

October 07, 2024

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-1	148.00	123.43	[ICRA]A(CE) (Stable); reaffirmed
Long-term – Fund-based – Term loan-2	7.00	6.91	[ICRA]BBB (Stable); reaffirmed
Long-term – Fund-based – Cash credit-1	20.00	20.00	[ICRA]BBB (Stable); reaffirmed
Long-term – Fund-based – Cash credit-2	30.00	30.00	[ICRA]A (CE) (Stable); reaffirmed
Long-term – Non-fund based – Bank guarantee	0.00	20.00	[ICRA]A(CE) (Stable); reaffirmed
Long-term – Unallocated	0.00	4.66	[ICRA]BBB (Stable); reaffirmed
Total	205.00	205.00	

Rating Without Explicit Credit Enhancement

[ICRA]BBB

**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 the rating of [ICRA]A(CE) (Stable) to the term loan (Rs. 123.43 crore), cash credit (Rs. 30.00 crore) and bank guarantee (Rs. 20.00 crore) facilities of M G Petrochem Private Limited (MGPPPL) based on the strength of the corporate guarantee provided by M.G. Contractors Pvt. Ltd. (MGCPL, rated [ICRA]A(Stable)), the parent of MGPPPL. 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 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 MGPPPL were to undergo a change in the future, the same would have a bearing on the rating of the aforesaid facilities. The rating of these instruments may also undergo a change in a scenario where, 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 2.0 times.

Ratio of Total Debt/EBIDTA to be less or equal to 1.5 times.

Current ratio more than or equals 1.5 times.

For the [ICRA]BBB rating

The rating of MGPPL takes comfort from the healthy financial profile of its sponsor – MGCPL, and the successful operationalisation of the plant (in FY2024), coupled with 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. Further, its facility is strategically located in Panchkula District of Haryana in the vicinity of various rice producers. While the company has an 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, in FY2024 and YTD FY2025, it has been procuring the same from the open market owing to the Government's ban on FCI's rice supply since July 2023. This has impacted its profitability margins in FY2024, despite some pass-through to the OMCs in the form of increased ethanol prices. Nonetheless, continued ramp-up as well as stabilisation of operations and inflow of fiscal benefits (interest subventions) are expected to support MGPPL's profitability over the medium term.

Given the nascent stage of operations and high price of raw material, the cash flow from operations remained modest in comparison to the operational expenses and debt servicing obligations in FY2024, necessitating funding support from the parent. The plant is currently operating at optimum capacity utilisation levels and the revenue has witnessed a healthy ramp up to Rs. 265 crore in 5M FY2025 compared to Rs. 329 crore in FY2024 (nine months of operations). Its operating margins (OPM) remained modest at 6.7% in FY2024 owing to increase in feedstock prices and non-commensurate increase in ethanol prices. However, with ramp-up in revenues, the operating leverage benefits are expected to flow in from FY2025. ICRA expects the YoY revenue growth of ~56% and OPM of 8-9% in FY2025 for the company. Considering the high repayment obligations (Rs. 24 crore) and capex plans (Rs. 8-12 crore), in case of any financial exigencies, timely financial support from the sponsor will remain crucial for the company.

MGPPL remains exposed to regulatory risks associated with the ethanol business, given that its price is fixed annually by the OMCs even as the prices of raw material and fuel change in line with the market demand and supply position. The company's profitability remains vulnerable to fluctuations in the prices of broken rice and maize, which have been quite volatile in the recent past and, thus, will remain a key monitorable for its healthy operations.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's expectation of healthy ramp-up in the company's revenues and improvement in operating margins in FY2025, which will support its debt coverage metrics, coupled with expectation of timely support from the sponsor in case of any cash flow mismatches.

Key rating drivers and their description

Credit strengths

Corporate guarantee from MGCPL – MGPPL is a 100% subsidiary of MGCPL, which has a strong project execution track record and financial profile, providing comfort for meeting the any funding support requirements. Further, it has provided a corporate guarantee for the entire credit facilities availed by MGPPL (~Rs. 226 crore), out of which certain bank facilities (aggregating Rs. 128 crore) are backed by guarantee with a well-defined invocation and payment mechanism.

Operational project; minimum offtake agreement with OMCs provides stability to revenues – MGPPL commenced operations from July 2023 and ramped-up its operations, posting revenues of ~Rs. 329 crore in FY2024 and ~Rs. 265 crore in 5M FY2025. It 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 current 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 is also 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 FY2024 and YTD FY2025, 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. Going forward, stabilisation of operations and inflows of fiscal benefits (interest subventions) are expected to support MGPPL's profitability.

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 aiming to achieve 20 per cent ethanol blending target by ESY 2025-26, 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 a 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

High asset concentration; limited track record of operations – MGPPL operates its sole unit at Panchkula (Haryana). Its presence in a single location exposes the company to any force majeure event, which could impact the asset. However, the insurance cover taken mitigates the risk to an extent. Since the plant got operationalised in July 2023 and reported an operating margin of 6.7% in FY2024, the same remained lower than expected and the track record of profitable operations is yet to be demonstrated. The company is currently operating at optimum capacity levels and plans to enhance its capacity from 215 KLPD to 250 KLPD in the near term. Being in a nascent stage with high asset intensive nature of operations, the financial risk profile is modest with low net worth (Rs. 35.9 crore), and significant dependence on external borrowings of Rs. 179 crore (total outstanding debt of Rs. 272.8 crore, which includes loans from MGCPL). The company's ability to maintain healthy capacity utilisation and improve its liquidity and coverage metrics will be important for its credit perspective.

Exposed to 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 its pricing, etc. Hence, cessation of such schemes or any material decrease in ethanol pricing could adversely impact the company's financials. Nonetheless, the Central Government's preponement of 20% ethanol blending target to ESY 2025-26 has created strong demand impetus and 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 monsoon. Additionally, the ban of supply of rice by FCI (since July 2023) for manufacturing ethanol impacted the overall market price of the raw material in FY2024, thereby impacting grain-based distillery producers' profitability. While e-auction of rice by FCI has been permitted, since August 2024, bid prices so far have remained high, leading to sustained pressure on margins. In addition, power and fuel costs constitute a sizeable portion of the cost structure, making the profitability susceptible to any increase in the cost of fuels used for power generation.

Liquidity position

The liquidity position of the guarantee provider (MGCPL): Adequate.

MGCPL's liquidity is expected to remain adequate, given the expectation of healthy accruals, supported by a steady working capital cycle, free cash and equivalents of ~Rs. 30 crore and a buffer of ~Rs. 37 crore in its fund-based working capital limits as on March 31, 2024. It also had unutilised BG lines of ~Rs. 209 crore as on March 31, 2024, which could be utilised to avail mobilisation advances against its existing order book. The company has debt repayment of ~Rs. 45 crore and capex plans of around Rs. 75-85 crore in FY2025, which is likely to be adequately funded by the cash flows from operations.

For the rating without explicit credit enhancement (for the entity): Stretched

The cash flows from operations are expected to tightly match the debt repayment (Rs. 24 crore) and capex obligation (Rs. 8-10 crore) in FY2025, with limited cushion in working capital limits. Timely financial support from the sponsor group will remain crucial to tide over any cash flow mismatches.

Rating sensitivities

For the credit enhanced (CE) rating:

Positive factors - The ratings may be upgraded if the company demonstrates a favourable track record of operations, with sustained improvement in scale and profitability, leading to an improvement in debt coverage indicators and liquidity profile and there is an improvement in the credit profile of the guarantor.

Negative factors - Negative pressure on the ratings could also arise on account of significantly low capacity utilisation and profitability, on a sustained basis, or any large debt-funded capex, leading to deterioration of the debt coverage metrics. The ratings could come under pressure if there is a deterioration in the credit profile of its guarantor, or if there are weakening of linkages with its parent.

For the non-credit enhanced (non-CE) rating:

Positive factors - The ratings may be upgraded if the company demonstrates a favourable track record of operations, with sustained improvement in scale and profitability, leading to improvement in debt coverage indicators and liquidity profile. The ratings may also be upgraded if there is an improvement in the credit profile of its parent.

Negative factors - Negative pressure on the ratings could also arise on account of significantly low capacity utilisation and profitability, on a sustained basis, or any large debt-funded capex, leading to deterioration of the debt coverage metrics. 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
Parent/Group Support	Parent/ Guarantor: MG Contractors Private Limited (MGCPPL) The CE rating is based on the unconditional, irrevocable corporate guarantee extended by MGPPL's parent company, MGCPPL. ICRA expects that MGCPPL to be willing to extend financial support to MGPPL, as and when required. Also, there exists a consistent track record of MGCPPL 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. (MGCPPL). 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 and maize as the basic raw material. In addition to ethanol, the unit produces 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 plant started the production of ethanol on July 05, 2023.

Key financial indicators (audited)

Standalone	FY2023	FY2024*
Operating income (Rs. crore)	0.0	328.7
PAT (Rs. crore)	0.0	3.9
OPBDIT/OI (%)	-	6.7%
PAT/OI (%)	-	1.2%
Total outside liabilities/Tangible net worth (times)	6.8	8.6
Total debt/OPBDIT (times)	NM	12.4
Interest coverage (times)	NM	2.1

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; NM= Not meaningful

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

Status of non-cooperation with previous CRA: Not applicable

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)	October 7, 2024	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022
					Jan 12, 2024	Aug 11, 2023	Jan 17, 2023	July 25, 2022	-
1	Term loans	Long term	123.43	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Stable)	[ICRA]A(CE) (Stable)	-
2	Term loans	Long term	6.91	[ICRA]BBB(Stable)	[ICRA]BBB (Stable)	-	-		-
3	Fund-based Cash credit	Long Term	20.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]A(CE) (Stable) withdrawn; [ICRA]BBB (Stable) assigned simultaneously	[ICRA]A(CE) (Stable)	-
4	Fund-based Cash credit	Long term	30.00	[ICRA]A(CE) (Stable)	[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)	-
5	Bank guarantee	Long term	20.00	[ICRA]A(CE) (Stable)					
6	Unallocated	Long term	4.66	[ICRA]BBB (Stable)					

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Cash credit	Simple
Long-term – Non-fund based – Bank guarantee	Very Simple
Long-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
-	Term loan	FY2022/23	NA	FY2030/31	123.43	[ICRA]A(CE) (Stable)
-	Term loan	Jan-23	NA	FY2031	6.91	[ICRA]BBB (Stable)
-	Cash credit	NA	NA	NA	20.00	[ICRA]BBB (Stable)
-	Cash credit	NA	NA	NA	30.00	[ICRA]A(CE) (Stable)
-	Bank guarantee	NA	NA	NA	20.00	[ICRA]A(CE) (Stable)
-	Unallocated	NA	NA	NA	4.66	[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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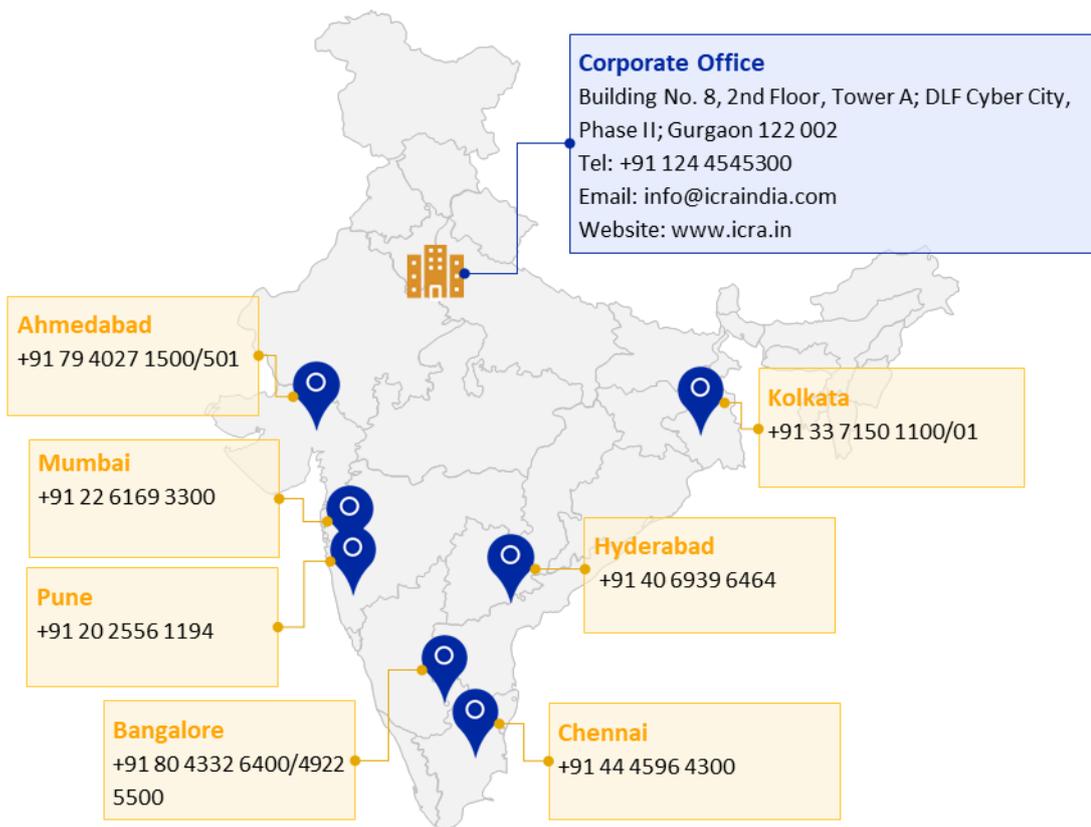
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