

April 25, 2023

## M. Pallonji & Company Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	17.00	17.00	[ICRA]A+(Stable); reaffirmed
Non-fund based limits	25.00	25.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>42.00</b>	<b>42.00</b>	

\*Instrument details are provided in Annexure-1

### Rational

The reaffirmation of the ratings takes into account the robust financial profile of M. Pallonji & Co. Private Limited (MPCPL) at a consolidated level, characterised by strong profit margins and healthy capital structure and coverage indicators. MPCPL's consolidated revenue witnessed robust growth in FY2022 and thereafter remained at healthy levels in FY2023 as well due to higher charter rates for shipping vessels in the post-Covid period. The liquidity of ~Rs. 401.48 crore (~Rs. 30.4-crore cash balances and ~Rs. 371.01-crore investments in mutual funds on consolidated basis as on March 31, 2022) enhances the Group's financial flexibility.

The ratings consider the long-term arrangement of the Group with Tata Power Company Limited (rating of TPCL) for barging and dredging activities that ensures sustainable cash flows at a consolidated level. The ratings also factor in the company's diversified portfolio, demonstrated track record and long experience in the industry and the well-established relationships with customers over a period of time. ICRA also notes that MLSPL has prepaid the entire debt on its balance sheet in FY2023, which is expected to result in a significant improvement in the credit profile of MPCPL on a consolidated basis, going forward.

The ratings are, however, constrained by the susceptibility of the orders to the overall macroeconomic environment. This, coupled with the competitive bidding-based system for awarding contracts, may have an adverse bearing on the revenues and profitability on a standalone basis. However, the long-term contracts, particularly in the barging business which is carried out majorly by M. Pallonji Logistics Private Limited (MPLPL), provide support to the revenue stream on a consolidated basis.

Further, ICRA also takes note of the cyclicity in the shipping business and the corresponding fluctuations in the charter rates for dry bulk vessels which is mitigated to a certain extent by the pool hire arrangement with the Klaveness pool. ICRA notes that the shipping segment has witnessed a healthy improvement in performance in the last fiscal due to the increase in charter rates and same is maintained in the current fiscal as well. Moreover, MPCPL has sizeable investments in unquoted equity instruments which has led to a large investment portfolio that has subdued the company's return indicators to some extent. Any sizeable increase in the unquoted equity instruments would be a rating sensitivity.

The Stable outlook takes into account the long-term contracts for the dredging and barging business, resulting in a stable revenue outlook with healthy margins.

### Key rating drivers and their description

#### Credit strengths

**Well-established position and experience of management** – MPCPL, incorporated in 1950, is the flagship company of M. Pallonji Group which has more than 90 years of industry experience. Over the years, the company has built a well-diversified business portfolio that includes industrial painting, dredging, construction and port logistics. The company has a diversified

portfolio, a demonstrated track record and established experience in the industry and longstanding relationships with customers developed over a period of time.

**Strong financial profile** – The Group’s financial profile remains strong with healthy cash accruals, given the long-term contracts with reputed clients in the painting, barging and dredging businesses. MPCPL’s liquidity is strong with healthy cash and liquid investments of ~Rs. 371.01 crore as on March 31, 2022, in addition to cash flow from operations of nearly Rs. 204 crore for FY2022, which enhances the financial flexibility of the Group. Also, a low gearing of 0.05 times on a consolidated basis as on March 31, 2022 along with a high DSCR of 8.41 times provides a boost to MPCPL’s financial profile.

**Diversified business segments** – The Group’s businesses are diversified and have healthy potential given the demand scenario. Moreover, the Group’s increased focus on these businesses provides revenue visibility for the near to medium term. The long-term arrangement with Tata Power Company Limited for barging and dredging activities ensures sustainable cash flows at a consolidated level. Apart from that, MPCPL’s order book remains healthy and its ability to win orders remains critical, going forward.

### Credit challenges

**Large investments in unquoted equity instruments** – MPCPL has sizeable investments in unquoted equity instruments (~ Rs. 473.3 crore as on March 31, 2022), which has led to a large investment portfolio that has subdued the company’s return indicators to some extent. Any sizeable increase in in the unquoted equity instrument would be a rating sensitivity.

**Orders exposed to macroeconomic environment** – ICRA also notes that fresh order inflows are dependent on the macroeconomic environment and the company had witnessed moderation on that front in the last few fiscals. This, coupled with the competitive bidding based system for awarding contracts, may have an adverse bearing on the revenue and profitability on a standalone basis. However, the long-term contracts, particularly in the barging business carried out by MPLPL, provide support to the revenue stream on a consolidated basis.

**Fluctuations in shipping industry** – The shipping business carried out by one of the Group companies, MPSPL, remains vulnerable to the fluctuations in the shipping industry due to the cyclicity in the business and the corresponding fluctuations in charter rates for dry bulk vessels. This is mitigated to a certain extent by the pool hire arrangement with the Klaveness pool. An improvement in the global trade scenario has led to a healthy upward movement in charter rates since the previous fiscal and the rates have remained elevated till now. However, the rates have started correcting and are expected to correct further in the upcoming fiscal. The logistics business, which includes port logistics and the transportation of cargo through railways and roads, remains the main revenue driver for the company.

### Liquidity position: Strong

MPCPL’s liquidity is strong with healthy cash and liquid investments of ~Rs. 371.01 crore as on March 31, 2022 in addition to the cash flow from operations of nearly Rs. 204 crore for FY2022. At a consolidated level, MPCPL also has a sanctioned working capital facility of Rs. 17.0 crore as on March 31, 2022. The average utilisation of the working capital limit remained at around 19% in the last 12 months. The company has no debt repayment obligations as on date. In addition, the company has healthy financial flexibility to be able to raise debt at a short notice on account of significant liquid investments.

### Rating sensitivities

**Positive factors** – ICRA could upgrade MPCPL’s ratings if the company demonstrates a sustained improvement in its scale of operation along with strong profitability metrics.

**Negative factors** – Pressure on MPCPL’s ratings could arise if the charter rates decline sharply, having a substantial impact on the profitability at a consolidated level. A rise in debt-funded capex or investments pushing the net debt/OPBITDA to more than 1.8 times could exert pressure on the company’s ratings.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Shipping Industry</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of the parent company, MPCPL. As on March 31, 2022, the company had six subsidiaries, one step-down subsidiary and one associate company, which are enlisted in Annexure-2.

## About the company

M. Pallonji & Co. Private Limited (MPCPL) provides services such as logistics, dredging, industrial coating and painting on a contract basis. MPCPL, incorporated in 1950, is a closely held private limited company. The company’s clientele includes power generating (thermal and hydro) stations, chemical and fertiliser factories, petroleum refineries, offshore oil and gas platforms.

## Key financial indicators (audited)

	FY2021	FY2022
Operating income (Rs. crore)	357.4	602.6
PAT (Rs. crore)	140.5	332.9
OPBDIT/OI (%)	39.2%	48.5%
PAT/OI (%)	39.3%	55.2%
Total outside liabilities/Tangible net worth (times)	0.2	0.1
Total debt/OPBDIT (times)	1.5	0.3
Interest coverage (times)	10.7	43.4

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	Current Rating (FY2024)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
				April 25, 2023	-	February 28, 2022	Nov 17, 2020	
1 Fund based limits	Long-term	17.00	-	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
2 Non-fund based limits	Short-term	25.00	-	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+	

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based limits	Simple
Non-fund based limits	Very Simple

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-1: Instrument details**

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
-	<b>Fund based limits</b>	NA	NA	NA	17.00	[ICRA]A+ (Stable)
-	<b>Non-Fund based limits</b>	NA	NA	NA	25.00	[ICRA]A1+

Source: M. Pallonji & Company Private Limited

**Annexure-2: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
M Pallonji & Co. Pvt. Ltd.	100% (rated entity)	Full Consolidation
M Pallonji leasing Private Ltd.	55.38%	Full Consolidation
M Pallonji Logistics Pvt. Ltd.	99.98%	Full Consolidation
MP Offshore Pvt. Ltd.	91.00%	Full Consolidation
M Pallonji Trading Pvt. Ltd.	100.00%	Full Consolidation
M Pallonji Enterprise Pvt. Ltd.	100.00%	Full Consolidation
M Pallonji Shipyard Pvt. Ltd.	100.00%	Full Consolidation
M Pallonji Shipping Pvt. Ltd.	33.33%	Equity Method
M Pallonji Logistics Singapore Pte. Ltd.	99.98%	Full consolidation

Source: Company

## ANALYST CONTACTS

**Sabyasachi Majumdar**

+91 12 4454 5304

[sabyasachi@icraindia.com](mailto:sabyasachi@icraindia.com)

**Prashant Vasisht**

+91 12 4454 5322

[prashant.vasisht@icraindia.com](mailto:prashant.vasisht@icraindia.com)

**Varun Gogia**

+91 44 4596 4304

[varun.gogia1@icraindia.com](mailto:varun.gogia1@icraindia.com)

**Saurabh Parikh**

+91 22 6169 3300

[saurabh.parikh@icraindia.com](mailto:saurabh.parikh@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jyantac@icraindia.com](mailto:jyantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.