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Mumbai

CRISIL Research assigns IPO grade '2/5' to Bio Ethanol Agro Industries Ltd

CRISIL has assigned a CRISIL IPO Grade '2/5' (pronounced 'two on five') to the proposed initial public offer (IPO) of Bio Ethanol Agro Industries Ltd (BEAIL). This grade indicates that the fundamentals of the IPO are 'below average' relative to the other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The assigned grade reflects strong end-market prospects for grain-based extra neutral alcohol (ENA) producers such as BEAIL. CRISIL Research expects demand for Indian made foreign liquor (IMFL) using grain-based ENA to register a CAGR of 36% over FY10-FY15. BEAIL is one of the only three companies with grain-based ENA capacity in Andhra Pradesh (second largest grain-based IMFL consuming state) to ride the IMFL growth tide. Further, close proximity to raw materials (maize and rice growing areas) and a multi-grain production facility, which reduces the risk of raw material price fluctuation, support the grade.

The grade is constrained by the lack of historical data to gauge its business and financial stability; BEAIL has commenced commercial operations only in June 2011. Also, other companies of the promoter group have suffered significant networth erosion over the past three years. For example, the networth of Northgate Technologies declined from Rs 2,258 mn in FY07 to 175 mn in FY10. Further, the overall understanding of corporate governance practices in BEAIL needs improvement. The grade has also considered the fact that the company will continue to face significant government regulations to operate in the alcohol industry.

About the company and the issue

BEAIL was founded in June 2006 by Mr Venkata Meenavalli and Mr Veerabhadra Rao to produce, process, fabricate and trade in all varieties of ethanol. It has set up a 30 kilo litre per day (KLPD) capacity to primarily produce ENA - the key raw material used for making IMFL. ENA can be produced either from molasses or grains like maize, rice and sorghum; BEAIL has opted for grains.

As per the management, the company has commenced commercial operations in June 2011. It had a net worth of Rs 205 mn as of September 2011.

The company plans to set up an additional 30 KLPD capacity to primarily produce ENA. Of the total IPO proceeds of ~Rs 620 mn, BEAIL will allocate a majority of the amount to set up this additional capacity.

About CRISIL IPO Grading

CRISIL IPO (Initial Public Offering) grading is an opinion on the fundamentals of the graded issue that reflects CRISIL's independence and expertise. This opinion is expressed as a relative assessment in relation to other listed equity securities in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research. A CRISIL IPO Grade 5/5 indicates strong fundamentals and a CRISIL IPO Grade 1/5 indicates poor fundamentals. CRISIL IPO Grading reflects its assessment of the graded company's equity fundamentals as distinct from an assessment of debt fundamentals. A CRISIL IPO Grade should not be construed to mean a comment on the price of the graded security nor is it a recommendation to invest or not to invest in the graded security.

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