

January 12, 2024

M G Petrochem Private Limited: 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 – Term loan-1	140.00	148.00	[ICRA]A(CE) (Stable); reaffirmed/assigned
Long-term – Fund-based – Term loan-2	-	7.00	[ICRA]BBB (Stable); assigned
Long-term – Fund-based – Cash credit-1	20.00	20.00	[ICRA]BBB (Stable); reaffirmed
Long-term – Fund-based – Cash credit-2	10.00	30.00	[ICRA]BBB (Stable); withdrawn and rating of [ICRA]A (CE) (Stable), simultaneously assigned
Total	170.00	205.00	

*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

ICRA has reaffirmed/assigned a rating of [ICRA]A(CE) (Stable) to the term loan (Rs. 148 crore) and cash credit (Rs. 30 crore) facilities of M G 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. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor - MGCPL.

Adequacy of credit enhancement

The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument and has a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by MGCPL is adequately strong to result in an enhancement in the rating of the said instruments 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.

Salient covenants of the rated facility

- » Minimum debt service coverage ratio (DSCR) should be at least 1.3 times.
- » Ratio of Total outside liabilities (TOL)/Adjusted tangible net worth (ATNW) to be less or equal to 4 times.
- » Current ratio more than or equals 1.1 times.

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 had 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. In YTD FY2024, the company has been procuring the rice/broken rice from open market owing to the Government's ban on FCI's rice supply since July 2023. This is expected to impact its profitability margins in FY2024, despite some pass-through of this increased price to the OMCs. Nonetheless, MGPPL will be entitled to receive various fiscal benefits, which are likely to support its profitability.

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. Consequently, in case of any financial exigencies, timely financial support from the sponsor will remain crucial for the company. The rating remains constrained on account of project-related risks, including stabilising the plant and achieving the desired process parameters and cost efficiencies. Being the first year of operations, there is limited track record of capacity utilisation and profitability. MGPPL continues to remain exposed to regulatory risks associated with ethanol business such as interest subvention, ethanol pricing and offtake, raw material availability and pricing, among others. Nonetheless, the Central Government's preponement of 20% 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 favourable demand prospects for ethanol in the near to medium term and the strategic location of its distillery.

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 entire credit facilities availed by MGPPL, out of which certain bank facilities are backed by guarantee with well-defined invocation and payment mechanism.

Offtake agreement with OMCs with minimum guaranteed offtake provides stability to revenues – MGPPL has entered 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, and limiting the marketing risk. 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. Its facility is in Panchkula District, Haryana, which lies in the vicinity of various rice producers providing logistic convenience. 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. However, in YTD FY2024 it has been procuring rice from the open market owing to the Government's ban on FCI's rice supply to distilleries since July 2023. The procurement price of broken rice from open market is higher than FCI supplied rice. Although it is likely to pass through a portion of the increased costs to OMCs, the operating margins are expected to be impacted in FY2024 by 300-500 basis points. Going forward, continued reliance on open-market purchase for raw material or material decline in ethanol realisation could adversely impact the company's financials and remains a key monitorable.

Healthy demand potential for ethanol – The long-term demand outlook of the ethanol and biofuel 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 remain strong over the medium term.

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.

Credit challenges

Project stabilisation risk with limited track record of operations – Being the first year of operations, the track record of profitable operations is 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 – MGPPL'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 such schemes or any material decrease in ethanol pricing would adversely impact the company's financials. Nonetheless, the Central Government's preponement of 20% ethanol blending target to FY2025 has created strong demand and thus, supports the financial performance of the distillery units – like MGPPL – for manufacturing ethanol.

Susceptibility of profitability to agro-climatic risks and price of fossil fuels – The raw materials used by MGPPL are rice and maize, which are agro-commodities. The price of rice is prone to significant fluctuations as its availability depends on the monsoon. Additionally, the ban of supply of rice by FCI for manufacturing ethanol has affected the overall market price of the raw material, thereby impacting its profitability. 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. It had 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, given the nascent stages of operations and commencement of repayment obligations of 12.1 crore in H2 FY2024 and Rs. 24.1 crore in FY2025, respectively. Consequently, timely financial support from the sponsor group remains crucial to tide over any cash flow mismatches.

Rating sensitivities

For [ICRA]A(CE) Rating {the credit enhanced (CE) rating}:

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

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

For [ICRA]BBB rating:

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 also be upgraded if there is an improvement in the credit profile of the parent.

Negative factors – Negative pressure on the rating could arise on account of significantly low capacity utilisation and profitability on sustained basis. The rating could also 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- Chemical Policy on Withdrawal of Credit rating
Parent/Group support	Parent/ Guarantor: MG Contractors Private Limited (MGCPL) The CE rating is based on the unconditional, irrevocable corporate guarantee extended by MGPPL's parent company, MGCPL. ICRA expects that MGCPL to be willing to extend financial support to MGPPL, as and when required. Also, there exists a consistent track record of MGCPL extending timely financial support to MGPPL, whenever a need has arisen
Consolidation/Standalone	Standalone

About the company

MG Petrochem Private Limited (MGPPL), incorporated in February 2021 is a 100% subsidiary of the Panchkula-based construction company – M.G. Contractors Pvt Ltd. (MGCPL). It was formed to set up a new grain-based distillery for manufacturing ethanol with installed capacity of 215 kilo litres per day (KLPD) mainly using broken rice as the basic raw material. In addition to ethanol, the unit shall produce animal feed and carbon dioxide as 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 of ethanol since its commercial operation date (COD) on July 05, 2023.

Key financial indicators (audited)

Standalone (MGPPL)	FY2022	FY2023	H1 FY2024*
Operating income	0.00	0.00	62.60
PAT	0.00	0.00	2.66
OPBDIT/OI	-	-	9.3%
PAT/OI	-	-	4.3%
Total outside liabilities/Tangible net worth (times)	3.9	6.8	8.3
Total debt/OPBDIT (times)	NM	-497.4	22.3
Interest coverage (times)	NM	-	2.2

Source: Company data, ICRA Research

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 July 2023

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2024)		Chronology of rating history for the past 3 years			
			Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022
				Jan 12, 2024	Aug 11, 2023	Jan 17, 2023	July 25, 2022	Date & rating in FY2021
1 Term loans	Long term	140.0	146.37	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Stable)	-
2 Term loans	Long Term	8.00		[ICRA]A(CE) (Stable)	-	-	-	-
3 Term loans	Long term	7.00		[ICRA]BBB (Stable)	-	-	-	-
4 Fund-based Cash credit	Long Term	20.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]A(CE) (Stable) withdrawn; [ICRA]BBB (Stable) assigned simultaneously	[ICRA]A(CE) (Stable)	-
5 Fund-based Cash credit	Long term	30.00	-	[ICRA]BBB (Stable) withdrawn and [ICRA]A (CE) (Stable), simultaneously assigned	[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)
-	Term loan	Mar-23	NA	FY2031	8.00	[ICRA]A(CE)(Stable)
-	Term loan	Jan-23	NA	FY2031	7.00	[ICRA]BBB (Stable)
-	Cash credit	NA	NA	NA	20.00	[ICRA]BBB (Stable)
-	Cash credit	NA	NA	NA	30.00	[ICRA]A(CE)(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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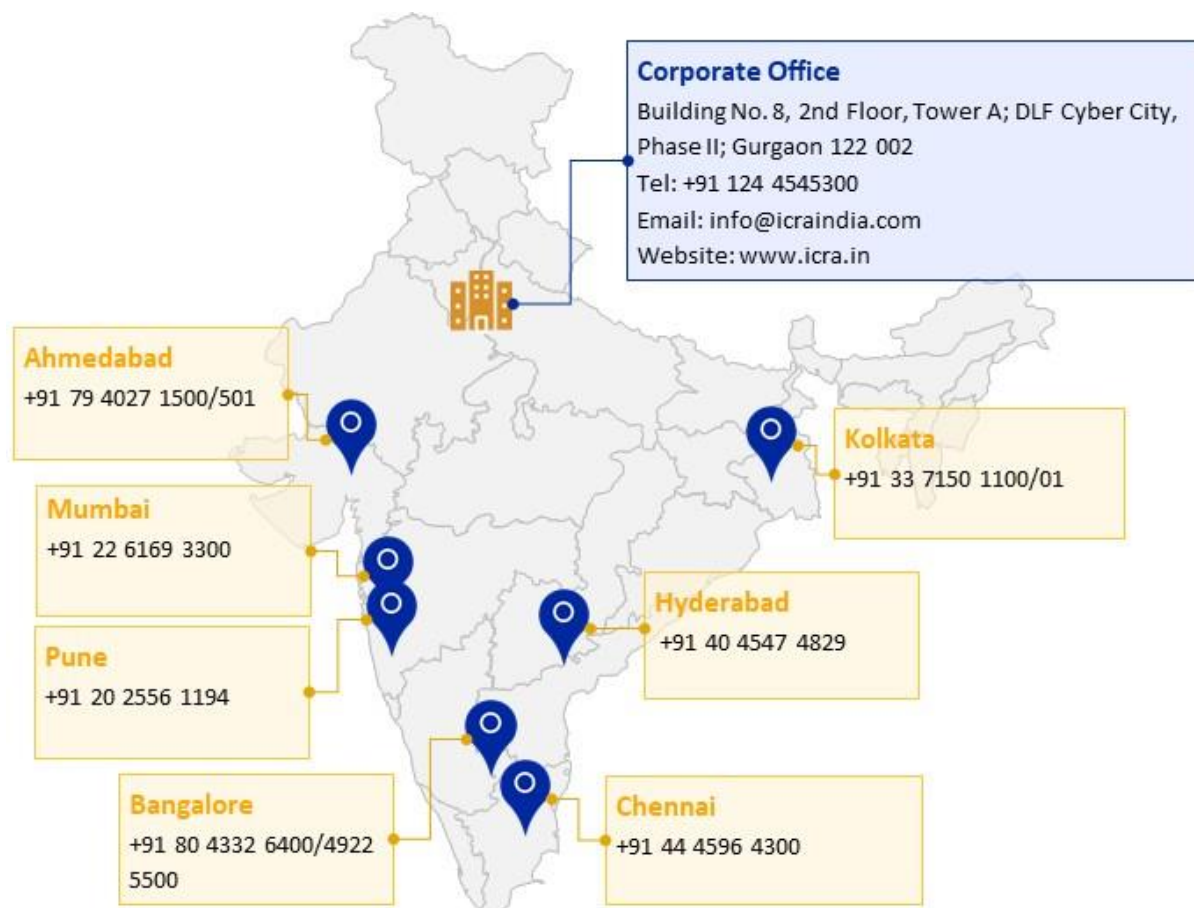


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