved in PAIPL since inception.

- **Proximity to paddy growing areas coupled with backward integration advantage for ethanol segment**

The primary raw material, paddy, is available in abundant quantity in Nalanda, Bihar. This results in easy availability of quality raw materials and savings in transportation costs. Further, backward linkage for ethanol project is also there as Rice Husk requirement for boiler will be met from captive sources, generation in rice mills.

- **Availability of long-term offtake agreement with Government body ensures revenue visibility and relatively lower counterparty credit risks**

About 100% of the proposed installed capacity of the project has been tied up with OMCs (IOCL, BPCL & HPCL together) by an Offtake agreement. The OMCs will offtake 8.25 crore Litre of ethanol per annum for 10 years after commencement of operation. The payment will be through escrow account as proposed and the payment generally will be made within 14 days from supply of ethanol.

- **Policy initiatives by the Government and entitlement to various government subsidies**

In January 2013, the Union government launched the Ethanol Blended Petrol (EBP) programme, which made it mandatory for oil companies to raise ethanol blending in petrol to 25% by 2025 from the current ~5%. In lieu of the above developments and given that the government currently does not allow import of ethanol for fuel blending, the outlook appears bright for this industry. Moreover, the company is entitled to receive a total subsidy of Rs.297.57 crore over the next five years (FY23-FY28). Entitlement to these subsidies reduces the project stabilization risk to a large extent.

- **Stable operating performance**

PAIPL's witnessed consistent growth in its topline during FY19-FY21. However, during FY22 the topline of the company remained stagnant with marginal growth to Rs.371.34 crore. The scale of operations of the company was mainly impacted due to various schemes launched by the state and central government for supply of free food grains to weaker section of society amid covid pandemic which resulted in lower demand of its produce. However, which gradual removal of such schemes underpinned by improvement in covid scenarios the scale of operation of the company mainly improved from H2FY22. The EBITDA margin of the company also remained stagnant though moderated marginally to 3.55% in FY22 from 3.79% in FY21 owing to relatively higher overhead cost during the period. However, with reduced finance cost in FY22, PAT margin has improved from 1.05% in FY21 to 1.35% in FY22. Further, during the current fiscal, PAIPL has already achieved a topline of ~Rs.200 crore.

- **Moderate capital structure coupled with satisfactory dent protection metrics**

During FY22, the promoters have infused fresh equity capital of Rs.11.30 crore. Fresh capital infusion along with the subordinated loan of Rs.12.01 crore which is treated as quasi equity strengthen the capital structure to a large extent as the Adjusted Tangible Net worth (including Quasi Equity) of the company stood at Rs.59.50 crore as on March 31, 2022. Hence, the overall gearing ratio has improved and stood at 0.93x as on March 31, 2022, against 1.79x as on March 31, 2021. Total indebtedness marked by TOL/ATNW also improved and stood comfortable at 1.32x as on March 31, 2022, against 2.39x as on March 31, 2021. The debt protection parameters marked by the interest coverage ratio has improved to 3.84x in FY22 against 2.49x of FY21. Simultaneously, Total Debt to EBITDA and Total Debt to GCA has also improved and stood at 4.20x and 6.54 years respectively as on March 31, 2022, against 5.53x and 9.59 years respectively as on March 31, 2021. However, the capital structure of the company will be moderated in the near term due to availed term loans to fund the ongoing project.

- **Prudent working capital management**

PAIPL has a satisfactory operating cycle of 66 days in FY22. The company managed its receivables cycle well which gets reflected in the average debtor days of around 0-1 days in FY22. The company incentivizes early payment from its debtors by offering upfront cash discounts and penalizing late payments, which has helped in containing the debtor's days. Besides, the company follows an order backed strategy for inventory (during the harvesting and non-harvesting season), due to easy availability of paddy in the surrounding area.

**Key Rating Weaknesses:**

- **Project execution and stabilisation risk**

PAIPL is setting up a 250 KLPD fuel grade Ethanol plant and Co-generation power plant (Unit-I &II) to produce Bioethanol under the Ethanol Blending Program scheme launched by GOI and 10.40 MW power plant (Unit III) at an estimated cost of Rs.322 crore. The plant is currently under implementation stage with a COD of March 2023 and till December 2022 ~74% of total hard cost of project have already been incurred. Although the project is nearly at the completion stage, execution risk including risk of time and cost overrun cannot be ignored. Further, once the project gets operational, the track record of profitable operations will yet to be established. The company's ability to achieve healthy capacity utilisation and generate healthy cash accruals will be important for its credit profile and will remain a key monitorable.

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

Cultivation of paddy, the primary raw material, depends on monsoon and availability of irrigation. Hence, PAIPL is susceptible to any shortage or price fluctuation during unfavourable climatic conditions. The key raw material for ethanol manufacturing is rice grain, maize, sugarcane, corn etc. Availability and prices both are volatile in nature due to presence of Agro-climatic risk and cyclicality in the industry.

- **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 (ADPL) 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:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of assigning rating outlook

**Liquidity: Adequate**

PAIPL has earned a gross cash accrual of ~Rs.8.48 crore in FY22 against its moderate debt repayment obligation of ~Rs.3.90 crore. Further the gross cash accrual of the company is expected to improve from FY24 onwards once the ethanol segment gets fully operational. It is expected that increased GCA supported by improved operational performance with contribution from the Ethanol segment, coupled with the subsidy's receivable would be sufficient to repay its debt repayment obligation. Hence, the liquidity position of the company is expected to remain adequate in the near to medium term. Further, the average cash credit utilisation of the company remained moderate at ~71% during the past 12 months ended October 2022 indicating a satisfactory liquidity cushion.

**About the Company**

Incorporated in 2013, Patel Agri Industries Pvt Ltd (PAIPL) was promoted by Bihar based Mr. Dilip Kumar along with his brothers. The company started its commercial operations from August 2015 and is engaged in the milling of paddy to produce raw and boiled rice. The rice mill is located in the Nalanda district of Bihar, with an installed milling capacity of 32 tons per hour. Considering the emerging prospect of ethanol sector PAIPL is setting up a project for installing a 250 KLPD grain-based Ethanol plant and 10.40 MW Co-generation power plant which is expected to be operational from March 2023.

**Financials of Patel Agri industries Private Limited (Standalone):**

(Rs. crore)

| For the year ended* / As On | 31-03-2021 | 31-03-2022 |
|---|---|---|
| | Audited | Audited |
| Total Operating Income | 369.49 | 371.34 |
| EBITDA | 13.99 | 13.20 |
| PAT | 3.95 | 5.02 |
| Total Debt | 77.40 | 55.45 |
| Tangible Net worth | 31.20 | 47.50 |
| Adjusted Tangible Net worth | 43.20 | 59.50 |
| EBITDA Margin (%) | 3.79 | 3.55 |
| PAT Margin (%) | 1.07 | 1.35 |
| Overall Gearing Ratio (x) | 1.79 | 0.93 |
| Interest Coverage Ratio (x) | 2.49 | 3.84 |

*Classification as per Infomerics' standards.

**Status of non-cooperation with previous CRA:** Nil

**Any other information:** Nil

**Rating History for last three years:**

(Rs. Crore)

| 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 2022-23 | 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 Loan | Long Term | 305.56 | IVR BBB; Stable | IVR BB+; ISSUER NOT COOPERATING* (Dec 16, 2022) | IVR BBB/ Stable (Sep 21, 2021) | IVR BBB- /Stable (Nov 04, 2020) | IVR BBB- /Stable (Aug 29, 2019) |
| 2. | GECL | Long Term | 11.90 | IVR BBB; Stable | - | - | - | - |
| 3. | Cash Credit | Long Term | 30.00 | IVR BBB; Stable | IVR BB+; ISSUER NOT COOPERATING* (Dec 16, 2022) | IVR BBB/ Stable (Sep 21, 2021) | IVR BBB- /Stable (Nov 04, 2020) | IVR BBB- /Stable (Aug 29, 2019) |

**Name and Contact Details of the Rating Analyst:**

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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.

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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 |
|---|---|---|---|---|---|
| Long Term Fund Based Limits – Term Loan | - | - | Nov 2024 | 5.56 | IVR BBB; Stable |

| | | | | | |
|---|---|---|---|---|---|
| Long Term Fund Based Limits – Term Loan | - | - | Sep 2032 | 300.00 | IVR BBB; Stable |
| Long Term Fund Based Limits – GECL | - | - | Dec 2027 | 11.90 | IVR BBB; Stable |
| Long Term Fund Based Limits – Cash Credit | - | - | - | 30.00 | IVR BBB; Stable |

**Annexure 2: Facility wise lender details:**

https://www.infomerics.com/admin/prfiles/Len-Patel-Agri-jan23.pdf

**Annexure 3: List of companies considered for consolidated analysis:** Not Applicable

**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.