

August 11, 2023

M G Petrochem Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	140.00	140.00	[ICRA]A(CE) (Stable); reaffirmed
Long-term – Fund-based – Cash credit	30.00	30.00	[ICRA]BBB (Stable); reaffirmed
Total	170.00	170.00	

*Instrument details are provided in Annexure-I

Rating Without Explicit Credit Enhancement	[ICRA]BBB
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*Instrument details are provided in Annexure-I

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

For the [ICRA]A(CE)(Stable) rating – term loans of Rs. 140 crore

ICRA has reaffirmed its rating of [ICRA]A(CE) (Stable) for the term loan facilities of MG Petrochem Private Limited (MGPPL) based on the strength of the corporate guarantee provided by M.G. Contractors Pvt. Ltd. (MGCPL, rated [ICRA]A(Stable)), the parent of MGPPL, for the rated bank facilities. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor - MGCPL.

For the [ICRA]BBB rating

The rating of MGPPL takes comfort from the financial profile of its sponsor – MGCPL (rated [ICRA]A(Stable)). The rating favourably factors in the operationalisation of the plant, healthy demand for ethanol in the country, along with revenue visibility from the offtake agreements with the public sector oil marketing companies (OMCs) for 10 years. The company has entered into agreement with the Food Corporation of India (FCI, rated [ICRA]AAA(CE)) for supply of rice/broken rice, being the major raw material for manufacturing ethanol. Additionally, its facility is in Panchkula District of Haryana, which lies in the vicinity of various rice producers. ICRA notes that MGPPL will be entitled to receive various fiscal benefits, which are likely to support its profitability.

However, the rating remains constrained on account of project-related risks, including stabilising the plant and achieving the desired process parameters and cost efficiencies. As MGPPL has recently commenced operations, there is limited track record of capacity utilisation and profitability. MGPPL will remain exposed to regulatory risks associated with its ethanol business such as interest subvention, ethanol pricing and offtake, raw material availability and pricing, among others. Hence, cessation of any schemes or any material decrease in ethanol pricing would adversely impact its financials. Nonetheless, the Central Government's preponement of ethanol blending target to 2025 has created a strong demand for ethanol and supports the financial performance of the distillery units for manufacturing ethanol.

The Stable outlook on the rating reflects ICRA's opinion that MGPPL will benefit from the financial profile of the sponsor - MGCPL.

Adequacy of credit enhancement

The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument. Given these attributes, the guarantee provided by MGCPL is adequately strong to result in a rating enhancement of the said instrument to [ICRA]A(CE) against the rating of [ICRA]BBB without explicit credit enhancement. If the rating of the guarantor or the Unsupported Rating of MGPPL were to undergo a change in the future, the same would have a bearing on the rating of the aforesaid facility. The rating of this instrument may also undergo a change in a scenario, whereby in ICRA's assessment there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity, or there is a change in the strategic importance of the rated entity for the guarantor. For detailed rating rationale of MGCPL, please [click here](#).

Salient covenants of the rated facility

- » Minimum debt service coverage ratio (DSCR) of at least 1.3 times; interest coverage ratio of at least 2.0 times;
- » Ratio of Total outside liabilities (TOL)/Adjusted tangible net worth (ATNW) to be less than 3 times till FY2025 and 2.5 times thereafter;
- » Ratio of Debt/EBITDA to be less than or equal to 4.0 times till FY2024 and 3 times thereafter; asset coverage ratio to be at minimum level of 1.4 times.

Key rating drivers and their description

Credit strengths

Corporate guarantee from MGCPL – MGPPL is a subsidiary of MGCPL, which has strong project execution track record and financial profile thus providing comfort for meeting the project financing. Further, it has provided a corporate guarantee for the credit facilities availed by MGPPL. However, there is lack of invocation and payment mechanism in the corporate guarantee.

Offtake agreement with OMCs provides stability to revenues; agreement with FCI reduces raw material related risk – The company has entered into a long-term offtake agreement with OMCs for a period of ten years for procurement of 4.29 crore litre p.a. of ethanol (i.e., 61.3% of the installed capacity) produced by the company, providing adequate revenue visibility post commencement of operations. As it is a dedicated ethanol plant for supply to OMCs, additional production over and above the guaranteed offtake quantity will also be eligible to be supplied to OMCs. Further, the company has entered into agreement with FCI for supply of rice/broken rice, which is the major raw material for manufacturing ethanol at subsidised rate, going forward. Additionally, its facility is in Panchkula District, Haryana, which lies in the vicinity of various rice producers. Procuring most of its raw materials from the vicinity of its manufacturing facility is expected to provide MGPPL with logistics convenience.

Healthy demand potential for ethanol – The long-term demand outlook of the ethanol and bio-fuel remains favourable on the back of a significant demand-supply gap, along with the Government's increasing focus to reduce crude oil import dependency. With the Central Government's aim to achieve 20 per cent ethanol blending target by 2025, the demand for ethanol is likely to continue.

Eligible for incentives that are likely to support cash flows – To increase indigenous production of ethanol, the Government is taking multiple initiatives for enhancement and augmentation of the ethanol production capacity including interest subvention scheme. The company is eligible for 50% interest subsidy (up to 6% p.a.) for the period of 5 years of the actual interest paid on the term loan availed for setting up an ethanol plant, which are likely to support its cash flows, going forward.

Credit challenges

Project stabilisation risk with limited track record of operations – As the project has become operationalised recently, the track record of profitable operations are yet to be established. The company's ability to achieve healthy capacity utilisation and generate healthy cash accruals will be important for its credit profile.

Regulatory risks – MGPPPL’s operations are vulnerable to the Government’s policies and schemes such as interest subvention, ethanol pricing and offtake, raw material availability and pricing, etc. Hence, cessation of any schemes or any material decrease in ethanol pricing would adversely impact the company’s financials. Nonetheless, the Central Government’s pre-ponement of ethanol blending target to 2025 has created strong demand for ethanol and thus, support the financial performance of the distillery units for manufacturing ethanol.

Susceptibility of profitability to agro-climatic risks and price of fossil fuels – The primary raw material proposed to be used by MGPPPL is rice, which is an agro-commodity. The price of rice is prone to significant fluctuations as its availability depends on the monsoon. Additionally, the recent announcement on lower supply of rice by FCI for manufacturing ethanol may affect the overall market price of the raw material, thereby impacting its profitability in the near term. However, to ensure a steady availability of the raw material, the company is constructing a grain silo to store the required raw material. Further, power and fuel costs constitute a sizeable portion of the cost structure, making the profitability susceptible to any increase in the cost of fossil fuels used for power generation.

Liquidity position:

The liquidity position of the guarantee provider (MGCPL) is adequate.

Given the healthy profit margins and low leverage, ICRA expects the cash flows to be sufficient to meet the company’s debt obligations and regular capex outflow. Further, MGCPL reported free cash and equivalents of Rs. 5.3 crore as on March 31, 2023, and a buffer of Rs. 24 crore in its working capital limits as of March 2023, which provide comfort. Additionally, MGCPL has undrawn mobilisation advances against its existing order book that can be availed against bank guarantees if need arises.

For the rating without explicit credit enhancement: Stretched

Given the first year of operations, the cash flow from operations are expected to be modest in comparison to the operational expenses and debt servicing obligations. The liquidity profile is likely to remain stretched with as repayments obligations will commence from H2 FY2024. Consequently, timely financial support from sponsor group remains crucial for company to tide over any cash flow mismatches.

Rating sensitivities

For the credit enhanced (CE) rating for term loans:

Positive factors – The rating may be upgraded if there is an improvement in the credit profile of the guarantor.

Negative factors – Negative pressure on the rating could arise on account of significantly lower-than-expected capacity utilisation and profitability on a sustained basis. The rating could come under pressure if there is a deterioration in the credit profile of its parent, or if there are weakening of the linkages with its parent.

For the rating of cash credit facilities:

Positive factors – The rating may be upgraded once the company demonstrates a favourable track record of operations, along with healthy profitability and credit metrics. The rating may be upgraded if there is an improvement in the credit profile of the sponsor.

Negative factors – Negative pressure on the rating could arise on account of significantly lower than expected capacity utilisation and profitability on sustained basis. The rating could come under pressure if there is a deterioration in the credit profile of its parent, or if there are weakening of the linkages with its parent.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology-Chemicals
Parent/Group support	Parent: MG Contractors Private Limited (MGCPPL) The CE rating is based on the unconditional, irrevocable corporate guarantee extended by MGPPPL's parent company, MGCPPL. ICRA expects that MGCPPL to be willing to extend financial support to MGPPPL, as and when required. Also, there exists a consistent track record of MGCPPL extending timely financial support to MGPPPL, whenever a need has arisen.
Consolidation/Standalone	Standalone

About the company

MG Petrochem Private Limited (MGPPPL) was incorporated in February 2021 and has its registered office at New Delhi and head office at Industrial Area I, Panchkula. It is a subsidiary of the Panchkula-based construction company – M.G. Contractors Pvt Ltd. (MGCPPL) and was formed to set up a new grain-based distillery for manufacturing ethanol with installed capacity of 200 kilo litres per day (KLPD) mainly using broken rice as the basic raw material. In addition ethanol, the unit shall produce animal feed and carbon dioxide as the by-products. The project is located at Village Firozpur, Tehsil Raipur Rani, Distt. Panchkula, Haryana on a land measuring 24 acres approx.

The company has started the production and achieved the commercial operation date (COD) on July 05, 2023.

Key financial indicators

Standalone (MGPPPL)	FY2022	FY2023*
Operating income	0.00	0.00
PAT	0.00	0.00
OPBDIT/OI	-	-
PAT/OI	-	-
Total outside liabilities/Tangible net worth (times)	3.9	6.8
Total debt/OPBDIT (times)	NM	NM
Interest coverage (times)	NM	NM

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

NM-Not meaningful as the company had not started operations till FY2023

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on June 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022	Date & rating in FY2021
					Aug 11, 2023	Jan 17, 2023	July 25, 2022		
1	Term loans	140.0	140.0	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Stable)	-	-	
2	Fund-based Cash credit	30.0	-	[ICRA]BBB (Stable)	[ICRA]A(CE) (Stable) withdrawn; [ICRA]BBB (Stable) assigned simultaneously	[ICRA]A(CE) (Stable)	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term – Cash credit	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
-	Term loan	FY2022	NA	FY2030	140.00	[ICRA]A(CE)(Stable)
-	Cash credit	NA	NA	NA	30.00	[ICRA]BBB (Stable)

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

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About ICRA Limited:

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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.

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Branches



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