July 30, 2024

M. Pallonji & Company Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based - Cash credit	17.00	17.00	[ICRA]A+ (Stable); reaffirmed
Short term - Non-fund based - Working capital facilities	25.00	25.00	[ICRA]A1+; reaffirmed
Total	**42.00**	**42.00**	

**Instrument details are provided in Annexure-I*

Rationale

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 healthy profit margins and comfortable capital structure and coverage indicators. MPCPL's consolidated revenue witnessed a robust growth in FY2024 (provisional) due to the commissioning of the dealership business from Tata Motors Limited {TML, rated [ICRA]AA+ (Stable)/[ICRA]A1+} under a group entity. The liquidity of ~Rs. 523.3 crore {~Rs. 82.8-crore cash balances and ~Rs. 440.5-crore investments in mutual funds on a consolidated basis as on March 31, 2024 (Provisional)} enhances the Group's financial flexibility.

The ratings consider the long-term arrangement of the Group with Tata Power Company Limited (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, its demonstrated track record and long experience in the industry and the well-established relationships with customers over a period of time. ICRA also notes commissioning of dealership with TML in FY2024, which has resulted in significant growth in scale of operations for MPCPL (consolidated).

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), support the revenue stream on a consolidated basis.

Further, the company's subsidiary, M Pallonji Logistics Singapore Pte Ltd (MPLSPL), a dry bulk ship owning entity, is exposed to the cyclicality in the shipping business and the corresponding fluctuations in charter rates for dry bulk vessels. This risk is mitigated to a certain extent by the pool hire arrangement with the Klaveness pool. ICRA notes that the moderation in the shipping rates in FY2024 and its continuation in the near to medium term will keep the performance of the shipping segment modest. However, as MPLSPL had repaid its entire debt in FY2023, the overall credit profile will remain stable. 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, weakening the company's liquidity position, 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 the 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. 523.3 crore as on March 31, 2024 (provisional), which enhances the financial flexibility of the Group. Additionally, the working capital facilities are largely unutilised which gives 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. Nonetheless, MPCPL's ability to win orders remains critical, going forward.

Credit challenges

Large investments in unquoted equity instruments – MPCPL (standalone) has sizeable investments in unquoted equity instruments {~Rs. 845.22 crore as on March 31, 2024 (Provisional)}, 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. The order inflow has moderated 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, support 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 cyclicality in the business and the corresponding fluctuations in charter rates for dry bulk vessels. This is mitigated to a certain extent by the pooling arrangements with the Hafnia and Klaveness pools. The shipping rates have remained volatile over the years, thereby exposing the company's earnings to the cyclicality in shipping rates. However, given the debt-free operations of MPLSPL, the overall credit profile is expected to remain stable. The logistics business, which includes port logistics and the transportation of cargo, remains the main revenue driver for the company.

Liquidity position: Strong

MPCPL's liquidity is strong with healthy cash and liquid investments of ~Rs. 523.3 crore as on March 31, 2024 (Provisional). At a consolidated level, MPCPL also has a sanctioned working capital facility of Rs. 17.0 crore as on March 31, 2024 which remains largely unutilised. The company has no debt repayment obligations as on date as the borrowings are limited to the working capital facilities. In addition, the company has healthy financial flexibility to be able to raise debt at a short notice on account of the 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 the 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	Rating Methodology-Shipping Corporate Credit Rating Methodology
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, 2024, the company had six subsidiaries, one step-down subsidiary and one associate company, which are enlisted in Annexure II

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)

MPCPL Consolidated	FY2022	FY2023
Operating income	602.62	596.01
PAT	332.87	243.82
OPBDIT/OI	48.5%	48.8%
PAT/OI	55.2%	40.9%
Total outside liabilities/Tangible net worth (times)	0.08	0.04
Total debt/OPBDIT (times)	0.34	0.01
Interest coverage (times)	43.36	117.19

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current rating (FY2025) Amount rated (Rs. crore)	Date & rating in FY2025	Chronology of rating history for the past 3 years: Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				July 30, 2024	April 25, 2023	-	Feb 28, 2022
1	Fund based - Cash Credit	Long term	17.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)
2	Non-fund based- Working Capital Facilities	Short term	25.00	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based - Cash credit	Simple
Short term - Non-fund based - Working capital facilities	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term – Fund-based - Cash credit**	NA	NA	NA	17.00	**[ICRA]A+ (Stable)**
NA	**Short term - Non-fund based - Working capital facilities**	NA	NA	NA	25.00	**[ICRA]A1+**

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
M Pallonji & Co. Pvt. Ltd.	100.00% (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.	100.00%	Full Consolidation
MP Automotors 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. J. Biopharm Private Limited	30.00%	Equity Method

Source: Company

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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.

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