Envien Magyarország Kft

Hungary, Chemicals

Issuer

BB-

Outlook

Negative

Senior unsecured (guaranteed) bond (ISIN: HU0000360193)

B+

Rating composition

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

Key metrics

			Scope estimates	
Scope credit ratios	**2023**	**2024P**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	4.2x	5.7x	4.9x	5.5x
Scope-adjusted debt/EBITDA	3.4x	3.8x	3.9x	3.5x
Scope-adjusted funds from operations/debt	26%	19%	18%	21%
Scope-adjusted free operating cash flow/debt	43%	6%	7%	8%
Liquidity	128%	138%	126%	116%

Rating sensitivities

The upside scenarios for the rating and Outlook (collectively):

- Debt/EBITDA below 4.0x on a sustained basis
- Agreement about a pragmatic solution to comply with 2024 covenants at subsidiary level with financing banks
- Increasing transparency of covenant compliance at group and subsidiary level going forward

The downside scenarios for the rating and Outlook (individually):

- Debt/EBITDA at or above 4.0x on a sustained basis
- Failure to obtain a waiver on covenant breaches for bank loans
- Increasing risk for repeated non-compliance with covenants on bank loans

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Related methodologies

General Corporate Rating Methodology, Feb 2025

Chemicals Rating Methodology, Apr 2024

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1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Past and future demand generated by regulatory requirements (biofuels) • Strong market presence in CEE, especially in Slovakia (100% market share), despite limited capacity at EU level • Production diversified across several plants in CEE (6 production plants) as well agro-commodity trading activities in Slovakia, Hungary and Switzerland • Slight improvement geographical diversification following the acquisition of Biopaliwa • EBITDA interest cover to remain supportive of the financial risk profile despite pressure from high debt level and decreasing EBITDA in 2025	• Scope-adjusted EBITDA margin stabilising in a range between 6%-7%, below historical levels entailing a weaker business risk profile • Weaking financial risk profile impacted mainly a deterioration of leverage which is expected to remain around 4x in 2025 • Risks connected with financial covenant breaches on some bank loans at subsidiaries level, although mitigated by preliminary discussions between Envien Group and involved bank and the Group's long-standing banking relationship, supporting the view that these will be waived by March 2025 • Product portfolio mostly including commoditised products with limited pricing room • Concentration on single product group (biofuels) • Large single customer concentration on MOL Group, mitigated by the synergistic business relationship • Persistent high imports of bioethanol and biodiesel imports in the EU market from extra-EU countries, entailing weakening effectiveness of protective measures. Recently introduced duties on Chinese biodiesel import should mitigate pressure on premiums • Complex group and debt structure, with financing carried out mostly at subsidiary level, limiting visibility on covenant compliance

2. Rating Outlook

The Negative Outlook reflects our view that some pressure on credit metrics will persist due to the continue pressure on operating profitability, with debt/EBITDA expected to remain close to 4.0x in 2025 and interest cover declining to around 5x, reducing headroom to a lower rating. The unresolved covenant breaches on bank loans also creates rating pressure, although a positive resolution is highly probable. Also, margin volatility might affect covenant compliance at both group and subsidiary levels in 2025, while limited visibility on covenant headroom and compliance due to the complex financing and group structure could put more pressure on the issuer rating.

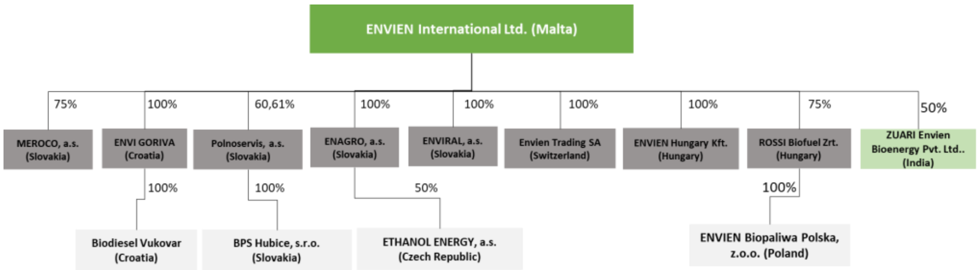
3. Corporate profile

Envien Magyarország part of Envien Group, one of the largest biofuel producers in Europe

Envien Magyarország Kft. is a fully owned subsidiary of Malta-based Envien International Ltd., the consolidating entity of Envien Group, one of the largest producers of first-generation biofuels (bioethanol and biodiesel) in Central and Eastern Europe (CEE). Envien Group is active in the procurement of feedstock; the production and commercialisation of biofuels; the trade of the by-products from its biofuel production (animal feed and corn oil from bioethanol; chemicals such as glycerine from biodiesel); the trade of related products acquired for resale; and the production of heat and energy.

Envien Group started in 2005 with its construction of the Enviral bioethanol plant in Slovakia. It has since grown into a group of 12 interconnected companies in Slovakia, Czech Republic, Hungary, Poland, Switzerland and Croatia. It employs over 600 staff and is privately held.

Figure 1: Envien Group structure



Source: Envien Group

Group companies are Enviral, Meroco, Enagro, Poľnoservis, Rossi Biofuels, Biodizel Vukovar, Biopaliwa Poland (since Q4 2022), Envien Hungary, Ethanol Energy Vrdy, RT Logistic and Envien Trading (Switzerland). Envien Magyarország is a pure trader of animal feed products, primarily using the by-products of Envien Group's biofuel production. Envien International provides an unconditional and irrevocable guarantee on the bond issued by Envien Magyarország.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
11 March 2025	Downgrade and Outlook change	BB-/Negative
14 March 2024	Affirmation	BB/Stable
17 March 2023	Affirmation	BB/Stable

5. Financial overview (financial data in EUR '000s)

				Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024P[1]**	**2025E**	**2026E**	**2027E**
Scope-adjusted EBITDA interest cover	>20x	4.2x	5.7x	4.9x	5.5x	6.4x
Scope-adjusted debt/EBITDA	1.7x	3.4x	3.8x	3.9x	3.5x	2.9x
Scope-adjusted funds from operations/debt	36%	26%	19%	18%	21%	26%
Scope-adjusted free operating cash flow/debt	16%	43%	6%	7%	8%	15%
Liquidity	200%	128%	138%	126%	116%	119%
Scope-adjusted EBITDA						
EBITDA	89,178	43,896	59,794	55,902	58,039	62,534
add: recurring associate dividends received	2,024	1,055	1,004	1,000	1,000	1,000
Other items[2]	6,650	67	47	-	-	-
Scope-adjusted EBITDA	**97,852**	**45,018**	**60,845**	**56,902**	**59,039**	**63,534**
Scope-adjusted funds from operations (FFO)						
Scope-adjusted EBITDA	97,852	45,018	60,845	56,902	59,039	63,534
less: Scope-adjusted interest	(2,720)	(10,805)	(10,734)	(11,720)	(10,811)	(9,905)
less: cash tax paid	(34,892)	6,502	(4,921)	(3,956)	(4,375)	(5,115)
Other non-operating charges before FFO[3]	(255)	-	-	-	-	-
Scope-adjusted FFO	**59,985**	**40,715**	**45,190**	**41,226**	**43,854**	**48,514**
Scope-adjusted free operating cash flow (FOCF)						
Scope-adjusted FFO	59,985	40,715	45,190	41,226	43,854	48,514
Change in working capital	(20,267)	46,136	(17,946)	(6,222)	(8,273)	(246)
Non-operating cash flow	-	-	-	-	-	-
less: capital expenditures (net)	(9,858)	(17,285)	(9,423)	(16,000)	(16,000)	(16,000)
less: lease amortisation	(3,611)	(3,510)	(3,735)	(3,789)	(3,789)	(3,789)
Scope-adjusted FOCF	**26,249**	**66,056**	**14,086**	**15,215**	**15,792**	**28,479**
Scope-adjusted net cash interest paid						
Net cash interest per cash flow statement	2,720	10,805	10,734	11,720	10,811	9,905
Scope-adjusted net cash interest paid	**2,720**	**10,805**	**10,734**	**11,720**	**10,811**	**9,905**
Scope-adjusted debt						
Reported financial (senior) debt	232,181	268,709	324,998	304,598	282,698	262,464
less: cash and cash equivalents[4]	(66,768)	(113,591)	(102,870)	(92,198)	(84,830)	(87,630)
add: non-accessible cash	-	-	-	-	-	-
add: other debt-like items[5]	-	-	11,400	11,400	11,400	11,400
Scope-adjusted debt	**165,413**	**155,118**	**233,528**	**223,800**	**209,268**	**186,234**

[1] Based on preliminary unaudited results

[2] Includes gains/losses on asset disposals and changes in provisions/impairments

[3] Translation reserves and other considerations excluded from working capital change

[4] From 2024 onwards a 25% haircut has been applied to cash and cash equivalents

[5] Off balance sheet guarantees

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

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency) (credit neutral)	Labour management	Management and supervision (supervisory boards and key person risk) (credit neutral)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers) (credit neutral)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate) (credit neutral)
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) (credit negative)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks (credit neutral)	Stakeholder management (shareholder payouts and respect for creditor interests) (credit neutral)

ESG factors: credit positive credit negative credit neutral

Complex corporate structure is a ESG negative factor

For Envien Group, corporate structure is the most relevant ESG risk. Different group entities raise debt with local banks and financial covenants almost entirely apply at subsidiary level, not at consolidated. The shareholding structure connecting Envien International with the ultimate owners is also a complex composition of numerous legal entities and intermediate levels. The private owners are not disclosed, except that none own more than 25% of shares or voting rights. This limits transparency and increases regulatory risks, also because the intermediate entities are based in different jurisdictions. Such structural weaknesses are reflected in a conservative assessment of Envien's consolidated financials.

Other ESG factors seen as credit neutral

Consistent with other chemical companies, Envien Group's primary ESG consideration is environmental, particularly greenhouse gas emissions and the consumption of raw materials, including water and energy. Overall ESG factors are credit neutral.

Health and safety

Health and safety aspects are material to Envien Group given the physical hazards associated with its products such as explosion risks – a common concern in the chemicals industry. However, due to the absence of major incidents to date, health and safety aspects remain credit-neutral.

Regulation relevant for Envien's sector

Regulation plays a major role in the group's core business of first-generation biofuels. The regulatory-driven increase in biofuel use in order to reduce carbon emissions and meet EU targets in energy transition supports demand for Envien Group's products. However, demand for first-generation biofuels could pose a threat to food security as their production is based on food and seed crops. This risk is prompting the EU to seek a transition to second-generation biofuels. To date, no major regulatory change has posed a material threat to operations, supporting our ESG-neutral assessment. Nevertheless, substantial regulatory changes could still adversely affect Envien Group's credit profile.

[6] 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: B+

Industry risk profile: BBB

Envien Group is focused on commodities, an industry rated BBB under our Chemicals Rating Methodology. Commodity-focused chemical corporates experience high cyclicality due to raw material price sensitivity and transparent market pricing. Entry barriers are significant, demanding substantial capital investments and compliance with safety and environmental regulations. Entry into the market favours large companies with cost efficiencies and scale advantages. Substitution risks are medium due to technical production requirements, a lack of alternative production methods, and product uniqueness (especially bespoke chemical solutions). However, we do not incorporate any uplift to the competitive position and will continue to refrain from doing so until specialty chemical products achieve a significant share of revenues.

EU mandates and government regulations are key driver of product demand

The group's core products are biofuels, namely bioethanol and biodiesel (mainly first-generation), which are blended with conventional diesel and petrol, complying with EU regulations. The issuer uses agricultural commodities as raw materials to produce oils and ethanol on a large scale. According to Envien Group, it is the EU's ninth-largest bioethanol producer and 10th-largest fatty acid methyl ester producer for biodiesel.

Biofuel demand is primarily driven by regulation and energy transition targets set under the EU Renewable Energy Directive (EU). With the EU Renewable Energy Directive (EU) 2023/2413 (RED III), in force since 20 November 2023, there is a growing shift away from first-generation biofuels derived from traditional agricultural feedstocks such as sugar- and starch-based crops (e.g. sugarcane, maize) and edible oils (e.g. rapeseed, soya bean). Under RED III, these biofuels are capped at 7% of total consumption. As of now, EU member states are transposing RED III into their national laws, with a deadline set for May 2025.

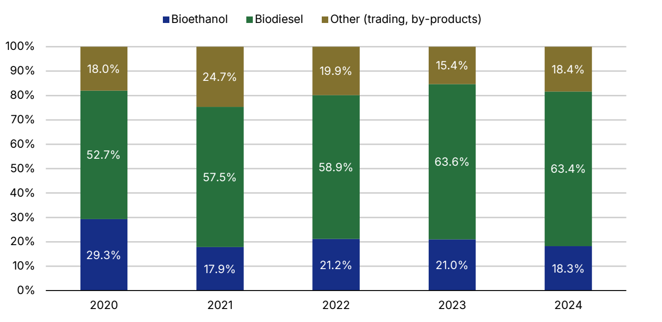
Slight increase in second-generation biofuel targets but still a long way away from replacing first-generation ones

In line with the shift in regulation the chemicals industry is increasingly focusing on second-generation biofuels, which are produced from cellulose, agricultural residues and waste. However, large-scale commercialisation remains limited due to their higher costs, meaning their impact on the market is likely to remain gradual with effects only evident in the long term, potentially over the next decade.

Strong position in CEE, limited market position within EU

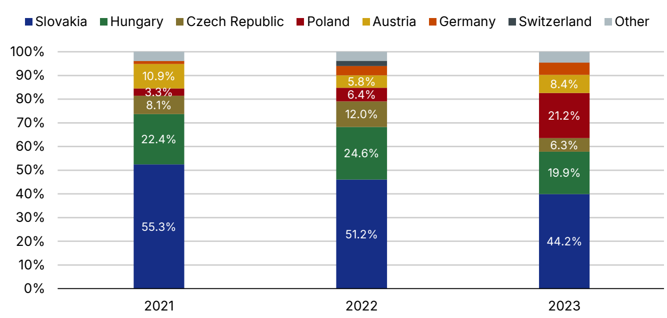
Envien Group has a strong position in its core market of the CEE region, with a limited presence in the EU. It effectively has a monopoly in Slovakia, producing 100% of the country's biofuel. Its biodiesel market share in Hungary is high at around 30%, while the bioethanol market share is lower at around 11% due to more competitive pressure. In the Czech Republic, the market share is high for bioethanol at around 40%, although more competitive pressure following regulatory changes (e.g. introduction of E10) has caused a slight decline. In terms of size, group revenues have reduced to EUR 867m from the record EUR 1.12bn in 2022, due to falling prices, although remain above the historical range of EUR 400m-550m from 2015 to 2020.

Figure 2: Revenue by segment (% of total revenues)



Source: Envien Group, Scope

Figure 3: Revenue by country (% of total revenues)



Source: Envien Group, Scope

Envien Group's market position has benefitted from fairly protected and mature local markets

Envien Group's has historically displayed an overall stable market position supported by fairly mature local markets, protected from foreign players and new entrants/capacity. Local players generally have lower logistics costs and are the only ones able to meet their respective country's product specifications. The construction of new first-generation plants that could compete with those of Envien Group is disincentivised because their greenhouse gas requirements are tighter (70% reduction from 2021) than those on existing first-generation plants (50% reduction). Further, given the industry's gradual transition to advanced biofuels, building new first-generation plants would be risky in terms of its estimated lifetime.

Growing competitive pressure from imports outside the EU entailing also decreasing effectiveness of market protective measures

However, both bioethanol and biodiesel markets have faced pressure in recent years from rising imports from outside the EU. For bioethanol, high prices in Europe have attracted record imports despite significant tariffs and shipping costs, while European producers faced high energy and logistics costs, exacerbated by the war in Ukraine. As a result, net imports, primarily from the US and Brazil, hit a record high of 25%-29% of total European (EU and UK) consumption, causing European ethanol prices to fall.

The EU market remained attractive in 2024 for player outside of Europe. This was despite the sharp decline in European ethanol prices towards the end of 2023 and a narrower price differential with other markets including the US and Brazil. Ethanol demand grew around 4%, driven by E10 gasoline rollouts and higher blending mandates in some member states. However, despite higher domestic production, supply was still too low for demand, keeping import reliance at around 28% of total consumption. Over the next 12 months, we expect this trend to persist, with demand growth primarily met by imports, intensifying competition for domestic producers. Overall, we expect pressure on prices to continue in 2025, due primarily to higher domestic production costs and cheaper imports. On the biodiesel side, 2023–2024 saw a surge in imports of allegedly fraudulent advanced biofuels from Asia, leading to a sharp decline in biodiesel prices and ultimately a compression of premiums. We expect recent EU measures (i.e. anti-dumping duties on Chinese biodiesel imports) to partially ease market pressures. Even so, the situation remains uncertain as some segments are exempt from these duties and certification requirements have not adapted accordingly.

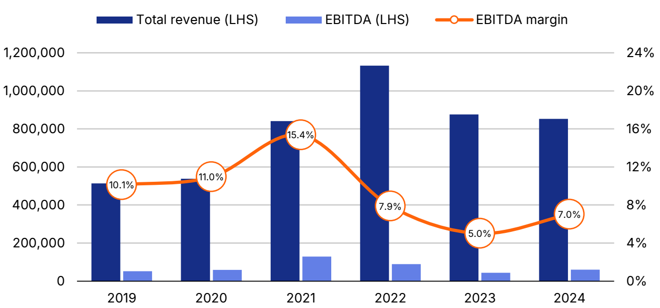
Challenging harvest conditions putting pressure on feedstock prices.

Combined with the sustained high imports, the growing unpredictability of harvest conditions are adding to the market volatility. In 2024, adverse weather conditions affected crop and rapeseed harvests in Europe, driving prices up for both corn and rapeseed. Regarding corn, excessive rainfall and flooding in France and Germany caused significant harvesting delays and yield losses, while drought conditions in southern and eastern Europe further constrained output. In Hungary, high aflatoxin contamination rendered a portion of the corn crop unsuitable for food and feed markets. Similarly, less rapeseed was available after adverse weather and reduced planting areas affected production.

Market diversification strategy through M&A and joint venture

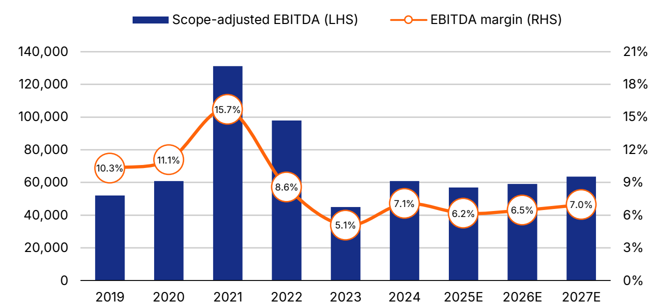
In recent years, the issuer has sought to diversify both within and outside the EU. In October 2022, Envien Group entered the Polish market by acquiring Lotos Biopaliw, which we expect to contribute 10%-15% of group EBITDA. In March 2023, Envien Group closed an equal joint venture in India with Zuari Industries Limited, named ZUARI Envien Bioenergy Pvt. Lt, to build and eventually run a fully grain-based distillery with a capacity of 150 kilo litres a day. Construction started in the first half of 2024 and is set to be finalised by June 2025 and fully operational by August. Further M&A in other markets such as Brazil are under review.

Figure 4: Revenue and EBITDA (EUR '000s) versus EBITDA margin, reported



Source: Envien Group, Scope

Figure 5: EBITDA (columns, EUR '000s) and EBITDA margin (lines, %), Scope-adjusted



Source: Envien Group, Scope estimates

Envien Group's business risk profile benefits from good asset diversification as production capacity is spread across its CEE subsidiaries. There are now six biofuel production plants across five countries: Slovakia (Enviral and Meroco), Hungary (Rossi Biofuels), the Czech Republic (Ethanol Energy), Poland (Biopaliwa) and Croatia (Biodizel Vukovar). There is also a rapeseed oil plant (intermediate process) in Slovakia (Polnoservis) as well as agricultural commodity trading in Slovakia (Enagro), Hungary (Envien Magyarország) and Switzerland (Envien Trading SA).

Moderate asset diversification with production spread across different sites

Portfolio diversification is concentrated on two main products, bioethanol and biodiesel, with the latter contributing for over 60% of group revenues. As commodities, these products' business cycles are strongly correlated as both are directed towards the same transport end-markets. Additionally, Envien Group sells by-products (including animal feed) and trade-related products (including those not internally produced), yet these generally do not exceed 20% of revenues. The share of specialty products sold by Envien Group is negligible.

Moderate portfolio diversification with negligible contribution from specialty products

Historically, Envien Group has had limited geographical diversification, with over 70% of sales from Slovakia and Hungary as of FY 2022. It sells its own products exclusively in the CEE region including the Czech Republic, Austria and Romania, while Envien Switzerland, focused on related agricultural products, trades in several EU countries. However, in 2023, diversification improved after Biopaliwa Poland was consolidated into the group.

Moderate geographical diversification

On the customer side, there is concentration on the Hungarian oil and gas group MOL (including its subsidiary Slovnaft), which accounted for around 50% of the group's biofuel sales (excluding trading sales) in 2024. This is an improvement, however, as MOL had accounted for nearly 70% of group sales until 2021. Since 2022, the Biopaliwa acquisition also introduced major customers such as PKN Orlen and Aramco Poland. Further, the overreliance on MOL is mitigated by the fact that much of this exposure stems from Rossi Biofuels, a joint venture in which Envien Group holds the majority and MOL a minority, with the plant being located at MOL's site in Hungary. This close and synergistic relationship has little risk of deterioration.

Customer concentration on MOL mitigated by synergistic relationship and other acquisitions

The risk of supplier concentration is limited, as the supplier base is diversified. The largest, Interagros, accounts for approximately 20% of total supplies, while the top five collectively represent less than 50% of total purchases. Moreover, the supplier network has expanded to include new partnerships, including with Polish suppliers.

Diversified suppliers

The profitability of biofuel producers is closely related to their market prices, which in turn are linked to feedstock prices and crude oil prices. Because of this high dependency on market prices, it is generally difficult to predict margins beyond one year.

Profitability dependent on commodity price

Profitability margins are volatile, primarily due to fluctuations in input costs and market prices. Based on preliminary unaudited figures, Scope-adjusted EBITDA increased to around EUR 61m in 2024, up from EUR 45m in 2023, benefiting from higher biodiesel margins. In contrast, bioethanol EBITDA declined, impacted by lower production following the failure of a key component in H1 2024. Nevertheless, the EBITDA margin was around 7%, an improvement for both bioethanol and biodiesel from 2023 levels. This recovery was driven by less cost pressures in 2024, particularly from the high energy and feedstock prices carried over from 2022, as well as the full utilisation of waste-based capacity at the Rossi plant.

Profitability to remain below historical levels despite recovering from the all-time low in 2023

For 2025, we expect the Scope-adjusted EBITDA to decline to around EUR 57m, with the Scope-adjusted EBITDA margin falling below 6.5%, impacted by narrowing spreads for single-counted biodiesel, only partially offset by the expected improvement in RSO crush margins and stronger spreads for double-counted and advanced biofuels. We project bioethanol profitability to remain stable, supported by higher production volumes than in 2024. However, our base case factors in some pressure from lower ethanol prices and rising energy and corn costs.

We forecast Scope-adjusted EBITDA to gradually increase to EUR 59m in 2026 and EUR 63m in 2027 with the Scope-adjusted EBITDA margin improving to around 7%, though still below historical levels. We expect this gradual recovery to be supported by investments executed (e.g. production capacity, energy and operational efficiency), the full utilisation of waste-based capacity at the Rossi plant, and an optimisation of product and input mix. Nonetheless, high sustained imports and increasing volatility in input costs and harvest conditions continue to add to market uncertainty, leading to continued pressure on profitability.

8. Financial risk profile: BB+

Credit metrics based on Envien International

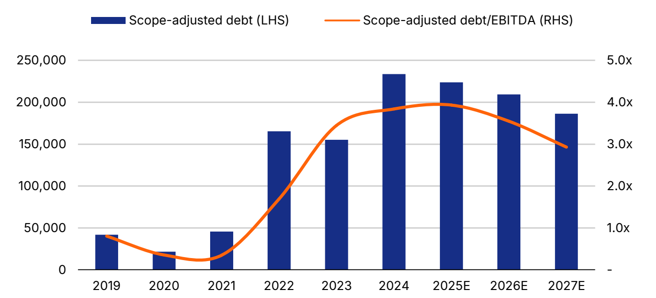
The rating of Envien Magyarország is based on the credit metrics of its parent company Envien International Ltd, given the latter's unconditional and irrevocable guarantee for Envien Magyarország's bond issuance. The Hungarian subsidiary has no other material financial liabilities.

Main adjustments

The main adjustments to credit metrics are as follows:

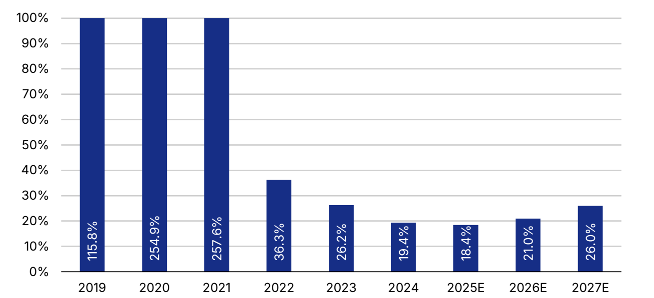
- Scope-adjusted EBITDA includes recurring dividends from associate Ethanol Energy a.s., gains/losses on asset disposals, and changes in provisions.
- Scope-adjusted debt includes a 25% haircut on cash and cash equivalents from 2024 (reflecting the group's weaker business risk profile) and EUR 11.4m related to off balance sheet guarantees.

Figure 6: Scope-adjusted debt (EUR '000s) versus Scope-adjusted debt/EBITDA



Source: Envien Group, Scope estimates

Figure 7: Scope-adjusted FFO/debt



Source: Envien Group, Scope estimates

Leverage expected above 3.5x in the short term

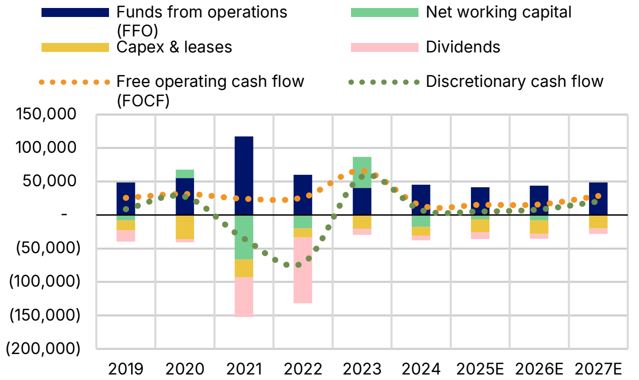
Scope-adjusted debt, including the 25% haircut from 2024, increased to over EUR 230m at year-end 2024 from EUR 155m at year-end 2023. This was driven by higher overdrafts primarily and a slight increase in bank loans to refinance the acquisition of Biopaliwa. Debt also includes EUR 11.4m related to off-balance sheet guarantees. As a result, debt/EBITDA weakened to 3.8x at YE 2024 from 3.4x in 2023.

For 2025, we expect leverage to remain close to 4.0x as lower EBITDA will offset lower Scope-adjusted debt. Similarly, Scope-adjusted funds from operations/debt declined to 19% and we project a similar level in 2025. We anticipate leverage to improve in 2026-2027 but remain close to 3.0x, reflecting the overall weaker financial risk profile.

Interest cover improving in 2024 and to remain supportive

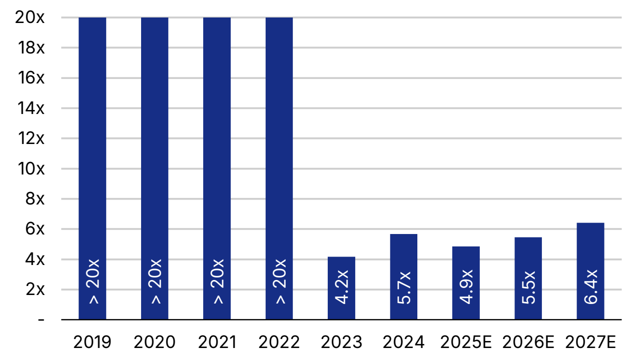
Scope-adjusted EBITDA interest cover weakened below 5.0x in 2023 due to lower EBITDA and higher interest payments. This is well below the excellent level of over 20.0x until 2022. Net interest payments remained relatively stable between 2023 and 2024 at around EUR 11m, with a slight reduction in interest rates offset by increased gross debt, primarily driven by higher overdrafts. However, interest cover improved above 5.5x, supported by higher EBITDA. In 2025, we forecast interest cover to decline slightly to around 5.0x, driven by lower EBITDA and stable interest payments. From 2026, we expect only a small reduction in interest payments due to decreasing gross financial debt. Combined with improving margins, this should lead to interest cover recovering to between 5.5x and 6.5x, supporting the financial risk profile.

Figure 8: Main cash flow components (EUR '000s)



Source: Envien Group, Scope estimates

Figure 9: EBITDA interest cover (x)



Source: Envien Group, Scope estimates

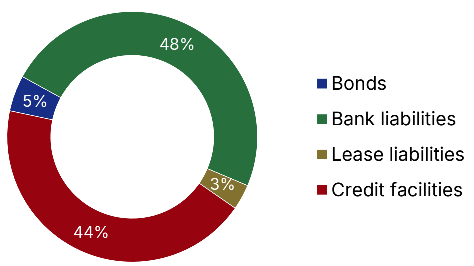
Moderate cash flow cover

Cash flow cover, as measured by Scope-adjusted free operating cash flow/debt, declined to 6% in 2024 from 43% in 2023 despite increasing EBITDA. The reason was cash absorption from working capital of around EUR 18m and moderate capex of EUR 9.4m affecting 2024 figures, while EUR 46m of working capital releases boosted free operating cash flow in 2023. Going forward, we expect cash flow cover to remain between 7% and 15%, with working capital normalising and capex conservatively assumed at around EUR 16m a year (excluding for large projects). Our rating case also assumes dividend payouts of around EUR 9m a year on average and no significant M&A. However, we include some moderate investment in 2025 for the completion of the ethanol capacity in Indian joint venture, and EUR 2m in divestments.

Adequate liquidity

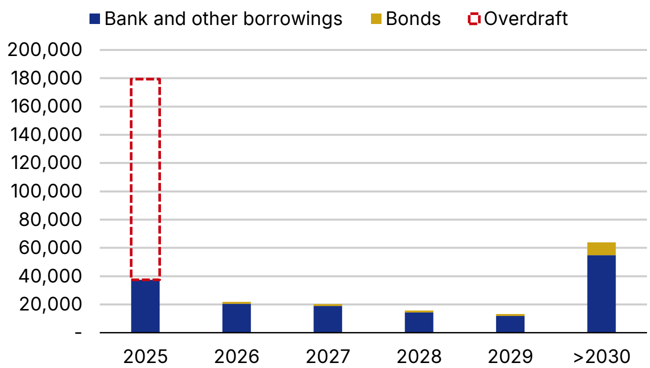
Liquidity is adequate to cover short-term debt of EUR 166m as of December 2024, which primarily consists of drawn overdrafts of EUR 142m, around 44% of gross debt at YE 2024. In line with domestic norms, Envien Group has uncommitted short-term revolving overdrafts with a handful of banks, with different maturities with each bank during the year, to reduce liquidity risk. Most lines have been in place for years, even decades, and are primarily for buying inventory. We project that short-term debt coverage will exceed 100% over 2025–2027, supported by a conservative assumption of 50% recoverability of inventories, which comprise highly liquid raw materials and finished goods. Short-term debt during this period is expected to average EUR 162m a year, mainly consisting of overdrafts, assumed to remain in line with 2024 levels.

Figure 10: Debt composition as of YE 2024



Source: Envien Group, Scope estimates

Figure 11: Debt maturities excluding leasing (EUR '000s)



Source: Envien Group, Scope estimates

Rating-related covenant

We highlight that Envien Magyarország's senior unsecured bond issued under the Hungarian National Bank's Bond Funding for Growth Scheme has a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 5.5bn) if the debt rating of the bond stays below B+ for more than two years (grace period) or drops below B-. Such a development could adversely affect the company's liquidity profile. The rating headroom to entering the grace period has been exhausted, leading to a higher risk of the rating-related covenant being triggered. Nevertheless, we believe that the impact of such covenant being triggered on issuer's credit profile is mitigated by the relatively small size of the bond compared to the cash & cash equivalent levels of the group.

Financial bank covenants mostly at a subsidiary level

Financial bank covenants apply at various subsidiary levels, although in recent years some banks have agreed to test some covenants at consolidated level as well. The latter relate mainly to equity and adjusted equity ratios, the debt service coverage ratio, the current ratio and long-term debt/EBITDA and were all met in 2024.

In 2023, Envien Group reported breaches on a few bank loans at subsidiary level, but these were fully waived. However, three subsidiaries have breached bank covenants as of December 2024. based on initial feedback from the banks, the management indicated that waivers will be most likely granted by March 2025. In addition, discussion is also ongoing regarding the resetting of the interest coverage threshold for one of the involved subsidiaries to align it to the level required by the second financing partner of the company. For now, we assume no liquidity impact as a positive resolution is highly probable based on the company's solid banking relationships, past waiver approvals, and management assurances. In addition, we believe Envien Group has sufficient financial headroom to repay or refinance debt positions at subsidiary level if creditors were to demand early repayment following uncured covenant breaches. However, we will continue to closely monitor the situation.

Table 1. Liquidity sources and uses (in EUR '000s)

	2025E	2026E	2027E
Unrestricted cash (t-1)	137,160	122,930	113,106
Open committed credit lines (t-1)	-	-	-
Other liquidity sources (t-1)	51,754	51,185	50,673
Free operating cash flow (t)	15,215	15,792	28,479
Short-term debt (t-1)	162,348	163,848	162,182
Liquidity	**126%**	**116%**	**119%**

Source: Envien Group, Scope estimates

9. Supplementary rating drivers: +/- 0 notch

Neutral financial policy

Envien Magyarország's financial policy is overall neutral for the issuer rating. The dividend upstream to the parent, Envien International, is paid only when financial results are sufficient.

Envien International does not explicitly commit to any credit metric level but management has a record of prudence. Until 2022, leverage was maintained well below 2.5x, although the more volatile market conditions of recent years have caused some deviation. Moreover, we did not see any significant appetite for acquisitions in previous years, apart from Biopaliwa in 2022. Future acquisitions are likely, including outside of Europe, but will most likely carried out in compliance with bank covenants.

There is no specific dividend policy. The company strives to maximise shareholder distribution while ensuring healthy credit metrics. Also, certain bank agreements have negative covenants on permitted dividends, thereby restricting cash disbursements during less favourable years.

Complex governance and structure

As mentioned in the ESG section, the complex corporate structure negatively impacts the credit assessment. Various entities raise debt with local banks, and financial covenants are applied almost entirely at subsidiary level, not at consolidated.

Our assessment of the corporate structure also considers the complex shareholding structure above Envien International, also mentioned in detail in the ESG section. While requiring no negative adjustment for supplementary rating drivers, this complex structure has led to our conservative assessment of the financial risk profile and its overall weight within the issuer rating, also in light of the weak transparency and overview on covenant compliance. Given the continued pressure on profitability and its potential impact on covenant compliance at both group and subsidiary levels going forward, the limited visibility on covenant compliance and headroom as a result of the complex corporate and debt structure, if not properly addressed, could result in down-notching of the stand-alone assessment for supplementary rating drivers.

Parent support

We have aligned the issuer rating of Envien Magyarország with that of its 100% owner, Envien International, based on the expected support from the parent and the guarantee provided by Envien International for the bond issued by Envien Magyarország. Envien International is privately held by several individuals, none of whom directly or indirectly hold 25% or more of the shares or voting rights. In accordance with applicable law, the ultimate beneficial owners are the board members: R. Spisak, S. Toth, and T. Jacobsen.

10. Guaranteed bond rating

Envien Magyarország issued a HUF 5.5bn bond in 2021

Envien Magyarország Kft. issued a HUF 5.5bn bond in 2021 under the Hungarian National Bank's Bond Funding for Growth Scheme (ISIN: HU0000360193). The bond's tenor is 10 years, maturing in May 2031. Envien International Ltd has provided an unconditional and irrevocable guarantee to the bond issued by Envien Magyarország, totalling HUF 6.1bn for the full value of the bond plus a contingency buffer to cover all costs incurred by Envien Magyarország. The bond is unconditional and unsubordinated, ranking as senior unsecured debt for Envien International.

Unconditional and irrevocable guarantee

Given the unconditional and irrevocable guarantee of the bond, the guaranteed debt ranks the same as the senior unsecured debt of guarantor Envien International Ltd.

Senior unsecured (guaranteed) bond rating: B+

Our recovery analysis indicates a 'low' recovery for the senior unsecured bond, impacted by the material increase in higher-ranking bank debt over the past years. The recovery is based on an expected liquidation value in a hypothetical default scenario in 2026. These expectations translate into a B+ rating, one notch below the issuer rating.

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