Keyaan Distilleries Private Limited

August 01, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	280.00	CARE BBB (CE); Stable	Assigned

Details of instruments/facilities in Annexure-1.
@The rating is backed by unconditional, irrevocable, and legally enforceable corporate guarantee extended by Shreyas Sortex Industries Private Limited.

Unsupported rating	CARE BB+ [Assigned]

Note: Unsupported rating does not factor in the explicit credit enhancement.

Rationale and key rating drivers for the credit enhanced debt

The rating assigned to the bank facilities of Keyaan Distilleries Private Limited (KDPL) factor in the credit enhancement in form of corporate guarantee provided by Shreyas Sortex Industries Private Limited (SSIPL). The guarantee is unconditional, irrevocable, and enforceable for the entire amount and tenor.

Rationale and key rating drivers of Shreyas Sortex Industries Private Limited (Guarantor)

The rating of SSIPL derive strength from the experience of the promoters with a long track record of operations, locational advantage with proximity to paddy growing region and growing scale of operations albeit with moderate profitability. However, these strengths are partially offset by the moderate financial risk profile, working capital intensive operations, susceptibility of margins to fluctuation in raw material prices and monsoon dependent operations along with fragmented nature of industry with high level of government regulations.

Key rating drivers of Keyaan Distilleries Private Limited for unsupported rating

The unsupported rating assigned to the bank facilities of KDPL factor in its strong and experienced promoter group, revenue visibility post commencement of operations on account of 100% offtake agreement with the three Oil Marketing Companies (OMCs), locational advantage of its plant and a favourable industry prospect. However, the ratings are constrained on account of project implementation and stabilization risk associated with its debt-funded greenfield project, the seasonal nature of input materials, and the susceptibility of margins to regulatory changes.

Rating sensitivities: Factors likely to lead to rating actions (SSIPL)

Positive factors

- Improvement in scale of operations with Total Operating Income (TOI) above Rs 1500 crore with PBILDT (Profit before interest, lease rentals, depreciation and taxes) margin above 9% on a sustained basis.
- Improvement in capital structure with adjusted debt to equity below unity.

Negative factors

- Deterioration in capital structure marked by debt to equity beyond 1.70x on a sustained basis.
- Significant decline in scale of operations with PBILDT margin below 6.50% affecting the liquidity profile of the company.

Analytical approach:

Credit Enhancement Rating: The rating assigned to the bank facilities of KDPL is based on the assessment of SSIPL, which has extended unconditional and irrevocable corporate guarantee. Further, for the rating analysis of SSIPL, CARE Ratings has adopted a standalone approach.
Unsupported Rating: Standalone

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

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings' expectation of timely completion of the project within the envisaged cost.

Detailed description of the key rating drivers (SSIPL):

Key strengths

Experienced promoters with established track record of operations

The company is promoted by the Singh Family of Gorakhpur and Ballia. Mr. Vinay Kumar Singh oversees the entire operations of the company and has an industry experience of more than 2 decades. He is supported by his mother, Mrs. Tara Singh, who has an experience of more than 3 decades in the rice industry. The promoters have also ventured into ethanol manufacturing via their entity Keyaan Distilleries Private Limited to diversify their business. SSIPL has enhanced its capacity by 20 MT per hour to support the broken rice requirement of the ethanol plant. Additionally, the company has also appointed Mr. Anand Prakash Mishra, who is working as the Unit Head and General Manager and is responsible for execution of the ethanol project and its operations thereafter.

Location advantage with proximity to paddy growing region and vast dealership network

SSIPL's processing facility is located in Ballia district which is one of the major paddy producing regions in Uttar Pradesh. Hence, the company meets its raw material requirement from local market resulting in lower transportation cost and easy availability of paddy for basmati and non-basmati rice. Further, the company has a dedicated marketing team which looks after the procurement of orders. All the orders are generated through offline channels and supplied under its brand "Suhela". It also has vast network of 600+ dealers and retailers PAN India wherein only small portion of brokerage costs are paid. SSIPL also has an in-house logistics arrangement, with a fleet of over 100 trucks to ensure efficient product supply.

Growing scale of operations albeit with moderate profitability

SSIPL's topline has grown over the last three years due to the shift from non-basmati to basmati rice. The share of Basmati rice has increased from 9% in FY21 (refers to the period from April 01 to March 31) to 78% in FY24. Further, the total operating income of the company increased by 37% to Rs 1464.11 crore in FY24 (PY: Rs 1068.22 crore) due to improvement in realisations as well as the quantity sold. Initially, to establish itself in the competitive basmati rice industry, the company offered significant cash discounts. This led to higher expenses due to the increased cost of basmati production, while realizations remained relatively low due to discounts offered for gaining volumes and establishing market presence, resulting in moderate profitability for the initial two years. However, with increased brand acceptance across UP and Bihar and contributions from aged basmati rice, which has better realizations, profitability margins improved in FY24 marked by PBILDT margin of 7.49% and PAT margin of 4.67% (PY: 3.21% and 1.44% respectively).

Key weaknesses

Working capital intensive operations

The operations of the company are inherently working capital intensive as marked by operating cycle of 76 days (PY: 61 days) primarily on account of high inventory days. The inventory days remain elongated at 91 days (PY: 61 days) as paddy procurement is concentrated in the months from September to December. Owing to the seasonality procurement, the company has to maintain sufficient raw material inventory to ensure uninterrupted production throughout the year. Furthermore, the ageing process required for basmati rice necessitates extended storage periods, which also led to consistently high utilization of working capital limits.

Moderate financial risk profile

The financial risk profile of the company remains moderate as marked by overall gearing of 1.42x as on March 31, 2024 (PY: 2.92x) due to high working capital limits utilisation, unsecured loans provided by promoters and a relatively lower net worth base. The overall gearing is expected to improve with accretion of profits to the net worth in medium term. The debt coverage metrics improved but remained modest as marked by interest coverage ratio of 6.77x and TDGCA (Total debt to Gross cash accruals) of 4.21x (PY: 3.69x and 12.61x respectively). Additionally, the debt profile of the company is also dependent upon the timely project execution of the ethanol plant being set-up by KDPL as the company has provided corporate guarantee for the term loan availed by KDPL. The adjusted overall gearing after considering the corporate guarantee loan of KDPL stood at 2.21x as on March 31, 2024 (PY: 3.68x).

Susceptibility to fluctuation in raw-material prices and monsoon dependent operations
Agro-based industry is characterized by its seasonality owing to its dependence on the availability of raw materials, which further varies with different harvesting periods. The price of rice moves in tandem with the prices of paddy. Availability and prices of agro commodities are highly dependent on the climatic conditions. The timing of monsoons has a huge bearing on crop availability which determines the prevailing paddy prices. The profitability margins are therefore susceptible to the risk of any adverse price movement in the raw material prices which have remained fluctuating in the past.

Fragmented industry coupled with high level of government regulation
The rice processing industry is highly fragmented due to the commodity nature of the product, with numerous players in the unorganized sector offering very little product differentiation. The concentration of rice millers around paddy-growing regions intensifies competition. Additionally, the industry is heavily influenced by government policies regarding minimum support prices, export bans/quotas, subsidies, and incentives.
Recently, the Government of India temporarily ceased the allocation of subsidized rice for ethanol production. This decision followed the prohibition on the export of non-basmati white rice, leading to a brief disruption in distillery operations in Uttar Pradesh and Maharashtra. Consequently, it is imperative to closely monitor the government's policy regarding feedstock.

Liquidity: Adequate
The liquidity profile of SSIPL is adequate as marked by expected cash accruals of Rs 89 crore against repayment obligations of Rs 6.17 crore in FY25. The working capital limits remain nearly fully utilized during the peak season, as the company must maintain sufficient inventory of paddy and aged basmati rice. Cash and bank balances stood at Rs 4.43 crore as of March 31, 2024 (PY: Rs 0.59 crore). The current ratio remained above unity at 1.48 times as of March 31, 2024 (PY: 1.51 times). The company has no capex plans in medium term. However, the liquidity profile is constrained by the corporate guarantee provided to KDPL.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Credit Enhanced Debt
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Project stage companies

Adequacy of credit enhancement structure: The corporate guarantee extended by SSIPL is unconditional, irrevocable and legally enforceable for the entire tenor of the term debt. The projected financials of KDPL, including the guaranteed debt, are adequately factored in the standalone financials of the guarantor. CARE Ratings has also considered multiple scenarios to test the adequacy of the credit enhancement structure. The executed corporate guarantee deed is in line with the Reserve Bank of India's (RBI's) guidance note on bank loan - credit enhanced ratings dated April 22, 2022, and subsequent FAQs dated July 26, 2022, with respect to credit enhancement ratings.

About the Credit Enhancement Provider (SSIPL)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & Other Products	Other Agricultural Products

Shreyas Sortex Industries Private Limited (SSIPL), incorporated in August 2014, operates an integrated rice mill in Basmati and Non-Basmati Category. The company is running a unit of Automated Rice Mill at Balia, Uttar Pradesh with the capacity of 74 MT per hour. The commercial production of the unit started in November 2015. The company sells through offline channels mainly via their dealer network of 650+ dealers spread across the country under the brand name "Suhela".

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)	Q1FY25 (UA)
Total operating income	1068.22	1464.11	355.09
PBILDT	34.32	109.73	26.99
PAT	15.42	68.34	16.71
Overall gearing (times)	3.68	2.21	NA
Interest coverage (times)	3.69	7.03	NA

Q1FY25 (refers to the period from April 01 to June 30)
A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

About the company and industry (KDPL)

Industry classification

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

Established in November 2021, Keyaan Distilleries Private Limited is setting up a Greenfield facility for manufacturing 300 KLPD (Kilo litres per day) grain-based ethanol in Gorakhpur, Uttar Pradesh. The company will primarily produce Ethanol for blending with Petroleum as Biofuel, DDGS (Dried Distillers Grain with Soluble) cattle feed from broken rice and Carbon Dioxide (CO_2) for industrial and beverages use. The revised scheduled date of commencement is December 31, 2024 (earlier it was October 01, 2025) due to early completion of civil work. The total cost of the project is Rs 440.50 crore to be funded via term loan of Rs 280 crore and remaining Rs 160.50 crore via promoter's contribution.

Brief financials of KDPL: Not Applicable as the company is a project stage entity.

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		-	-	August 2033	280.00	CARE BBB (CE); Stable
Un Supported Rating-Un Supported Rating (Long Term)		-	-	-	0.00	CARE BB+

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	280.00	CARE BBB (CE); Stable	-	-	-	-
2	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE BB+	-	-	-	-

LT: Long term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I	Debt Service Reserve Ratio equivalent to 3 months principal and interest to be created.
B. Non-financial covenants	
I	The borrower should keep the bank informed of the happening of any event likely to have a substantial effect on their profit or business.
II	Any change in the borrower's capital structure where the shareholding of the existing promoters gets diluted below current level or leads to dilution in controlling stake for any reason.

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Un Supported Rating-Un Supported Rating (Long Term)	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 for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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