



## Press Release

### Sahu Agro Business Private Limited

October 24, 2024

#### Rating

Security Facility	Amount (Rs. crore)	Current Rating	Previous Rating	Rating Action	Complexity Indicator
Long Term Bank Facilities	58.34	IVR BB; Stable (IVR Double B with Stable outlook)	-	Assigned	Simple
<b>Total</b>	<b>58.34</b> (Rupees fifty-eight crore and thirty-four lakhs only)				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

#### Detailed Rationale

The rating assigned to the bank facilities of Sahu Agro Business Private Limited (SABPL) draws comfort from its experienced and resourceful promoters and availability of long-term offtake agreement with Oil Marketing Companies (OMC) which ensures revenue visibility and relatively lower counterparty credit risks. Further, the company has locational advantage and extensive support of government in the form of interest subsidy and capital subsidy extended to the ethanol sector. 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.

The stable outlook is based on expectation that the company will scale up the operations post implementation underpinned by experience of the promoters and in place contracts with OMCs.

#### Key Rating Sensitivities:

##### Upward Factors

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

##### Downward Factors



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

### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

##### Experienced and resourceful promoters

The promoters of SABPL are farmers as well as entrepreneurs owning more than 250 acres of land. The promoters are successfully operating a 50 ton/day flour mill for the past eight years and have fly ash bricks plant since 2015. Since 1998, they are also into red bricks manufacturing unit. Currently, SABPL has four directors managing the day-to-day activities of the company and is well supported by a team of experienced and qualified professionals. Mr. Neeraj Kumar Sahu and Mr. Dheeraj Kumar Sahu are qualified Civil Engineers having experience of over 25 years. The other two directors are Mr. Mahesh Pritam Kumar and Mr. Gautam Kumar Sahu, both having over 10 years of experience.

##### Availability of long-term offtake agreement with OMC's ensures revenue visibility and relatively lower counterparty credit risks

SABPL has signed a 10-year purchase agreement with OMCs (Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited and Indian Oil Corporation Limited) for purchase of ethanol of 0.66 Cr litres per annum which will ensure 100% off-take. The selling price for ethanol is considered at Rs.66.07 per litres with 2% escalation p.a. SABPL also plans to sell by-products like DDGS and CO2 in the open market.

##### Locational advantage

The manufacturing facilities of SABPL is in the agriculturally rich belt in the Bhagalpur District of Bihar, where raw materials like maize, damaged/broken rice and other grains are grown which provides easy availability of grains to run an ethanol plant. Accordingly, proximity to the source of raw materials & end user market provides a competitive edge. This apart, the area is well connected by road and rail.



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### **Extensive support of government in the form of interest subsidy and capital subsidy in the ethanol sector**

In case Investors avail any subsidy under Central Government schemes, the amount of subsidy so availed/ to be availed by them will be deducted from the corresponding subsidy admissible under Bihar Industrial Investment Promotion Policy, 2016. There has been various measure announced but the Government of India for achieving 20% ethanol blending with petrol by 2025 to reduce India's import dependence on energy security/forex spending and to cut down on fossil fuel emissions. Incentives include interest subvention etc.

### **Key Rating Weaknesses**

#### **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, SABPL's profitability will be vulnerable to volatility in raw material (key ingredients – maize, corn) 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 OMCs are highly dependent on government regulations. This apart, as per the offtake agreement with OMCs, the principle can terminate its agreement by giving 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.

#### **Project implementation and stabilisation risk**

SABPL is installing a turnkey based ethanol plant of 50 KLPD from Regreen Excel EPC India Pvt Ltd. The proposed project cost for the said project is Rs. 65.96 crore, to be funded by promoter's contribution of Rs. 14.96 crore and term debt of Rs. 51.00 crore i.e., at a debt equity ratio of 3.41:1. Financial closure for term loan has been achieved. As per agreement



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between SABPL and Regreen Excel EPC India Pvt Ltd, the extended COD was September 30, 2024. As per CA certificate, till Jul 31, 2024, the company had already incurred cost of Rs. 49.88 crore, of which Rs. 18.63 crore is bought in by promoter and remaining Rs. 31.25 crore is funded through term loan. Till 31.07.2024, ~75.62% of the total project has been completed but the banker has confirmed that the COD will be extended further probably till 15.01.2025. The project has exposure to project implementation risk and post project stabilisation risk in the initial period.

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Rating Methodology for Manufacturing Companies.](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\).](#)

[Criteria for assigning Rating outlook.](#)

[Policy on Default Recognition](#)

[Complexity Level of Rated Instruments/Facilities](#)

### **Liquidity – Adequate**

The project is under construction which is funded by debt equity mix with term loan of Rs. 51 crores. The repayment will begin from January 2025. The company is expected to receive various government subsidies along with the interest subvention of State Government of Bihar. These subsidies are expected to support the debt repayment capabilities of the company. Overall, the liquidity of the company seems to be adequate in the near term.

### **About the Company**

Sahu Agro Business Private Limited (SABPL) was incorporated on November 21, 2008, by one Sahu family of Bihar. SABPL started its operation as a rice mill, but the promoters decided to set up an ethanol plant in Bhagalpur to shift its nature of business from rice mill to manufacturing and processing of ethanol and its by-products like germ, distiller's dried grains with soluble (DDGS) and carbon-dioxide (CO<sub>2</sub>). Presently, the company is installing a turnkey based ethanol plant of 50 KLPD from Regreen Excel EPC India Pvt Ltd.

### **Financials (Standalone):**

For the year ended/ As on*	(Rs. crore)	
	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	2.36	2.77



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EBITDA	1.62	1.13
PAT	-0.08	-0.19
Total Debt	11.71	42.21
Tangible Net Worth	7.14	6.96
Adjusted Tangible Net Worth	7.09	6.91
EBITDA Margin (%)	68.63	40.95
PAT Margin (%)	-3.47	-6.94
Overall Gearing Ratio (x)	1.65	6.11
Interest Coverage (x)	2.59	2.80

*\* Classification as per Infomerics' standards.*

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

**Any other information:** Nil

**Rating History for last three years:**

Sr. No.	Name of Security/Facilities	Current Ratings (Year 2024-2025)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					-	-	-
1.	Term Loan	Long Term	51.00	IVR BB; Stable	-	-	-
2.	Cash Credit	Long Term	7.34	IVR BB; Stable	-	-	-

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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).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit





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### Annexure 1: Instrument/Facility Details

Name of Facility/ Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	-	March 2032	51.00	IVR BB; Stable
Cash Credit	-	-	-	-	7.34	IVR BB; Stable

### Annexure 2: Facility wise lender detail

<https://www.infomerics.com/admin/prfiles/len-SahuAgro-oct24.pdf>

**Annexure 3: Detailed explanation of covenants of the rated Security/facilities:** Not Applicable

**Annexure 4: List of companies considered for consolidated/Combined analysis:** 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](http://www.infomerics.com).