

Financial Perspective on DEP's



28th March, 2024

Introduction



- Current payment terms for Ethanol is 21 days after decantation, effectively no less than 35 days
- OMCs have enforced DEP's to build stock provision for 30 days. At the same time, shipment and delivery also require 10 days of lead time until final decantation.
- Most efficient Lead time from conversion to realization is min. 42-45 days (with no stock holding)
- Raw material (Grain & Fuel) is now available on cash & carry basis only.
 - With MoPNG's model of self-sustaining eco-system; RM should be essentially on advance payment basis with holding period increasing to min. 60 days.
 - FCI rice is also available on advance payment basis only.
- There is a big mismatch in cash flow as raw material & fuel is being purchased on spot payment, while material is being sold to OMCs on effectively 35-40 day credit.
- Ethanol is already a negative margin business and problems are being compounded due to high working capital needs.

Lead Time from Raw Material to Realization



➤ Most efficient lead time possible for realization considering zero day when RM enter production:

- Stock In Process to dispatch: 7 days
- Shipment (time in transit): 4 days
- Decantation delays: 4-7 days
- Official credit after delivery: 21 days
- Std. delay in receiving payment: 5 days

=> min. 42-45 DAYS

- This means min. 42-45 DAYS working capital required (only on account of grain) with zero stock of raw material as well as finished goods.
- More over stock piling of DDGS adds to the load on working capital.

Working Capital for 100 KL Grain DEP



WORKING CAPITAL REQUIRED FOR 100 KL GRAIN DEP					
Details		UoM	25 Day Credit	Payment on delivery	65 day RM stock
Finished Goods					
Sale Credit by OMC	Days		25	0	0
Shipment & Decantation	Days		7	7	7
FG Stock period	Days		30	30	10
Avg Sale vol.	KL/D		100	100	100
Avg price	Rs./KL		71,860	71,860	71,860
A. Finished goods			44,55,32,000	26,58,82,000	12,21,62,000
Raw Material					
RM Stock	Days		15	15	65
SIP	Days		7	7	7
Consumption	MT/D		278	278	278
Avg price	Rs./MT		24500	24500	24500
Credit period	Days		0	0	0
B. Raw Material			14,97,22,222	14,97,22,222	49,00,00,000
By product					
Sale Credit/ stock	Days		1	1	1
Min. Stock period	Days		10	10	10
Avg Sale vol.	MT/D		69	69	69
Avg price	Rs./KL		13,000	13,000	13,000
C. Byproduct Realisation			99,30,556	99,30,556	99,30,556
D. Others (Fuel, Chemical, etc)			1,50,00,000	1,50,00,000	1,50,00,000
TOTAL (A+B+C+D)			62,01,84,778	44,05,34,778	63,70,92,556

- Calculation on left represents 3 situations:
 1. 25 day credit, 30 day FG stock & 15 day RM stock
 2. Payment on delivery, 30 day FG stock & 15 day RM stock
 3. Payment on delivery, 10 day FG stock & 65 day RM stock
- First situation: Heavy blockage of working capital in Ethanol, where as raw material stock is at min. level
- Second situation: Some ease of working capital on account of payment against decantation.
- Third situation: Ease of working capital on account of payment against decantation and min. stock at DEP; enabling more stocking of raw material.

Banking & Financial Perspective



Working Capital : Turnover RATIO		Rs.
330 working days		
Ethanol	2,37,13,80,000	
DDGS	29,79,16,667	
Total Revenue	2,66,92,96,667	
Current Working Capital	62,01,84,778	
Present Working Capital: Turnover Ratio	1 : 4.3	
Ideal WC: Turnover Ratio for commodity industry should be	1 : 8	

- Present Working Capital: Turnover Ratio is **1:4.3**, which is very poor as per banking norms.
- Ideal WC : Turnover Ratio => 1:8

Project Cost : Turnover Ratio		Rs.
Project Cost for 100 kl grain - DEP	1,20,00,00,000	
Working Capital Requirement	62,01,84,778	
Total	1,82,01,84,778	
Current Project Turnover Ratio	1 : 1.46	
Ideal Project Turnover Ratio	1 : 2.2	

- Present Project Cost : Turnover Ratio is **1:46**, which is very poor as per banking norms.
- Ideal Project Cost : Turnover Ratio => 1:2.2.

Current Situation



- For DEP's, working capital allocation (Loan to EBIDTA ratio) is lop sided as Loans are high and EBIDTA is very low
- Bank is not extending working capital to Units to the tune of requirement
- Established business houses are funding DEP's from other businesses and sources of income
- Negative margins in Ethanol, are already eating away working capital
- Young business are reaching a stage of sickness

Solutions



- OMCs are requested to look into the current situation of DEP's and provide following reliefs:
 - Ensure decantation without delay
 - Make payment upon delivery
 - Ensure min. stock of ethanol at DEP's
 - Efficient mechanism of release of PO's and allocation of depots as per available stocks.

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