November 25, 2022

Meena LPG Industries: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Fund Based - Cash Credit	3.00	8.00	[ICRA]BB+ (Stable); Reaffirmed/assigned
Long Term Fund Based - Term Loan	7.05	34.96	[ICRA]BB+ (Stable); Reaffirmed/assigned
Short-term – Non-fund based	4.10	11.10	[ICRA]A4+; Reaffirmed/ assigned
Total	**14.15**	**54.06**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation of Meena LPG Industries (MLI) factors in its diversified revenue stream with an established track record in parallel marketing of liquified petroleum gas (LPG). Further, MLI is involved in bottling assistance and operations & maintenance (O&M) support for various oil marketing companies, wherein the margins are higher than the parallel marketing segment. The ratings factor in the steady improvement in the scale of MLI. An increasing distributor base and brand presence in Tamil Nadu is expected to drive revenue growth in the parallel marketing segment.

Further, the expected commencement of a solar power plant in Q4 FY2023 and increased new contracts from the O&M segment received in FY2023 would drive the revenues and profitability, going forward. The power generated from the solar plant will be sold to a Group entity, Thenpandiyan Spinning Mills India Private Limited (TSMIPL), on a group-captive basis. This is expected to result in substantial savings in power cost at the group level. However, timely completion of the project, stabilisation of operations and timely payments from the counterparty would remain crucial. The ratings further continue to favourably factor in the extensive experience of its promoters in the LPG industry spanning over three decades, with established relationships with distributors and suppliers.

The ratings, however, remain constrained by the firm's moderate scale of operations and a modest net worth position amid intense competition from dominant public-sector players that restricts its pricing flexibility. The modest net worth position, along with increased debt levels, resulted in high TOL/TNW of 4.3 times as on March 31, 2022. The ratings further remain tempered by the vulnerability of MLI's profitability to fluctuations in LPG margins. Further, its operations remain susceptible to any adverse changes in regulatory policies by the Government, and the supplier concentration risk as the firm procures from Indian Oil Petronas Private Limited (IPPL). Nonetheless, the long-term agreement with IPPL mitigates the risk.

The Stable outlook on the long-term rating reflects ICRA's opinion that MLI will benefit from its long track record in LPG marketing and bottling assistance business, its established distribution network in Tamil Nadu and diversified revenue stream from other margin-accretive segments.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in LPG/auto LPG industry – The firm is managed by its key promoter, Mr. Nallusamy, who has more than three decades of experience in the LPG industry. He has established several other entities in related businesses, including M/s Green Auto Gas (dealers of auto LPG dispensing stations), M/s Thenpandiyan Transports (LPG transportation) and Thenpandiyan LPG Import Terminal Private Limited (in the process of setting up an LPG terminal in Pondicherry).

Increasing brand presence and diversified revenue stream – MLI is involved in parallel marketing and distribution of cylinders under its own brand, 'Meena Gas', and has been increasing its presence in Tamil Nadu over the years. Further, MLI is involved in bottling assistance and operations & maintenance (O&M) support for various oil marketing companies, wherein the margins are higher than the parallel marketing segment.

Increased O&M contracts and expected commencement of solar power plant to drive profitability growth, going forward- The firm has been awarded various new contracts under the operations and maintenance (O&M) segment in FY2023. The expected commencement of a solar power plant in Q4 FY2023 and increased new contracts from the O&M segment will drive the revenues and profitability, going forward. The power generated from the solar plant will be sold to a Group entity, Thenpandiyan Spinning Mills India Private Limited (TSMIPL), on a group-captive basis and is expected to result in substantial savings in power cost at a group level. However, timely completion of the project, stabilisation of operations and timely payments from the counterparty would remain crucial.

Credit challenges

Moderate scale of operations amid intense competition from PSUs – MLI has moderate scale of operations with high geographical concentration and operations restricted primarily to Tamil Nadu. It faces considerable pricing pressures amid intense competition from dominant public-sector players. The firm also faces high supplier concentration risk, as it procures only from IPPL. However, the risk is mitigated to a large extent with MLI entering into a purchase agreement for procuring LPG from IPPL till FY2029.

Profitability vulnerable to fluctuations in LPG prices – The firm's profitability remains vulnerable to LPG price fluctuations and the trading margins remain contingent upon the same. Given the Government's focus on the oil and gas sector with respect to pricing, taxes, duty, etc., MLI's operations and profitability are susceptible to any adverse changes in regulatory policies.

Modest net worth and risks associated with partnership nature of firm – The firm's net worth position was modest at Rs. 13.3 crore as on March 31, 2022. The modest net worth position, along with increased debt levels, resulted in high TOL/TNW of 4.3 times as on March 31, 2022. Being a partnership concern, the firm is exposed to the risk of withdrawals by the partners. Nevertheless, limited withdrawals by the partners, as seen in the past, provide comfort to an extent.

Liquidity position: Adequate

MLI's liquidity is expected to remain adequate, evident from the cash and bank balance of Rs. 7.7 crore as on March 31, 2022, and low working capital utilisation of 41% in the last 12 months. The firm has repayment obligations of ~Rs. 3.00 crore for FY2023 which are expected to be comfortably met from the accruals. The capex of Rs. 35.5 crore for setting up a solar power plant is funded by a term debt of Rs. 26.6 crore, promoter contribution and the remaining from internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the firm [a] reports any sustained increase in scale of operations, while maintaining healthy profitability levels, supporting its net worth position and [b] achieves timely completion and stabilisation of the proposed solar project while also demonstrating a track record of timely payments from the counterparty. A specific credit metric for an upgrade is TOL/TNW of less than 2.0 times, on a sustained basis.

Negative factors – Pressure on the ratings could arise if the scale or profitability deteriorates or the liquidity position weakens. A specific credit metric that could lead to a downgrade will include, but will not necessarily be limited to, DSCR below 1.5 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Meena LPG Industries was established as a proprietorship concern in 1994 by Mr. K. Narayanan. In 2009, it was taken over by Mr. Nallusamy as Managing Partner along with four others – Dr. Pandian, Ms. Shanti, Mr. Palaniappan and Mr. Saravanan, and the constitution was converted to a partnership firm. In June 2019, the partnership firm was reconstituted, as one of the partners, Mr. Pandian, discontinued from the partnership firm and his profit share of 25% was transferred to Mr.Nallusamy. At present, the partners of the firm are Mr.Nallusamy, Ms.Shanti, Mr.Palaniappan and Mr.Saravanan.

The firm is involved in the parallel marketing and distribution of cylinders under its own brand, Meena Gas, in Tamil Nadu. The firm also provides bottling assistance, and operation and maintenance (O&M) support to oil marketing companies, such as Total Oil India Private Limited, Bharat Petroleum Corporation Limited, Indian Oil Corporation Limited and Hindustan Petroleum Corporation Limited. The firm is also setting up a solar power plant with a 6-MW(AC) capacity, which is expected to become operational by Q4 FY2023. The power generated will be sold to an associate entity on a group-captive basis.

Key financial indicators (audited)

MLI	FY2021	FY2022
Operating income	114.0	168.1
PAT	2.8	2.2
OPBDIT/OI	7.3%	5.8%
PAT/OI	2.4%	1.3%
Total outside liabilities/Tangible net worth (times)	3.0	4.3
Total debt/OPBDIT (times)	1.1	1.5
Interest coverage (times)	18.8	7.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Nov 25, 2022	Dec 14, 2021	Nov 23, 2020	Nov 08, 2019
1	**Cash Credit**	Long Term	8.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	**Term Loan**	Long Term	34.96	9.06	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
3	**Bank Guarantee**	Short Term	11.10	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-Term-Fund-Based-Cash Credit	Simple
Long-Term-Fund-Based-Term Loan	Simple
Short-Term-Non-Fund-Based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loans-I**	Feb 2022	7.5%	FY2027	2.45	[ICRA]BB+ (Stable)
NA	**Term Loans-II**	May 2022	7.75%	FY2029	26.60	[ICRA]BB+ (Stable)
NA	**Term Loan-III**	July 2020	8.20%	FY2029	5.91	[ICRA]BB+ (Stable)
NA	**Cash Credit**	NA	NA	NA	8.00	[ICRA]BB+ (Stable)
NA	**Bank Guarantee**	NA	NA	NA	11.10	[ICRA]A4+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis : Not applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124-4545304
sabyasachi@icraindia.com

Prashant Vasisht
+91 -124-4545322
prashant.vasisht@icraindia.com

Kushal Kumar
040 4067 6521
kushal.kumar@icraindia.com

Deep Vakil
022 6169 3352
deep.vakil@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Register

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches