

Sentini Bioproducts Private Limited

April 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	77.26 (Reduced from 77.32)	CARE A-; Stable	Reaffirmed
Short Term Bank Facilities	2.00	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the ratings assigned to Sentini Bio Products Private Limited (SBPL) continues to derive strength from experienced and resourceful promoters backed by strong parentage, established track record of the company in the alcoholic beverage industry, association with the reputed clients backed by regular orders from large breweries, satisfactory operational performance in FY22 (FY refers to April 01 to March 31) and 9MFY23, improvement in total operating income and stable profit levels in FY22 and 9MFY23, comfortable financial risk profile with strong liquidity and stable industry outlook.

The ratings also considers the company's exposure to project risk involving 150 KLPD of Ethanol manufacturing and 4.5 MW cogeneration plant under its wholly owned subsidiary "Sentini Bio Spirits Private Limited", expected deterioration in capital structure led by significant term debt proposed towards the aforementioned project. The project cost estimated for the said capex is Rs.206 crore which is being funded through term debt of Rs.144 crore, Rs.62 crore through internal accruals and is scheduled to commence operations from first quarter of FY25.

The rating strengths are, further, partially offset by susceptibility of SBPL's profitability to volatile raw material prices with limited pricing power and its presence in a highly regulated liquor industry characterized by heavy duties & taxes and stringent government controls, exposing the company to adverse regulatory changes. The rating also takes note of moderation in profitability margins in FY22 and current fiscal led by increase in share of revenue from Indian Made Foreign Liquor (IMFL) coupled with increase in cost of raw material.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ability of the company to achieve a y-o-y growth of 30% or more in TOI while maintaining a PBILDT margin at 12% or above on a sustained basis
- Ability of the company to maintain its overall gearing below 0.50x on a consistent basis

Negative factors

- Decline in the PBILDT margins below 8%, going forward
- Any adverse impact of regulatory changes with respect to alcohol industry which may have a significant impact on both operational and financial performance of the company
- Any delay in project undertaken leading to cost overrun
- Overall gearing deteriorating to more than 1.10x for the projected period

Analytical approach: Consolidated

CARE has analysed SBPL's credit profile by considering the consolidated financial statements factoring in financial and operational linkages between the parent and its subsidiary "Sentini Bio Spirits Private Limited" which include common management and inter-company transactions resulting in cash-flow fungibility. The consolidated financial statements include SBPL (the holding company) and its subsidiary.

Outlook: Stable. The 'Stable' outlook on the ratings of SBPL reflects CARE's expectation to sustain its comfortable financial risk profile despite significant increase in projected debt levels and sustenance of financial and operational performance in medium to long term.

Key strengths

Experienced and resourceful promoters backed by strong parentage: Sentini Bioproducts Private Limited (SBPL) is promoted by Mr. Tipirneni Seshagiri Rao and Ms. K Jaya. Mr. Tipirneni Seshagiri Rao is an MBA and has more than 3 decades of

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

experience in various Public Sector Undertakings (PSUs) namely, the Food Corporation of India, Rashtriya Chemicals & Fertilizers Ltd, Paradeep Phosphates Ltd and Godavari Fertilizers and Chemicals Ltd. Mr. T. Seshagiri Rao was the Managing Director of Sentini Cermica Private Limited (SCPL), which is the group's flagship company, engaged in the manufacturing of Cermica floor tiles from March 2003 to May 2005. Currently, he serves on the board of other group companies. Another promoter, Ms. K. Jaya is an M. Tech graduate.

Long standing relations with the reputed clients: Andhra Pradesh State Beverages Corporation Ltd, Allied Blenders & Distilleries Pvt, Radico Khaitan Limited, TVL Accord Distilleries And Brewers Pvt. Ltd, Eagle Distilleries etc. In addition to these sales, the company also produces ENA to cover its requirement for manufacturing of its own labelled potable alcohol. The company has long association with reputed clients and has been successful in bagging repetitive orders from large player in the Indian beverage industry. Further, the clientele of SBPL consists of players with healthy credit profile which reduces the uncertainty in realisations of outstanding dues.

Improvement in operational performance in FY22 and 9MFY23: Extra neutral alcohol (ENA) is the major revenue contributor with 48% of gross sales of the company during FY22. Apart from direct selling of ENA, the company also utilises the same ENA to manufacture its owned brand potable alcohol. The plant has dual features of both ENA & ethanol manufacturing, with a total combine production capacity of 72000 KLPA. Capacity utilisation of the company improved from 78.52% in FY21 to 83.71% in FY22 and further to 89.15% in 9MFY23 led by growth in demand for ENA/alcohol. The company has produced 557 lakh litres of Extra Neutral Alcohol (ENA) vis-à-vis installed capacity of around 720 lakh bulk litres of ENA in FY22 which is higher by 14% compared to FY21. As a part of forward integration, ENA being produced from the distillery unit is used for bottling of IMFL under its own brand and on job work basis. SBPL has capacity to produce 20 lakh cases per annum and utilised 76% of the bottling capacity in FY22. During 9MFY23, SBPL produced ENA of 481 lakh bulk litres and potable alcohol produced under the own brand for 15.57 lakh cases against 8.65 lakh cases in FY22 with growing demand for ENA/alcohol and acceptance of own IMFL product in the market.

Increase in total operating income with stable profit levels in FY22 and 9MFY23: The major revenue of the company is derived from ENA and potable alcohol (IMFL) which contributes around 70% of gross sales. However, the company also generates income for bottling of Indian Made Foreign Liquor (IMFL), and trading of by-products of ENA like impure/denatured spirit, distiller's grains, feed supplement, liquid syrup and carbon dioxide/ Dry ice. In FY22, total operating income (TOI) of SBPL increased by about 12.61% from Rs.397.35 crores in FY21 to Rs.447.47 crores in FY22 at the back of increase in sales volume of ENA/Ethanol and potable alcohol led by continued demand for alcohol and increase in selling prices of ENA and acceptance of own IMFL products of SBPL in the market. Sales volume of ENA/Ethanol and Potable alcohol increased by about 6.76% and 12.77% respectively in FY22. Further sales realisation of potable alcohol and ENA increased from 903/case and 51,159/KL compared to 1,018/case and 57,128/KL in FY22.

Further, during 9MFY23, SBPL has recorded total operating income of Rs. 464.90 crores which is higher by 4% of revenue recorded in FY22. Increase in revenue is majorly derived from increase in sales of potable alcohol (IMFL) and better sales realisation of ENA. During 9MFY23, Average sales realisation of ENA increased to 61,935/KL from 57.128/KL in FY22.

Comfortable capital structure and debt coverage indicators: The capital structure of SBPL marginally deteriorated but continues to remain comfortable below unity i.e., at 0.33x (PYE: 0.24x) as on March 31, 2022 on account of increase in utilisation of working capital limits during the crop season i.e., at the year end. Debt to equity ratio stood at 0.18x (PY: 0.22x) as on March 31, 2022, despite debt funded capex. Debt structure of the company consists of term loans availed for capex and working capital borrowings. The overall solvency position has improved on account of scheduled repayment of long-term debt with increase in net worth level of the company. Other debt coverage indicators, TD/GCA and Interest coverage ratios stood at 1.49x and 7.24x in FY22 against 0.92x and 7.00x in FY21.

Comfortable operating cycle: Working capital cycle of the company has elongated but remains satisfactory at 48 days as on March 31, 2022 (PYE: 41 days). Average collection days improved from 49 days as on March 31, 2021 to 35 days as on March 31, 2022 and average inventory days for the company stood at 41 days. The average credit period availed for raw materials was about 15-40 days and SBPL is making quick payments to suppliers resulted in increase in operation cycle. Average utilization of working capital limits for the company reduced to 31% for the last twelve months ended December 2022 on account of low utilisation of limits for last 5 months with efficient working capital cycle.

Key weaknesses

Moderation in profitability margins: Despite increase in sales, PBILDT margins reduced by 191 bps i.e., to 10.21% (PYE: 12.03%) on account increase RM consumption cost by 5% and Power and fuel cost by 47% coupled with inability of the company to entirely pass on the input costs. But on absolute levels, the decline in PBILDT was marginal to Rs. 45.30 crores in FY22 against Rs. 47.80 crores (~reduced by 5%) and PAT level recorded at Rs. 24.05 crores which is in line with previous year. During 9MFY23, PBILDT margins of the company further reduced to 8.26% with continuation of rise in raw material and power and fuel costs.

Proposed debt funded capex: SBPL has undertaken a project to set up a plant for manufacturing of ethanol with an installed capacity of 150 KLPD of Ethanol and 4.5 MW of Co-Gen power plant under its wholly owned company i.e., Sentini Bio Spirits Private Limited (SBSPL). SBSPL was incorporated in FY22 to manufacture solely Ethanol. Total project cost estimated to be Rs. 206 crores which will be funded through debt of Rs. 144 crores and remaining Rs. 62 crores funded through internal accruals. SBPL was sanctioned with term loan amounting to Rs. 144 crores as on February 24, 2023 with tenor of 116 months including moratorium period of 26 months. As of March 03, 2023, company has incurred cost Rs. 48.00 crores which is fully funded through internal accruals and ECLGS loans availed during current FY for amount Rs. 19.80 crores. Project is expected to be completed by Q1FY25 with full commercialisation of operations expected to commence from June 2023.

Volatility in raw material prices: Prices of the basic raw materials, which include maize and broken rice are seasonal crops and therefore have high price volatility. The prices of these raw materials depend upon various factors like area under cultivation, arrival of monsoon and Government policy regarding fixation of Minimum Support Price, etc. The company has purchase touch points at different location in south India and makes purchase depending on the price at those particular locations and transfers it back to its processing unit. since grain prices are largely dependent on the vagaries of nature; any adverse change in the same might impact the profitability of the company in the already competitive alcohol industry.

Highly regulated nature of alcohol industry

Liquor industry is highly regulated in India with each state controlling the production, sales and duty structure independently. As a result, there are snags in transfer of production from one state to another along with huge burden of duties and taxes. This apart the state controls the licenses for production, distributorship and retailing of the same which in turn makes the company even more susceptible to any changes in the government's policies.

Liquidity: Strong

The liquidity position of the company is strong marked by GCA of Rs.40.89 crore against debt repayment obligation of Rs.10.54 crore for FY23. The company has CC limit of Rs.42 crore including seasonal CC limit of Rs. 10 crores as on March 31, 2022. However, average working capital utilization stood low at 31% for past twelve months ended December 2022. Unutilised working capital limits provides sufficient cushion to meet any working capital requirements. Liquidity is further supported by current ratio of 1.61x and free cash and bank balance of Rs. 0.15 crores available as on March 31, 2022. With envisaged growth in SBPL's gross cash accruals in FY23 and onwards which would be sufficient to meet on-going capax for ethanol plant and other proposed capex requirements of the company along with repayment obligations of proposed term debt.

Environment, social, and governance (ESG) risks: Not Applicable**Applicable criteria**[Policy on default recognition](#)[Financial Ratios – Non financial Sector](#)[Liquidity Analysis of Non-financial sector entities](#)[Manufacturing Companies](#)[Consolidation](#)[Rating Outlook and Credit Watch](#)[Policy on Withdrawal of Ratings](#)[Short-Term Instruments](#)

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Beverages	Breweries & Distilleries

Sentini Bioproducts Private Limited (SBPL) was incorporated on February 22, 2005 and is into manufacturing of grain based Extra Neutral Alcohol (ENA) or Grain Neutral Spirit (GNS), Ethanol and by products of ENA i.e. denatured/impure spirit, Distillery Dry Grain Soluble (DDGS) and Distillery Wet Grain Soluble (DWGS), carbon dioxide (CO₂) and animal feed supplement. Apart from direct selling of ENA, the company also utilises the same ENA to manufacture its owned brand potable alcohol. The company's main product is ENA which is used in making branded alcohol, especially IMFL. SBPL's manufacturing facilities are located at Gandeplli village, Kanchikacherla Mandal, Krishna District, Andhra Pradesh. The company commenced commercial production from March 2009 and post modernising the plant the combine installed capacity for ENA and Ethanol stands at 72000 KLPA.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	397.35	447.47	464.20
PBILDT	47.80	45.30	38.36
PAT	24.39	24.05	20.71
Overall gearing (times)	0.24	0.33	NA
Interest coverage (times)	7.00	7.24	13.37

A: Audited, UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	42.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	30-04-2024	5.48	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	31-08-2028	26.69	CARE A-; Stable
Fund-based - LT-Working capital Term Loan		-	-	30-04-2024	3.09	CARE A-; Stable
Non-fund-based - ST-ILC/FLC		-	-	-	2.00	CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	5.48	CARE A- ; Stable	-	1)CARE A- ; Stable (25-Feb-22)	1)CARE BBB+; Stable (17-Feb-21)	1)CARE BBB+; Stable (04-Feb-20)
2	Fund-based - LT-Working capital Term Loan	LT	3.09	CARE A- ; Stable	-	1)CARE A- ; Stable (25-Feb-22)	1)CARE BBB+; Stable (17-Feb-21)	1)CARE BBB+; Stable (04-Feb-20)
3	Fund-based - LT-Cash Credit	LT	42.00	CARE A- ; Stable	-	1)CARE A- ; Stable (25-Feb-22)	1)CARE BBB+; Stable (17-Feb-21)	1)CARE BBB+; Stable (04-Feb-20)
4	Non-fund-based - ST-ILC/FLC	ST	2.00	CARE A2+	-	1)CARE A2+ (25-Feb-22)	1)CARE A2 (17-Feb-21)	1)CARE A2 (04-Feb-20)
5	Fund-based - LT-Term Loan	LT	26.69	CARE A- ; Stable	-	1)CARE A- ; Stable (25-Feb-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working capital Term Loan	Simple
4	Non-fund-based - ST-ILC/FLC	Simple

Annexure-5: Lender detailsTo view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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