

## Stellar Distilleries Private Limited

May 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	120.00	CARE BB; Stable	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The rating assigned to the bank facility of Stellar Distilleries Private Limited (SDPL) is constrained by the nascent stage of project implementation, susceptibility of profitability to agro-climatic risk and the leveraged financial profile of the company. The rating also takes into consideration that the distillery business in a new venture for the management and is expected to be dependent on the EPC contractor to commission and run the plant in its initial phase. The ratings, however, positively factor in the rising demand for fuel grade ethanol augmented by Govt. initiatives, receipt of LOI from Oil Manufacturing Companies (OMCs) and achievement of financial closure for the project.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Completion of the project on time and achieving capacity utilization level of 80%.
- Timely supply of ethanol to OMCs at the envisaged level as per long term offtake agreement (LTOA).

#### Negative factors

- Any delay in project implementation or cost overrun.
- Any changes in Central/State govt. policies adversely impacting the company.

### Analytical approach: Standalone

#### Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that, in the medium term, SDPL will benefit from completion of financial closure and tie-up with the OMCs.

### Detailed description of the key rating drivers:

#### Key weaknesses

##### Nascent stage of project implementation:

The company is setting up a green field project to manufacture ethanol from grain-based distillery with 100 kilo litres per day (KLPD)) capacity at Melakallankulam village, Virudhunagar District, Tamil Nadu. Project is in nascent stage of implementation and civil construction of the project commenced during Jan 2024. As of April 23, 2024, the company has incurred cost of Rs. 13.39 crores, equivalent to 8% of the total project cost. Project is expected to achieve DCCO by May 01, 2025. Hence, the company is exposed to the inherent stabilization risk associated with a green field project to achieve the desired process parameters and cost efficiencies. The project is the first venture of the promoters in the biofuel space and hence the company has tied up with the EPC contractor for the implementation of the project.

##### Leveraged financial profile:

Total project cost of Rs.163.24 crores is funded at DE ratio of 2.78: 1 (i.e., with term loan of Rs.120 crores). The company's ability to achieve healthy capacity utilisation and generate healthy cash accruals will be important for the timely debt servicing. The long repayment tenure of 117 months (9 years 9 Months) is expected to support the debt servicing.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### Susceptibility of profitability to agro-climatic risk:

The primary raw material proposed to be used by SDPL are maize and broken rice, which are agro commodities. The price and availability of these materials are prone to significant fluctuations depending on various factors including monsoon, government regulations etc. The price of the ethanol for blending is fixed by the OMCs making the profitability susceptible to any increase in the cost of raw material.

### Key strengths

#### LOI with OMCs providing long-term revenue visibility:

The company has received a Letter of Intent (LOI) from OMCs for an annual offtake of 3.30 crores liters for a period of 10 years, which covers nearly 100% of the envisaged capacity of the plant. The company is also in the process of entering into a formal agreement with poultry and cattle feed manufactures in the district for the sale of byproducts.

#### Healthy demand potential for ethanol on the back of favorable regulatory policies:

The long-term demand outlook of ethanol and biofuel remains favorable on the back of a significant demand-supply gap along with the Government's aim to achieve 20% ethanol blending with petrol by 2025. Further, to increase the indigenous production of ethanol, the Government is taking multiple initiatives to enhance the ethanol production capacity, including the interest subvention scheme, reduction of GST on Ethanol for blending and others. Furthermore, proactive price revisions by oil marketing companies in the recent past in response to input cost increase further support the outlook. Nonetheless, cessation of any schemes or any material decrease in ethanol pricing would be key monitorable.

### Liquidity: Stretched

The liquidity profile of the company is likely to remain stretched given the significant dependence on debt for funding the project. Any delay in completion or stabilization of operations will have a significant bearing on the liquidity profile given the significant repayments and interest outflow.

### Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Project stage companies](#)

### About the company and industry

#### Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Commodity Chemicals

Stellar Distilleries Private Limited (SDPL) was incorporated on July 13, 2022. The company is setting up a 100 KLPD grain-based (maize and broken rice) ethanol distillery plant along with 2.8 MW cogen plant in Virudhunagar district of Tamil Nadu to supply ethanol to OMCs under the ethanol blending programme of Government of India.

SDPL is promoted by Mr. M Vetrivel Rajan (Managing Director), a second-generation entrepreneur. He is supported by other family members such as Mr. A D Meenaachisundram, Mr. K Bhalamurugan and Mr. M Gurusetra in managing the day-to-day affairs of the business.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	NA	NA	0.00
PBILDT	NA	NA	-0.30
PAT	NA	NA	-0.31
Overall gearing (times)	NA	NA	-2.25
Interest coverage (times)	NA	NA	-73.47

A: Audited; NA: Not applicable due to no operations; 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 last three years:** Please refer Annexure-2

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

**Complexity level of 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-Term Loan		-	-	31-07-2035	120.00	CARE BB; Stable

#### 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	120.00	CARE BB; Stable				

LT: Long term

**Annexure-3: Detailed explanation of 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-Term Loan	Simple

## Annexure-5: Lender details

To 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](mailto:care@careedge.in) for any clarifications.

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### About us:

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### Disclaimer:

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