

Pon Pure Chemical India Private Limited

January 29, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based facilities (Cash Credit)	128.00	65.00	[ICRA]BBB+ (Stable); Outstanding
Long-term, Fund-based facilities (Term Loans)	15.02	14.03	[ICRA]BBB+ (Stable); Outstanding
Short-term, Non-fund based facilities	321.00	349.00	[ICRA]A2 ; Outstanding
Short-term, Unallocated limits	77.98	68.97	[ICRA]A2; Outstanding
Long-term/Short-term, Fund-based limits	0.00	45.00	[ICRA]BBB+ (Stable); [ICRA]A2; Outstanding
Long-term, Fund-based/Non-fund based (sub-limits)	(0.00)	(65.00)	[ICRA]BBB+(Stable); Outstanding
Short-term, Fund-based/Non-fund based (sub limits)	(0.00)	(439.50)	[ICRA]A2; Outstanding
Short-term, Fund-based/Non-fund based (sub-limits) (SBLC)	(0.00)	(USD 6 Mn)*	[ICRA]A2;Outstanding
Long-term/Short-term, Fund- based/Non-fund based (sub-limits)	(0.00)	(32.50)	[ICRA]BBB+ (Stable); [ICRA]A2;Outstanding
Total	542.00	542.00	

*Although the facility is denominated in foreign currency, ICRA's rating for the same is on the national scale as distinct from international rating scale

Rating action

ICRA has the long-term and short-term ratings outstanding at [ICRA]BBB+/[ICRA]A2 (pronounced ICRA triple B plus/ ICRA A two) for Rs. 542.00 crore¹ bank facilities of Pon Pure Chemical India Private Limited (PPC). The outlook on long-term rating is 'stable'.

Rationale

ICRA has taken a consolidated view of the operations of PPC and its related entities, Pure Chemicals Co. (rated [ICRA]BBB- (stable) / [ICRA]A3) and Color Chemicals [rated [ICRA]BBB- (stable)], for arriving at the ratings due to the existing synergies in operations between these entities.

The ratings reaffirmation considers the sustained sales growth witnessed by the company since last several years, backed by growing demand from existing customers and increased rate of new customer acquisitions, and supported by the infrastructure expansion undertaken. The ratings also draw comfort from the company's established presence in the trading and distribution of chemicals with operations spanning the entire country, a wide product portfolio and a diversified customer base, favourable demand for imported chemicals as domestic production lags demand and benefits from PPC's established relationships with suppliers. However, the ratings are constrained by the moderate capital structure and coverage indicators, high competition in the industry limiting the pricing flexibility, high dependence on working capital funding to support revenue growth and susceptibility of margins to steep

¹ 100 lakh = 1 crore = 10 million

fluctuations in raw material prices and foreign currency fluctuations. PPC also plans to incur debt funded capex in the near to medium term, which will put some pressure on the capital structure.

Outlook: Stable

ICRA expects, PPC will continue to witness sustainable revenue growth in near future considering the company's measure to increase the customer base and diversify products portfolio. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any adverse fluctuations in raw material prices, unplanned capex or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Longstanding track record in chemical trading - PPC enjoys a longstanding track record of chemical trading and distribution for more than two decades across India, which is an advantage in a competitive industry.

Wide product portfolio and diversified customer and supplier base – PPC trades in a wide range of chemicals, which includes general chemicals, textiles and paper chemicals, lubricant chemicals, and speciality chemicals. The company also enjoys a diversified customer and supplier base, which mitigates concentration risks. The pace of new customer acquisition has improved in the current fiscal, post GST implementation.

Favourable shift in product mix – PPC has continued to improve its product/customer mix towards more value added/better margin segments over the last few years, which has partly mitigated the impact of low pricing power in the chemical trading segment.

Favourable outlook for imported chemicals – The long-term domestic consumption outlook for imported chemicals remains favourable because of domestic capacity lagging demand.

Adequate storage facilities to support operations, expansion planned to support future growth – PPC has strong warehousing capacity, with ~20 warehouses spread across India, which helps it in catering to diverse customers from various regions. PPC is planning to expand its warehouses further to support future growth.

Credit challenges

High competition and limited pricing flexibility - PPC operates in a highly competitive environment, which limits its pricing flexibility. The margins remain susceptible to crude oil price volatility. However, a favourable shift in product/customer segment mix in the last few years has partly mitigated the impact.

Financial profile characterised by thin margins and leveraged capital structure - PPC's financial profile is characterised by thin margins (in line with industry trends), high gearing and moderate coverage indicators. PPC has moderately high working capital intensity, which necessitates dependence on increased working capital funding to support revenue growth. With the company planning to partly fund its capex in the near term with debt, the capital structure may witness further pressures.

Vulnerability of profitability to any adverse fluctuations in foreign exchange rates - Margins remain susceptible to adverse fluctuations in foreign exchange rates, although the risk is partly mitigated by reduction in direct imports in the last few years and hedging undertaken by the company.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:
[Corporate Credit Rating Methodology](#)
[Rating Methodology for Trading Companies](#)
About the company:

Pon Pure Chemical India Private Limited (PPC), formerly Pon Pure Chem Private Limited, is engaged in the trading and distribution of chemicals and dyes. The company is part of the Pure Group of companies promoted by Mr. M Ponnuswami. PPC traces its origin to Pure Chemicals Co. (Pure), a proprietorship concern, set up in 1981 to sell chemicals and dyes. Later, Mr. Ponnuswami established two other companies with operations mainly in southern India — Pon Pure Chem (Pon Pure) and Pure Chemicals and Solvent Pvt. Ltd. (Pure Chem). Pon Pure was set up in 1992 with chemicals procured from domestic as well as overseas players; while Pure Chem was set up in 1998 to distribute chemicals procured mainly from domestic players. Subsequently, to improve operational efficiencies, the management decided to merge Pon Pure with Pure Chem and the company was renamed as Pon Pure Chem Private Limited. PPC is the flagship company of the Pure Group, with its own subsidiaries in Dubai and Singapore, and step-down subsidiaries in Sri Lanka and Australia. The Group has other companies engaged in the same sector, which includes Pure Chemicals Co. and Color Chemicals (both rated [ICRA]BBB- (stable) / [ICRA]A3).

In FY2017, the company reported a net profit of Rs. 9.9 crore on an operating income of Rs. 1375.8 crore, as compared to a net profit of Rs. 5.4 crore on an operating income of Rs. 1285.8 crore in the previous year. During H1 FY2018, on a provisional basis, the company reported a net profit of Rs. 6.5 crore on an operating income of Rs. 732.2 crore.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	1285.8	1375.8
PAT (Rs. crore)	5.4	9.9
OPBDIT/ OI (%)	2.9%	3.1%
RoCE (%)	11.9%	11.7%
Total Debt/ TNW (times)	1.9	2.1
Total Debt/ OPBDIT (times)	4.4	5.0
Interest coverage (times)	1.7	2.3
NWC/ OI (%)	13.3%	16.8%

Source: Audited financial report of PPC

Status of non-cooperation with previous CRA: Not applicable
Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)						Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating			Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					Jan 2018	Nov 2017	Sept 2017			
1	Cash Credit (Fund-based)	Long Term	65.00	-	[ICRA]BBB+ (Stable)	ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Term Loan 1	Long Term	2.61	2.61	[ICRA]BBB+ (Stable)	ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	-	-
3	Term Loan 2	Long Term	11.42	11.42	[ICRA]BBB+ (Stable)	ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	-	-
4	Non-fund based	Short Term	349.00	-	[ICRA] A2	[ICRA] A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	[ICRA]A3+
5	Proposed Facilities	Short Term	68.97	-	[ICRA] A2	[ICRA] A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
6	Fund-based	Long term/ Short term	45.00	-	[ICRA]BBB+ (Stable) [ICRA] A2	-	-	-	-	-
7	Fund-based/Non-fund based sub limits	Long term	(65.00)	-	[ICRA]BBB+ (Stable)	-	-	-	-	-
8	Fund-based/Non-fund based sub limits	Short term	(439.50)	-	[ICRA] A2	-	-	-	-	-
9	Fund-based/ Non-fund based sub limits (SBLC)	Short term	(USD 6 Mn)	-	[ICRA] A2	-	-	-	-	-
10	Fund-based/ Non-fund based Limits	Long term/ Short term	(32.50)	-	[ICRA]BBB+ (Stable) [ICRA] A2	-	-	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit (Fund-based)	-	-	-	65.00	[ICRA]BBB+ (Stable)
NA	Term Loan (Fund-based)	FY2015	10.55%	FY2020	2.61	[ICRA]BBB+ (Stable)
NA	Term Loans (Fund-based)	FY2017	10.55%	FY2025	11.42	[ICRA]BBB+ (Stable)
NA	Letter of Credit	-	-	-	349.00	[ICRA]A2
NA	Proposed Facilities	-	-	-	68.97	[ICRA]A2
NA	Cash Credit/WCDL	-	-	-	45.00	[ICRA]BBB+ (Stable); [ICRA]A2
NA	CC/BG (sub-limits)	-	-	-	(65.00)	[ICRA]BBB+ (Stable)
NA	WCDL/EPC/PC/PCFC/PSCFC/BD (sub-limits)	-	-	-	(135.00)	[ICRA]A2
NA	LC/BC/LUT/LER/SBLS/IB/MTM/FC (sub-limits)	-	-	-	(304.50)	[ICRA]A2
NA	SBLC (sub-limits)	-	-	-	(USD 6 Mn)	[ICRA]A2
NA	CC/WCDL/EPC/PCFC/BG (sub-limits)	-	-	-	(32.50)	[ICRA]BBB+ (Stable); [ICRA]A2

Source: Pon Pure India Private limited.

ANALYST CONTACTS

K. Ravichandran.

044 4596 4301

ravichandran@icraindia.com

Anoop Bhatia

0124 454 5300

anoopb@icraindia.com

Sai Krishna

0 44 4596 4304

sai.krishna@icraindia.com

Abhishwet Anand Dhete

044 4297 4312

abhishwet.dhete@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

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