

February 09, 2024

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	8.00	8.00	[ICRA]BB+(Stable); reaffirmed
Long-term fund-based – Term loan	34.96	39.18	[ICRA]BB+(Stable); reaffirmed/assigned for enhanced limits
Short term – Non-fund based facilities	11.10	15.00	[ICRA]A4+; reaffirmed/assigned for enhanced limits
Long-term and short-term unallocated limits	0.00	0.28	[ICRA]BB+(Stable)/[ICRA]A4+ assigned
Total	54.06	62.46	

*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 the 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 commencement of a solar power plant in Q4 FY2023 and increased new contracts from the O&M segment received in FY2023 and 9M FY2024 improved the revenues and profitability in 9M FY2024, which is expected to sustain, going forward. The power generated from the solar plant is being sold to a Group entity, Thenpandiyan Spinning Mills India Private Limited (TSMIPL), on a group captive basis. 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 modest net worth position and the high geographical concentration with the operations restricted to Tamil Nadu 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 5.3 times as on March 31, 2023. The ratings further remain tempered by the vulnerability of MLI's profitability to the 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 only 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 the LPG marketing and bottling assistance business, its established distribution network in Tamil Nadu and a diversified stream from other margin-accretive segments.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in LPG/auto 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.

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 to drive profitability growth – The firm has been awarded various new contracts in the operations and maintenance (O&M) segment in FY2023 and 9M FY2024. The firm currently does O&M for eight plants in this segment. This segment, along with the solar power plant which commenced operations in Q4 FY2023, is expected to drive profitability growth, going forward.

Credit challenges

High geographical concentration amid intense competition from PSUs – MLI's parallel marketing operations are geographically concentrated in 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. MLI's operations and profitability are susceptible to any adverse changes in regulatory policies on pricing, taxes, duty etc, given the Government's focus on the oil and gas sector.

Modest net worth and risks associated with partnership nature of firm - The firm's net worth position was modest at Rs. 11.2 crore as on March 31, 2023. The modest net worth position along with the increased debt levels resulted in high TOL/TNW of 5.3 times as on March 31, 2023. Being a partnership concern, the firm is exposed to the risk of withdrawals by the partners.

Liquidity position: Adequate

MLI's liquidity is expected to remain adequate, evident from the cash and bank balance of Rs. 5.21 crore as on March 31, 2023, and low working capital utilisation of 40% in the last 12 months ended September 2023. The firm has repayment obligations of ~Rs. 5.25 crore for FY2024 and Rs. 6.71 crore in FY2025, which are expected to be comfortably met from the accruals. A capex of Rs. 15 crore was incurred in FY2024 till date, funded by a term loan of Rs. 12 crore. There is no other major capex planned.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the firm reports any sustained increase in the scale of operations, while maintaining healthy profitability levels, supporting its net worth position. A specific credit metric for upgrade would be 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 for 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 Solar Power Producers
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 entity was converted to a partnership firm. In June 2019, the partnership firm was reconstituted as one the partners, Mr. Pandian, decided to discontinue 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. Subsequently, part stake of Mr. Nallusamy was taken over by M/s. Thenpandian Spinning Mills India Pvt Ltd.

The firm is engaged in the parallel marketing and distribution of cylinders under its own brand name, Meena Gas, in Tamil Nadu. The firm also provides bottling assistance, and operation & maintenance support to OMCs such as Total Oil India Private Limited, Bharat Petroleum Corporation Limited, Indian Oil Corporation Limited and Hindustan Petroleum Corporation Limited. The firm also has a solar power plant with a 6-MW capacity. The power generated is sold to an associate entity on a group captive basis.

Key financial indicators

MLI	FY2022	FY2023	9MFY2024*
Operating income	168.2	212.3	168.5
PAT	4.6	0.8	3.6
OPBDIT/OI	7.3%	7.3%	10.8%
PAT/OI	2.7%	0.4%	2.1%
Total outside liabilities/Tangible net worth (times)	4.3	5.3	5.1
Total debt/OPBDIT (times)	1.2	2.4	1.6
Interest coverage (times)	9.7	5.5	6.6

Source: Company, ICRA Research; * Provisional numbers; 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: 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 Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Feb 09, 2024	Nov 25, 2022	Dec 14, 2021	Nov 23, 2020
1	Cash credit	8.0		[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)
2	Term loan	39.18	31.17	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)
3	Bank guarantee	15.00		[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
4	Unallocated limits	0.28		[ICRA]BB+ (Stable)/ [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 facilities	Very Simple
Long-term and short-term unallocated limits	NA

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 loan-I	FY2023	8.5%	FY2033	19.27	[ICRA]BB+(Stable)
NA	Term loan-II	FY2023	7.75%	FY2029	19.91	[ICRA]BB+(Stable)
NA	Cash credit	NA	NA	NA	8.00	[ICRA]BB+(Stable)
NA	Bank guarantee	NA	NA	NA	15.00	[ICRA]A4+
NA	Unallocated limits	NA	NA	NA	0.28	[ICRA]BB+(Stable)/ [ICRA]A4+

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis - NA

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