

May 06, 2024

MPCL Industries Ltd.: [ICRA]BBB+ (Stable)/[ICRA]A2 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund Based	10.00	[ICRA]BBB+ (Stable); assigned
Long-term – Interchangeable [^]	(20.00)	[ICRA]BBB+ (Stable); assigned
Short Term – Non-Fund Based – Letter of Credit	215.00	[ICRA]A2; assigned
Long Term/Short Term- Unallocated	15.00	[ICRA]BBB+ (Stable)/ [ICRA]A2; assigned
Total	240.00	

*Instrument details are provided in Annexure-I; [^]Sub limits of fund-based limits

Rationale

While arriving at the ratings, ICRA has considered the consolidated financials of MPCL Industries Ltd. (MPCL), which include MPCL and its subsidiaries, MPCL PTE Ltd (MPCL PTE) in Singapore, SPG Energy FZE (SPG Energy) in UAE and Onward Solar Power Private Limited (OSPPL) in India.

The assigned rating for the bank facilities of MPCL industries Limited (MPCL) takes into consideration the established presence as supplier of base oils and refrigerant gases in India as well as diversified and reputed customer base with track record of repeat business.

The rating considers the high revenue visibility due to long-term power purchase agreements (PPAs) at fixed tariffs for the entire solar power capacity of 400 MW (AC) and for 5 MW out of the 10 MW Hydro power capacity, under Onward Solar Power Private Limited (OSPPL). The rating also factors in the ongoing repowering of the solar assets which will increase the cumulative solar DC capacity to 534.40 MW (taking the overall capacity under OSPPL to ~544 MW) from 413.40 MW at the time of acquisitions. The repowering has been majorly completed and is expected to be fully completed by June 2024.

Moreover, the counterparty profile for the renewable power assets is strong, which is expected to result in timely realisation of payments from the counterparties. ICRA also takes note of the comfortable debt coverage metrics at a standalone level as well as for the OSPPL portfolio given the long debt tenures for the assets, long-term revenue visibility due to fixed-price long-term PPAs for ~99% of the capacity and competitive average interest rates.

The rating, however, remains constrained by the company's moderate scale and profit margins in the base oil and refrigerant trading business. Margins remain susceptible to the steep fluctuations in raw material prices and foreign currency rates due to linkages with crude oil prices and high import dependence, nevertheless the said risk is largely mitigated by the back to back supply arrangement and forex hedge.

The rating is also constrained due to the vulnerability of Group's cash flows and debt protection metrics to the generation performance of the OSPPL's renewable asset portfolio. Any adverse variation in weather conditions and module performance of the solar assets may impact the PLF levels and consequently affect its cash flows, as the PPA tariffs are single part and fixed in nature. Further, the rating remains constrained by the exposure of the company's debt coverage metrics to movement in interest rates on the external loans of these assets. The timely completion of the repowering of the solar assets leading to

increase in the overall DC capacity and thereby expected increase in revenue, will be monitorable. Nonetheless, repowering has been completed for majority of the planned capacity.

The Stable outlook on MPCL's rating reflects ICRA's opinion that the company will continue to benefit from its established presence in base oils and refrigerant gases segment in the domestic markets, diversified customer base, steady cash flow visibility for the renewable power portfolio, aided by the long-term PPAs and timely collections expected from the customers as well as a comfortable debt coverage metrics.

Key rating drivers and their description

Credit strengths

Established presence as supplier of base oils and refrigerant gases in the domestic market – MPCL was incorporated in 1993 and since then it has created an established presence as a supplier of petroleum products (majorly base oils) and refrigerant gases in Indian domestic market. MPCL has in house oil storage capacity of around 3200 KL at its Silvassa facility and 1320 KL at its Chennai Facility. For refrigerant gases segment, MPCL ensure pan – India presence through its four repackaging units – 1 each in Mumbai (for Western India) and Chennai (for South India) and 2 units at Hisar (for North and Eastern India).

Diversified revenue profile – Major end user industries for MPCL under base oil segment include the automotive industry toll blenders, industrial lubricants manufacturers, marine & shipping Industry, textile industry and cosmetics Industry with top five customers contributing around 15% of the total revenue in FY2023. For refrigerants segment, MPCL caters to air conditioners and refrigerators OEM's, deep freezers and cold storage sector, EPC companies for Real Estate maintenance and after sales dealer market. The revenue from base oils and refrigerant segment has remained in the range of Rs. 1222 – 1780 crore over FY2021-FY2023 and it is estimated to be around ~Rs. 1100 crore in FY2024. Furthermore, MPCL's solar and hydro power plants under Onward Solar, aggregating ~413 megawatt (MW), is estimated to generate revenue of Rs 240 crore in FY2024 (considering that majority of the assets were acquired in June 2023 resulting in booking of proportionate revenue for those assets). Diversity in business segment, end-user base and geographical reach lends stability to MPCL's revenue profile.

Revenue visibility for OSPPL portfolio due to long term PPAs with strong counterparties – The company has 25-year PPAs at fixed tariffs for its entire solar capacity with 380 MW capacity tied up with Solar Energy Corporation of India Limited (SECI) [rated [ICRA]AAA (Stable)/[ICRA]A1+] and remaining 20 MW capacity tied with NTPC Vidyut Vyapar Nigam Limited (NVTN). Hence, the offtake risks remain limited, providing revenue visibility for the solar portfolio. Also, comfort is drawn from the presence of strong off-takers in SECI/NVTN which is expected to lead to timely realisation of payments for these assets.

Comfortable debt coverage metrics and liquidity position – The oil and gas trading segment is largely dependent on short-term working capital limits and the coverage metrics at standalone level remains comfortable as reflected in interest coverage of 3.8 times in FY2023. The debt coverage metrics for OSPPL portfolio is also expected to be comfortable given the long debt tenures for the assets, long-term revenue visibility due to fixed-price long-term PPAs for majority of the capacity and competitive average interest rate. The ongoing repowering of the solar assets wherein the cumulative DC solar capacity is expected to go up to 534.4 MW (taking the overall capacity under OSPPL to ~544 MW) from 413.4 MW at the time of acquisitions and steps being taken by the new management such as replacement of damaged solar modules and better O&M practices are expected to help improve the overall generation of the portfolio. Group level liquidity position is comfortable as well with cash and bank balances to the tune of Rs. 99.16 crore as of February 2024 along with cushion of around ~Rs.30 crore in fund-based working capital facilities.

Credit challenges

Profitability exposed to volatility in raw material prices and foreign exchange fluctuations – Raw material prices under the base oil segment are largely linked to crude oil prices which has witnessed high volatility in the past, however, the company protects itself against price fluctuations by working completely on a back-to-back sales and purchase model. In addition, MPCL relies heavily on imports for its operations, which exposes the company to any adverse foreign exchange rate fluctuations. Nevertheless, the company mitigates the risk to a large extent by hedging ~90% of its exposure.

Debt metrics of OSPPL portfolio sensitive to PLF levels – OSPPL is entirely dependent on power generation by the solar and hydro power projects for its revenues and cash accruals, given the single-part nature of the tariffs. As a result, any adverse variation in weather conditions and equipment performance may impact its generation and consequently its cash flows. Some of the solar assets in the portfolio reported significantly lower generation compared to P90 PLFs for these assets over the last 2-3 years. However, the new management is taking various steps after acquisitions which is expected to help improve the generation performance going forward. Also, the geographic diversification of the solar assets across 3 states (Maharashtra, Odisha and Uttar Pradesh) provides comfort.

Regulatory risks of implementing scheduling and forecasting framework for solar sector – The company's operations remain exposed to regulatory risks pertaining to the scheduling and forecasting requirements applicable for solar power projects, given the variable nature of solar power generation.

Exposure of interest risk – The capital structure of the OSPPL portfolio is leveraged; the debt for some of the assets under OSPPL has been refinanced post the acquisitions with top-up debt for the ongoing repowering capex. Given the single-part nature of the fixed tariffs in the PPAs and floating interest rates (except for fixed interest rate for first 2 years for 8 of the 12 assets), its profitability and debt coverage metrics remain exposed to any increase in interest rates.

Liquidity position: Adequate

MPCL's liquidity position remains adequate supported by healthy buffer in cash flow from operations and debt servicing obligations. Further, the company has unencumbered cash and bank balances to the tune of Rs.73.1 crore at a standalone level along with cushion of around ~Rs.30 crore in fund based working capital facilities as on March 31, 2024. At consolidated level, unencumbered cash and bank balance stood at Rs. 99.16 crore as of February 2024.

Rating sensitivities

Positive factors – ICRA could upgrade MPCL's ratings if the company demonstrates sustained improvement in earnings in oil and refrigerant gas trading segment and/or generation performance in line or above the appraised estimate on a sustained basis for solar segment leading to healthy credit metrics and improvement in the liquidity position.

Negative factors – ICRA may downgrade the ratings if a substantial decline in earnings from oil and gas segment, or sustained underperformance of the solar assets results in weakening in the debt coverage metrics. The rating may also be downgraded in case of stretch in the working capital cycle adversely impacts the liquidity profile at a group level.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Power – Solar Rating Methodology – Chemicals
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MPCL. As on March 31, 2024, the company has 3 subsidiaries in which it has 100% share, namely – MPCL Pte Limited (Singapore), SPG Energy FZE (UAE) and Onward Solar Power Private Limited (India).

About the company

MPCL Industries Limited (MPCL) is a closely held limited company incorporated in 1993 by Mr. Satyapal Goyal and family. MPCL is engaged in procurement and distribution of various Petroleum and Petrochemical products including Base Oil, Rubber Process Oil, Fuel Oil, Gas oil etc. It has installed oil processing capacity of 60,000 KL and 3200 KL in house storage capacity at its plant in Silvassa, Dadar & Nagar Haveli and 1320 KL in house oil storage capacity at its Chennai facility. The company is also engaged in manufacturing and distribution of refrigerants gas. Refrigerants are form of liquid gases used in Air Conditioners, Refrigerators, Chilling Plants, HVACs and Cold Chain Systems etc. The company has four repackaging units located in Hisar (two units in Hisar), Haryana, Taluja Chemical Zone in Mumbai (Maharashtra) and Chennai (Tamil Nadu) having an aggregate installed capacity of 6500 MT.

MPCL has established two wholly owned subsidiaries namely MPCL PTE Ltd (MPCL PTE) in Singapore and SPG Energy FZE (SPG Energy) in UAE for distribution of various petroleum and petrochemical products. MPCL PTE had been incorporated in 2018 and SPG Energy in 2021. The subsidiaries were set up mainly to cater to customers based in South-East Asian countries.

In FY2023, MPCL diversified into power generation through the acquisition of operational renewable assets under Onward Solar Power Private Limited (OSPPL), a wholly owned subsidiary. All the assets were acquired by OSPPL in FY2023-FY2024, comprising 11 solar power SPVs with assets in Maharashtra, Uttar Pradesh and Odisha, and one hydropower SPV with two units of 5-MW capacity each in Himachal Pradesh. It has a 25-year long-term PPA with Solar Energy Corporation of India Limited (SECI) for 380 MW of the 400-MW solar power capacity; the remaining 20-MW capacity has been tied up with NTPC Vidyut Vyapar Nigam Limited (NVVN).

Key financial indicators (audited)

	Standalone		Consolidated
	FY2022	FY2023	FY2023
Operating income	1,393.3	881.9	1,441.0
PAT	35.3	26.3	74.0
OPBDIT/OI	3.7%	4.7%	7.8%
PAT/OI	2.5%	3.0%	5.1%
Total outside liabilities/Tangible net worth (times)	1.6	0.9	1.5
Total debt/OPBDIT (times)	3.4	2.8	3.2
Interest coverage (times)	8.9	3.8	4.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA

Other Credit Rating Agency	Rating	PR Date
India Ratings and Research		

Source: India Ratings Website

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on April 30, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				May 06, 2024	-	-	-
1 Fund Based	Long term	10.00	-	[ICRA]BBB+ (Stable)	-	-	-
2 Interchangeable*	Long term	(20.00)	-	[ICRA]BBB+ (Stable)			
3 Non-Fund Based – Letter of Credit	Short term	215.00	-	[ICRA]A2			
4 Unallocated	Long term short term	15.00	-	[ICRA]BBB+ (Stable)/ [ICRA]A2			

*Sub limits of fund-based limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund Based	Simple
Long-term – Interchangeable	Simple
Short Term – Non-Fund Based – Letter of Credit	Very Simple
Long Term/Short Term- Unallocated	Not Applicable

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	Fund Based	NA	NA	NA	10.00	[ICRA]BBB+ (Stable)
NA	Interchangeable*	NA	NA	NA	(20.00)	[ICRA]BBB+ (Stable)
NA	Non-Fund Based – Letter of Credit	NA	NA	NA	215.00	[ICRA]A2
NA	Unallocated	NA	NA	NA	15.00	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: Company; *Sub limits of fund-based limits

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Annexure II: List of entities considered for consolidated analysis

Company Name	MPCL Ownership	Consolidation Approach
MPCL Pte Limited	100.00%	Full Consolidation
SPG Energy FZE	100.00%	Full Consolidation
Onward Solar Power Private Limited	100.00%	Full Consolidation

Source: Company

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