Elixir Group d.o.o.

Republic of Serbia, Chemicals

Issuer
BB

Outlook
Stable

Planned senior unsecured bond
(P) BB+

Lead Analyst

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Related methodologies

General Corporate Rating Methodology LINK, Oct 2023

Chemicals Rating Methodology LINK, Apr 2024

Rating composition

Business Risk Profile		
Industry risk profile	BBB	BB
Competitive position	BB	
Financial Risk Profile		
Credit metrics	BB	BB
Liquidity	+/-0 notches	
Standalone credit assessment		**BB**
Supplementary rating drivers		
Financial policy	+/-0 notches	**+/-0 notches**
Parent/government support	+/-0 notches	
Governance & structure	+/-0 notches	
Peer context	+/-0 notches	
Issuer rating		**BB**

Key metrics

			Scope estimates	
Scope credit ratios	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	5.8x	4.5x	5.6x	7.4x
Scope-adjusted debt/EBITDA	3.0x	3.1x	3.3x	2.7x
Scope-adjusted funds from operations/debt	25%	24%	24%	31%
Scope-adjusted free operating cash flow (FOCF)/debt	-7%	5%	-13%	-2%
Liquidity	68%	134%	>200%	>200%

Rating sensitivities

The upside scenario(s) for the rating and Outlook (collectively):

- Improving business risk profile, e.g. by consolidating the Scope-adjusted EBITDA margin above 20% and improving diversification, a scenario considered remote at present
- Improving financial risk profile, as demonstrated by a leverage ratio (Scope-adjusted debt/EBITDA) of 2.5x or lower and a cash flow cover (Scope-adjusted FOCF/debt) of around or above 5% on a sustained basis

The downside scenario(s) for the rating and Outlook (individually):

- Deteriorating business risk profile as a result of group margin not improving to above 15% over the medium term
- Deteriorating financial risk profile as evidenced by leverage (Scope-adjusted debt/EBITDA) persistently above 3.5x or prolonged period of negative FOCF beyond 2026

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1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Dominant market position in the domestic market for fertiliser production and supply • Solid market position in the European market for the production of phosphoric acid • Moderate to good leverage and good interest coverage • Solid – but very volatile – margin profile, which we expect to smoothen along the normalisation of the market environment and the enlargement of the product portfolio • Execution risks for production expansion and new product launches mitigated by experience and off-take agreements with new/existing customers • Positive diversification effects in terms of reaching a variety of foreign markets, customers and suppliers • Refinancing needs for capital expenditure and working capital mitigated by well-established relationships with several domestic and non-domestic banks and availability of committed credit facilities • Wide set of credit-protective covenants, e.g. financial covenants and financial restrictions on dividend payouts/debt expansion, which are likely to keep financial metrics under control	• Moderate overall market position in the European fertiliser market, which is dominated by a few large multinationals and many smaller regional players • Elixir is a price taker in a strongly volatile industry which results in highly volatile prices for raw materials and produced goods • Large unhedged exposure to floating rate debt can largely impact interest coverage • Potential price erosion for fertilisers below the long-term average due to significant production ramp-up in non-European markets could strongly impair Elixir's margin and cash flow profile • Execution risk related to the current investment phase and the associated expansion/utilisation of production facilities • Diversification constrained by limited product diversification and significant exposure to the domestic market • Negative, and strongly volatile, FOCF and weak cash flow cover due to prolonged investment phase and working capital fluctuations due to typically high working capital requirements • Significant reliance on short-term funding of working capital on a rolling basis, which requires ongoing refinancing and strains liquidity • Limited exposure to speciality chemicals products

Credit-neutral: Sovereign rating on the Republic of Serbia (BB+/Positive)

2. Rating Outlook

The Stable Outlook incorporates our expectations about a smooth execution of the ongoing investment projects and ramp-up of production capacity, which will likely result in a gradual improvement of the Scope-adjusted EBITDA margin to more than 16% in FY2026. This supports our projection that the company will keep its leverage (Scope-adjusted debt/EBITDA) below 3.5x and its interest coverage (Scope-adjusted EBITDA/interest) above 4.0x.

3. Corporate profile

Long-standing exposure to production of mineral fertilisers and chemical by-products

Established in 1990, Elixir oversees manufacturing operations at two production sites in Serbia, employing a total of about 2,000 people. Elixir primarily produces NPK fertilisers with varying compositions of N, P and K concentrations, as well as other chemicals such as phosphoric acid. NPK fertilisers are mainly sold to the agricultural sector and phosphoric acid to the chemical, feed, automotive and food industries.

Current expansionary investment phase to change product setup over the medium term

The company is currently undergoing a significant investment phase for (i) the expansion of production capacity for phosphoric acid in different grades/purities (feed, technical and food grade), (ii) the installation of a waste-to-energy plant at one of its sites and (iii) a new tMAP (technical monoammonium phosphate) production site. For the latter, the company intends to issue a RSD 4.1bn (EUR 35m) green bond in Q1 2025 under its Green Bond Framework.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
29 JAN 2025	New	BB/Stable

5. Financial overview (financial data in RSD m)

				Scope estimates		
Scope credit ratios	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	>20x	>20x	5.8x	4.5x	5.6x	7.4x
Scope-adjusted debt/EBITDA	1.7x	1.1x	3.0x	3.1x	3.3x	2.7x
Scope-adjusted funds from operations/debt	30%	79%	25%	24%	24%	31%
Scope-adjusted FOCF/debt	-4%	-19%	-7%	5%	-13%	-2%
Liquidity	>200%	175%	68%	134%	>200%	>200%
Scope-adjusted EBITDA						
EBITDA	7,921	16,398	8,128	7,385	7,907	9,979
add/less: Changes in provisions	23	465	57	-	-	-
Scope-adjusted EBITDA	**7,944**	**16,862**	**8,185**	**7,385**	**7,907**	**9,979**
Scope-adjusted funds from operations						
Scope-adjusted EBITDA	7,944	16,862	8,185	7,385	7,907	9,979
less: Scope-adjusted interest	(279)	(478)	(1,419)	(1,636)	(1,410)	(1,348)
less: cash tax paid	(95)	(577)	(639)	(243)	(274)	(493)
Other non-operating charges before FFO	(3,523)	(1,286)	70	-	-	-
Scope-adjusted funds from operations (FFO)	**4,047**	**14,522**	**6,197**	**5,505**	**6,223**	**8,138**
Scope-adjusted FOCF						
Scope-adjusted FFO	4,047	14,522	6,197	5,505	6,223	8,138
Change in working capital	(2,567)	(13,652)	507	6,842	(523)	(2,879)
less: capital expenditures (net)	(1,731)	(3,981)	(8,036)	(10,669)	(8,611)	(5,266)
less: lease amortisation	(259)	(300)	(342)	(480)	(480)	(480)
Scope-adjusted FOCF	**(510)**	**(3,412)**	**(1,674)**	**1,198**	**(3,391)**	**(487)**
Scope-adjusted net cash interest paid						
Net cash interest per cash flow statement	277	471	1,392	1,603	1,383	1,323
Change in other items[1]	2	7	27	33	27	25
Scope-adjusted Net cash interest paid	**279**	**478**	**1,419**	**1,636**	**1,410**	**1,348**
Scope-adjusted debt						
Reported financial (senior) debt	15,908	19,626	24,126	25,160	26,432	27,413
less: cash and cash equivalents	(3,618)	(2,205)	(1,473)	(4,218)	(2,027)	(2,446)
add: provisions for environmental purposes (waste disposal)	168	328	502	502	502	502
add: other debt-like items (legal disputes and 50% of given guarantees)	909	547	1,165	1,165	1,165	1,165
Scope-adjusted debt (SaD)	**13,367**	**18,297**	**24,320**	**22,609**	**26,072**	**26,634**

[1] Estimated interest on debt-like provisions.

6. Environmental, social and governance (ESG) profile[2]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

ESG factors: credit positive credit negative credit neutral

Chemicals industry generally facing challenging

Elixir operates within an industry inherently exposed to significant environmental and social ESG risks, including pollution, raw material consumption, occupational safety, and regulatory compliance. However, Elixir is not considered an outlier in its sector, and its ESG strategy effectively addresses these challenges.

Exposure to fertilisers with positive and negative ESG exposure

Elixir indirectly contributes positively to SDG Goal 2, "Zero Hunger," by producing fertilisers that support agricultural productivity amidst rising global food demand. Nevertheless, the company's reliance on agricultural markets exposes it to climate risks, such as extreme weather events, which can impact crop yields, commodity prices, and fertiliser demand. The company operates large chemical plants and manages potentially hazardous materials but complies with ISO standards, demonstrating sound health and safety practices. Its integrated production model and circular economy approach, such as in-house phosphoric acid production and a waste-to-energy plant, help reduce its environmental footprint.

Governance challenges mitigated by adequate control functions

The company's governance framework, while not without challenges, does not affect the rating. As a privately owned Serbian company, Elixir does not have a supervisory board. Governance is further influenced by the familial relationship between the owner and president, Stanko Popović, and the CEO, Zorica Popović. While family ties as well as limited company control via a Supervisory Board may raise concerns from a governance perspective, risks are largely mitigated by established management committees and control functions that oversee decision-making. This also mitigates potential key person risk.

No elevated risks from health/safety standards or regulatory compliance

Elixir operates large industrial plants and storage facilities for chemicals products, and many of required raw materials, intermediaries and products could be harmful for human health and the environment. The company is not deemed to a negative outlier in terms of health/safety incidents or elevated risks pertaining to regulatory as the company is fully compliant with industry-relevant ISO regulations.

[2] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

7. Business risk profile: BB

Elixir's business risks are largely mitigated by i) its market positions in the chemicals segments for fertilisers and phosphoric acid, ii) its solid international distribution and iii) its moderate-to-good profitability. However, business risks are amplified by i) the industry-inherent volatility affecting input and output prices, ii) the company's still comparatively small scale, iii) limited product diversification and iv) significant exposure to the domestic market.

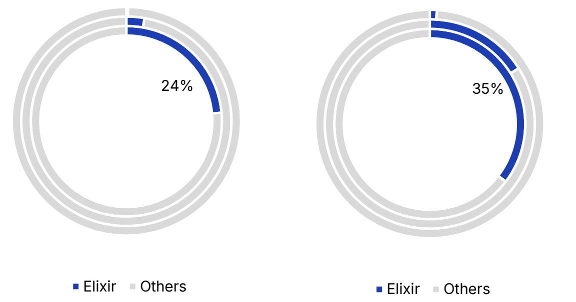
BBB industry risk profile for commodity-focused chemicals not deemed supportive to Elixir's business risk profile

As a chemicals company with a core exposure to commodity-focused chemicals products, the applicable industry risk profile is BBB. However, this solid industry risk profile does not provide a credit uplift within our assessment of Elixir's business risk profile. This is grounded on Elixir's still small size within the industry, the inherent volatility of the fertiliser industry and the limited potential of fertiliser companies to benefit from industry-wide entry barriers, which are less pronounced for the fertiliser sub-sector than for other commodity-focused chemical companies.

Small total, but solid regional market shares for fertilisers

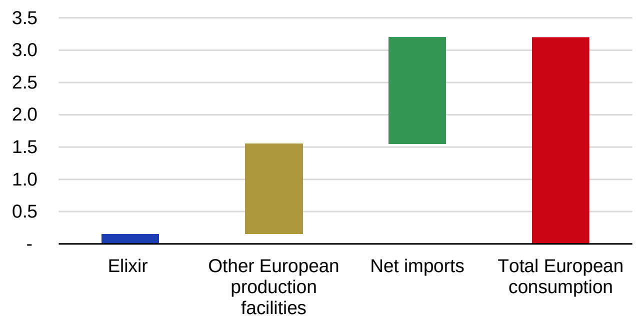
Elixir, a smaller European chemicals producer with annual revenues between EUR 450-500m, holds a niche position in the European fertiliser market. While its revenue scale is modest compared to major fertiliser producers like Yara or EuroChem, Elixir benefits from its specialisation in phosphate-based fertilisers and its market share in Europe, estimated at around 3% overall and 15% for phosphate-based fertilisers. In Serbia, its domestic market, Elixir commands a leading position with a 35% share in the phosphate segment and 25% in overall fertiliser consumption.

Figure 1: Elixir's estimated share* on the total fertiliser market (left) and on the phosphate-based fertiliser market (right)



* outer circle: global, middle circle: Europe, inner circle: Serbia
Sources: Scope's computations based on company data and International Fertilizer Association

Figure 2: Elixir's market coverage of European demand for phosphoric acid in mt



Sources: Elixir, market data, Scope

Self-procurement of phosphoric acid for the production of fertilisers providing a competitive edge

The European fertiliser market's chronic production shortage and reliance on imports provide Elixir with competitive advantages against non-European competitors, including solid capacity utilisation rates and reduced transportation costs. Elixir's ability to self-procure phosphoric acid, a critical input, further strengthens its position. Current and planned expansions in production capacity, particularly in higher-grade phosphoric acids and technical-grade monoammonium phosphates (tMAP), are expected to enhance the company's market presence and product diversification by YE 2026.

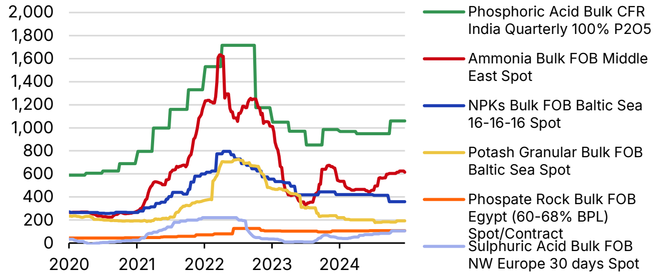
Market position for phosphoric acid stronger than for fertilisers

We regard Elixir's market position/shares for phosphoric acid to be stronger than for its fertilisers in light of the limited production capacities of companies in Europe, the less fierce competition for market shares among European suppliers and the significant shortage of European supply for phosphoric acid. This, in turn, supports the company's value proposition and secures sustainable capacity utilisation rates for its production facilities. The ongoing capacity ramp-up, primarily focused on increasing phosphoric acid production to over 200 kt and adding more than 100 kt of new refining capacity for higher-grade phosphoric acids (e.g. food and tech grade acids), is expected to further strengthen Elixir's position, making it a key player in the European market.

Elixir remains a price taker in the commoditised industry

Like most commodity-based chemical manufacturers, Elixir is a price taker in its market. As in all commodity markets, fertiliser prices are determined by the interplay of supply and demand. On the supply side, (i) energy prices and the prices of raw materials such as natural gas, ammonia, urea, phosphate rock or potash rock; (ii) trade disruptions and high transport costs; while on the demand side, (iii) crop prices and hence the affordability of fertilisers. The same applies to phosphoric acid as a by-product of phosphorus-based fertiliser production. As a result, large price fluctuations for input and output factors, which are difficult for Elixir and other industry players to control as price takers in the industry, can have a significant impact on Elixir's cash flow stability. Although prices have normalised in recent quarters, price shocks may reoccur and are considered a key rating constraint.

Figure 3: Volatile price development for fertilisers and other chemicals products such as phosphoric acid (in USD per ton)



Source: Elixir based on data from CRU International

Table 1. Expectations on sold quantities for core products (in thousands of tons)

	2020	2021	2022	2023	2024	2025	2026
NPK fertilisers	569	553	454	482	470	495	565
Traded fertilisers	81	51	73	144	160	120	120
Liquid fertilisers	0	0	0	0	0	10	13
Phosphoric acid	66	53	49	58	66	73	108
Aluminium fluoride	0	1	2	4	4	4	6
Crystal tMAP	0	0	0	0	0	0	35

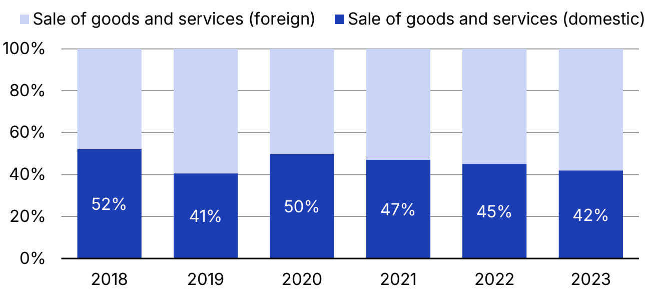
Sources: Elixir, Scope

Moderate international footprint, but still large dependence on domestic market and few products …

Elixir's cash flow is moderately diversified. While the company demonstrates solid regional diversity, with exports to over 80 countries, its geographical focus remains concentrated on core markets like Serbia and the CEE region. However, we believes that the company has gained sufficient traction in international market, being able to absorb and substitute the potential loss of some customers. Moreover, we anticipate a gradual improvement in Elixir's outreach activities and cash flow profile along the company's ongoing investment phase which strongly aims at broadening the product mix. Fertilisers account for 65-75% of revenues, complemented by phosphoric acid (15%) and by-products such as aluminium fluoride. The currently undertaken and further planned investments will broaden the portfolio and industry exposure (products are used in agriculture, livestock, chemicals, industrial processes and food processing), reducing dependence on commoditised fertilisers and targeting higher-margin markets.

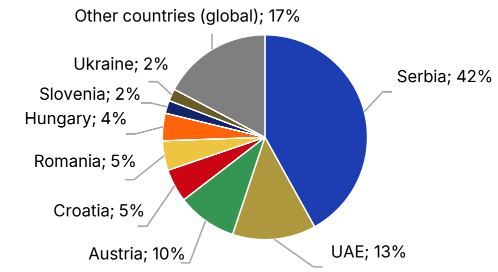
… which we expect to be reduced along the capacity ramp-up

Figure 4: Consistently reduced dependency on domestic customers



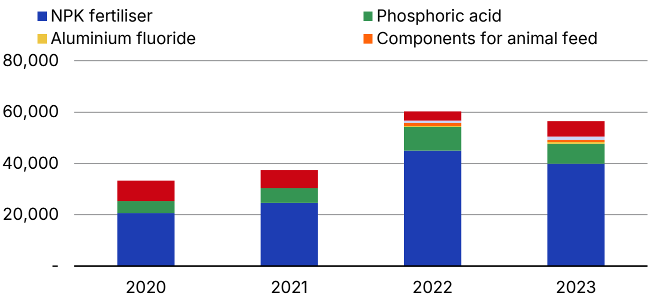
Sources: Elixir, Scope

Figure 5: Regional sales split 2023



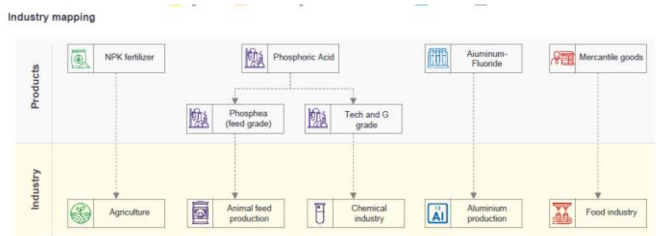
Sources: Elixir, Scope

Figure 6: Product diversification as per revenues (in RSD m)



Sources: Elixir, Scope

Figure 7: End-customer exposure by industry

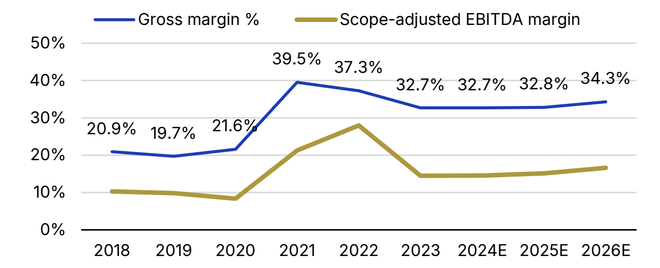


Source: Elixir

This development will likely shape Elixir's margin profile, which we expect to become less volatile and to gradually expand. The company's profitability – as measured by Scope-adjusted EBITDA margin – is highly influenced by market dynamics. Historically, Scope-adjusted EBITDA margins have ranged from 8% to 28%, reflecting input cost volatility and inventory management challenges. We anticipate margins improving to a range of 15-20% by 2026 from about 14.5% in 2023 and 2024, supported by cost-saving measures like the new waste-to-energy plant and expanding margin-enhancing production of phosphoric acid. While industry-inherent volatility is also impacting Elixir's margins and cash flow profile, we strike that Elixir is not similarly adversely exposed to large price swings of natural gas and ammonia such as competitors with a strong exposure to nitrogen-based fertiliser production. However, the possibility of major margin fluctuations cannot be excluded in the future, which is reflected in our assessment.

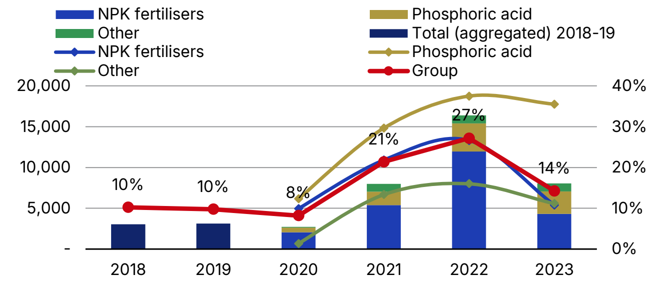
Historically largely volatile operating margin which we expect to smoothen and improve along the evolving product mix

Figure 8: Historically volatile margin expected to smoothen amid normalisation of market prices



Sources: Elixir, Scope estimates

Figure 9: Elixir's EBITDA composition* (lhs, in RSD m) and group/segment margins (rhs, EBITDA margin)



* No segment split available before 2020
Sources: Elixir, Scope

While there are execution risks involved, given the company's significant investment plan that will impact the future product mix and margin profile, we believe that these risks can be mitigated by:

Execution risk exists but largely mitigated

- The application of proven technologies and Elixir's long-standing track record in the production of phosphoric acid.
- The use of reputable contractors for the construction of projects, e.g. Andritz for the construction of the waste-to-energy incineration plants.
- The European shortage in terms of production volumes for phosphoric acid, which should ensure a good utilisation of future production capacity.
- The contraction through off-take agreements with solid offtakers such as K+S (technical monoammonium phosphate - tMAP), BASF (phosphoric acid).

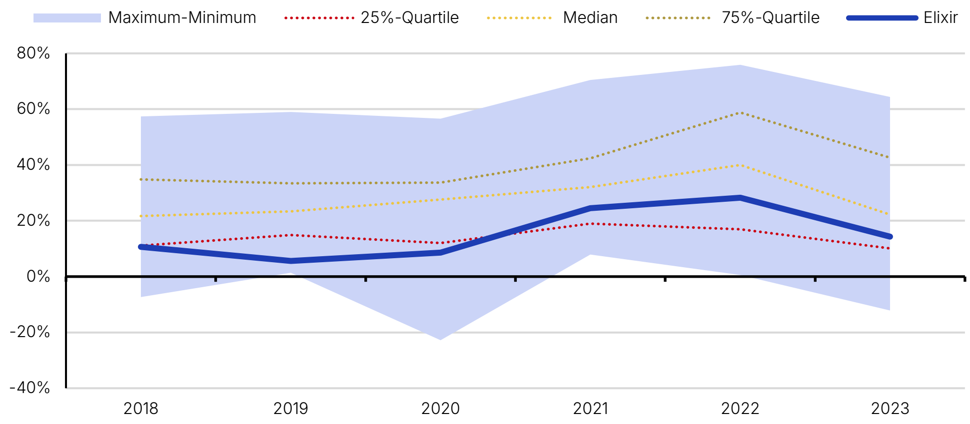
While Elixir's operating profitability, as measured by its Scope-adjusted EBITDA margin, demonstrates moderate to good development, it only ranks below the industry average, despite the margin-enhancing effect from phosphoric acid sales. Notably, large international companies benefit from higher margin profiles due to (i) scaling effects, (ii) advantages in the procurement of raw materials and (iii) presumably a margin-enhancing product mix.

Below-average margin within the peer group of fertiliser companies

We highlight the inherent volatility of the industry in terms of achievable margins, with median EBITDA margins ranging from 22% to 40% in recent years. This largely reflects the nature of the industry in terms of large fluctuations in input and output prices and inventory management. Such significant margin volatility weakens the industry-wide and company-specific assessment of operating profitability, as margin volatility can have a much greater impact on the cash flow profile of a fertiliser producer than that of other players in the chemical industry, particularly specialty chemical producers.

Margin volatility pertinent to the fertiliser industry

Figure 10: Elixir's Scope-adjusted EBITDA margin within peer group of fertiliser companies



Sources: Bloomberg, companies, Elixir, Scope

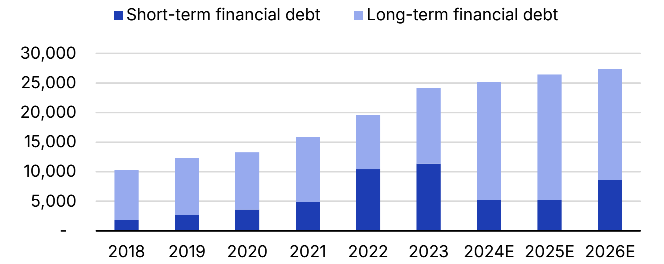
8. Financial risk profile: BB

Elixir's financial risk profile reflects a combination of moderate leverage, moderate-to-good debt protection, and constrained cash flow coverage due to ongoing investments and working capital requirements.

Financial debt expected to plateau in 2026 at the end of expansionary capex phase

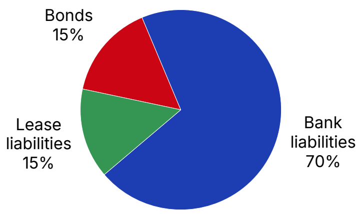
Elixir's indebtedness has increased sharply in recent years, driven by growing working capital requirements – particularly short-term debt – and its significant investment phase. While a portion of the funding needs was met internally, the company relied on external financing, including project-related loans and working capital facilities. This trend is expected to continue until 2026, with additional financing planned, such as a project-related green bond, before debt levels stabilise at a level of around RSD 27bn as the expansionary investment phase concludes.

Figure 11: Development of gross debt (in RSD m)



Sources: Elixir, Scope estimates

Figure 12: Gross financial debt post-IBO at YE 2025

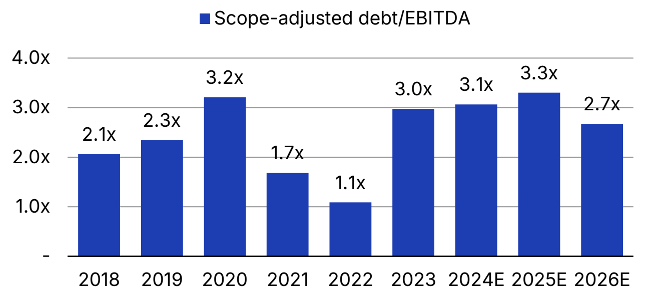


Source: Scope estimates

Volatile leverage but kept at moderate level

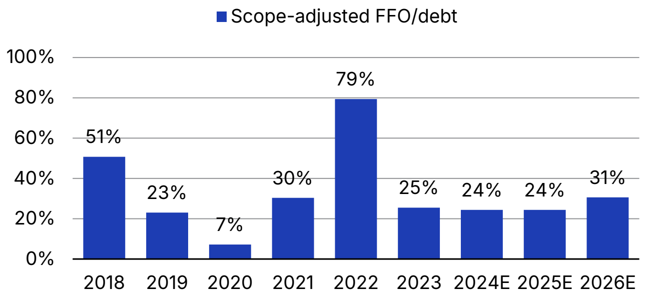
We project Elixir's Scope-adjusted debt/EBITDA to settle within a range of 2.7x and 3.3x in 2024-2026, compared to 3.1x at YE 2023. EBITDA growth, supported by commodity price normalisation, volume growth in core products, and cost savings, underpins this trend. The company's leverage target of ≤3.5x and loan covenants requiring progressive leverage reductions by 2026 provide additional reassurance. However, it should be noted that the industry-specific volatility and its subsequent impact on Elixir's margins and EBITDA may result in larger deviations from the forecast corridor.

Figure 13: Leverage expected to reach its peak in 2025



Sources: Elixir, Scope estimates

Figure 14: Solid FFO-based leverage

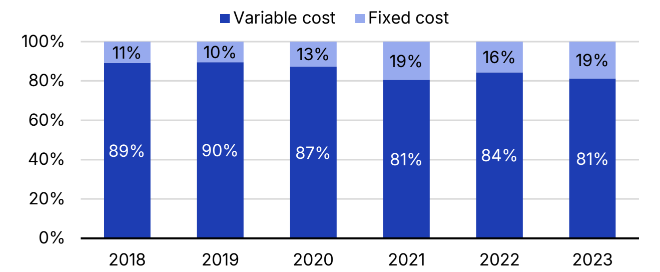


Sources: Elixir, Scope estimates

Elixir's Scope-adjusted EBITDA/interest coverage is forecast to remain moderate-to-good, despite the company's dominant exposure to floating-rate debt during a period of rising base rates, leading to a strong increase in average borrowing costs to around 6.4% in 2023 from 2.5% on average in 2018-2022. Historically above 5.0x, interest coverage is expected to bottom out at around 4.5x in 2024 and to improve to 5.0x-7.5x in 2025 and 2026, supported by EBITDA growth and anticipated further reductions in Serbian base rates as well as Elixir's efforts to increase its exposure to fixed rate debt, e.g. with the planned RSD 4.1bn senior unsecured bond.

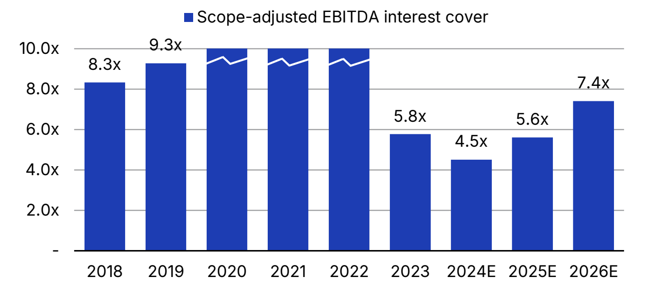
Interest coverage expected to bottom out in 2024

Figure 15: Very high share of floating rate debt



Sources: Elixir, Scope estimates

Figure 16: Good debt protection metric even during phase of elevated interest rates

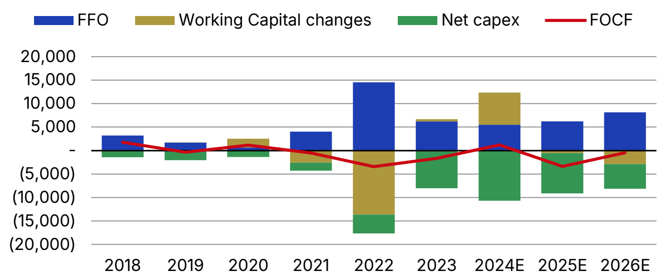


Sources: Elixir, Scope estimates

The assessment of the overall financial risk profile is somewhat constrained by the prolonged pressure on FOCF amid the company's expansionary capex phase and persistent working capital swings, requiring ongoing external financing. Nevertheless, we anticipate a return of the company's sustained FOCF, e.g. being solidly positive, at the latest by 2027, driven by reduced capex and stable operating performance, which would solidify Elixir's financial strength in the medium term.

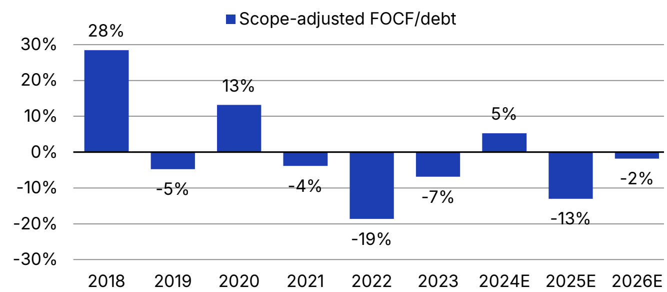
Rating-constraining external funding needs and FOCF during expansion period

Figure 17: Working Capital swings and capex biting into FOCF (RSD m)



Sources: Elixir, Scope estimates

Figure 18: Weak cash flow cover during expansionary investment phase



Sources: Elixir, Scope estimates

Elixir's liquidity is assessed as adequate, reflecting its ability to manage financial pressures, e.g. on working capital funding and substantial short-term debt exposures. Looking forward, liquidity is expected to remain solid, with projected liquidity ratios exceeding 110% in 2025 and 2026. Key

Adequate liquidity and good bank relationships factors supporting this outlook include reduced refinancing needs per annum, projected cash buffers of at least RSD 2.0bn at the end of each year, access to undrawn credit facilities totalling RSD 8.0bn, and liquid inventories that could be sold quickly if needed. Moreover, Elixir benefits from a broad base of funding partners, including domestic banks and international institutions like Unicredit, Erste Bank, and Raiffeisen.

Table 2. Liquidity sources and uses (in RSD m)

	2024E	2025E	2026E
Unrestricted cash (t-1)	1,473	4,218	2,027
Open committed credit lines (t-1)	8,144	8,144	8,144
Other liquidity sources (t-1)[3]	3,810	3,429	3,532
Free operating cash flow (t)	1,198	(3,391)	(487)
Short-term debt (t-1)	10,886	4,683	4,683
Liquidity	**134%**	**>200%**	**>200%**

Sources: Elixir, Scope estimates

Full covenant compliance expected going forward

Many, but not all, of Elixir's debt instruments contain credit-related covenants. The most significant covenants relate to (i) leverage, (ii) gearing, (iii) interest coverage, (iv) liquidity and short-term debt, (v) required notifications and approvals for additional debt placements. While Elixir has consistently met its debt covenants, a waiver was required in 2023 for a likely breach on the minimum interest coverage due to rising floating-rate debt costs and led to a reset of financial covenants for the next few years. We anticipate full compliance with financial covenants, albeit with potential risks linked to EBITDA volatility. Moreover, we strongly believe that in the event of a foreseeable covenant breach, the company would engage with its lenders in an orderly manner. Given Elixir's market position in the domestic market and its track record with its funding partners, the funding banks are likely to remain committed.

9. Supplementary rating drivers: +/- 0 notches

Prudent financial policy

We highlight the company’s prudent approach on its financial policy as signalled by its shareholder remuneration, its commitment to financial covenants and other credit covenants, its M&A strategy and its commitment to a maximum leverage.

Credit-protective set of financial covenants and restrictions

In particular, Elixir is publicly committed to maintain leverage - as measured by net debt/EBITDA – well below 4.0x. In fact, the covenants require the company to gradually reduce this ceiling over the next few years to a maximum of 3.3x from 2027. This is likely to limit the company's overall leverage, as the company cannot raise additional debt without the consent of several lenders. Moreover, the company is bound to limitations on dividend payouts. As such, we have sufficient comfort that leverage is likely to be kept under control, and that it has already been maxed out in 2024/2025.

Governance challenges mitigated by established controls framework

Elixir’s governance framework, while not without challenges, does not affect the rating. As a privately owned Serbian company, Elixir does not have a supervisory board. In addition, the owner and president of the company, Stanko Popović, is the younger brother of the company's CEO, Zorica Popović. While such family ties are sub-optimal from a governance perspective, we believe that they do not pose increased credit risks, as the risks are mitigated by decision-making by various management committees and established control functions. The same applies to the mitigation of key person risk which we believe is mitigated by Elixir’s long-established structures and governing bodies.

Solid transparency

We highlight the company's professional and transparent communication and disclosures. The company has been audited by KPMG Serbia for the last 10 years. Moreover, Elixir publishes Sustainability reports since 2022 which are in line with GRI principles. The material provided is

[3] Portion of liquid inventories (25%).

considered plausible and consistent. Overall, we are reassured by the company's good professionalism in this area, which provides solid confidence in the financial figures and forecasts.

Environmental and social challenges credit-neutral

The main industry-wide ESG factors are environmental controversies related to pollution and the management of raw material consumption, particularly water and energy. In addition, chemical companies typically face social challenges related to occupational health/safety and regulatory/reputation issues. We do not consider Elixir to be an outlier within its industry and positively acknowledge that Elixir's ESG strategy largely addresses its controllable environmental and social ESG challenges (see Environmental, social and governance (ESG) profile).

10. Debt ratings

Preliminary senior unsecured bond rating: (P) BB+

Elixir plans to tap the bond market with a first-time senior unsecured green bond issue (RSD 4.1bn) in Q1 2025, to which we have assigned a preliminary bond rating of (P) BB+. The company’s financial debt is primarily secured by tangible assets, including subsidiary shares, a mortgage on its waste-to-energy plant, and receivables, with approximately 20% of loans being unsecured. We base the recovery analysis for the senior unsecured green bond on Elixir’s significant asset base, where property, plant, equipment (PPE), inventories, and receivables constitute over 90% of the total balance sheet. These assets support above-average recovery expectations for the senior unsecured debt.

The projected liquidation value of RSD 46bn at YE 2026 is expected to largely cover creditors’ claims of about RSD 45bn, including taxes and payables. While the recovery rate for the senior unsecured bond is estimated at an excellent level, the rating reflects constraints due to its unsecured nature and the potential increase in senior secured debt on the way to a default as well as the high price volatility for core products which can significantly impact the value of inventories and the value of claims at default.

Appendix 1. Peer comparison (as at last reporting date)

	Elixir Group d.o.o.	Neova Oy	Envien Magyarország Kft	Pannonia Bio Zrt	Elkem ASA
Issuer rating/Outlook	**BB/Stable**	**BBB-/Stable**	**BB/Stable**	**BB/Negative**	**BBB-/Stable**
Last reporting date	31 December 2023	31 December 2023	31 December 2023	31 December 2022	31 December 2023
Business risk profile	**BB**	**BB+**	**BB-**	**BB-**	**BBB-**
Revenue size (in EUR m)	487	495	867	515	2,950
Market position	Moderate	Moderate	Moderate	Moderate	Good
Geographical exposure	Serbia (40%), CEE (30%), RoW (30%)	Finland (30%); Europe (50%); RoW (20%)	Slovakia (45%), CEE (40%), RoE (15%)	Hungary (20%), Europe (80%)	Global
Product diversification	Mineral fertiliser, phosphoric acid	Growing media (organic fertilisers), energy fuels	Biodiesel, bioethanol and by-products	Bioethanol, animal feed	Silicones, silicon metals, carbon solutions
Scope-adjusted EBITDA margin (sustained)	14-17%	10%	8%	14-15%	10-15%
Financial risk profile	**BB**	**BB+**	**BBB-**	**BBB-**	**BBB**
Credit metrics at last reporting date					
Scope-adjusted EBITDA/interest cover	5.8x	4.4x	4.8x	41.0x	6.8x
Scope-adjusted debt/EBITDA	3.0x	3.4x	3.2x	2.1x	2.3x
Scope-adjusted FFO/debt	25%	19%	27%	23%	16%
Scope-adjusted FOCF/debt	-7%	-1%	48%	-17%	-23%
Standalone credit assessment	**BB**	**BB+**	**BB**	**BB**	**BBB-**
Supplementary rating drivers	**±0 notches**	**+1 notch**	**±0 notches**	**±0 notches**	**±0 notches**

Sources: Public information, Scope

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