

October 09, 2023

Pon Pure Chemical India Private Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based facilities (Cash credit)	128.00	128.00	[ICRA]A- reaffirmed; outlook revised to Stable from Positive
Short-term, non-fund based facilities	482.0	482.0	[ICRA]A2+ reaffirmed
Long-term/short-term, fund-based/non-fund based limits	177.50	177.50	[ICRA]A-/[ICRA]A2+ reaffirmed; outlook revised to Stable from Positive
Long-term fund-based/non-fund based (Sublimit)	(422.20)	(422.20)	[ICRA]A- reaffirmed; outlook revised to Stable from Positive
Short-term, fund-based/non-fund based (Sublimit)	(1158.50)	(1158.50)	[ICRA]A2+ reaffirmed
Long-term/short-term, fund-based/non-fund based (Sublimit)	(75.00)	(75.00)	[ICRA]A-/[ICRA]A2+ reaffirmed; outlook revised to Stable from Positive
Total	787.50	787.50	

*Instrument details are provided in Annexure-I

Rationale

To arrive at the ratings, ICRA has undertaken a consolidated analysis of the financial and business risk profile of Pon Pure Chemical India Private Limited (PPC), its wholly-owned subsidiaries and Group entities, Pure Chemicals Co. (PCC; rated [ICRA]BBB+(Stable)/[ICRA]A2) and Color Chemicals (CC; rated [ICRA]BBB+(Stable)), henceforth referred to as the Pure Group, due to the close business, financial and managerial linkages among these entities.

The revision in the outlook on the long-term rating to Stable from Positive considers the moderation of the company's margins, primarily due to the volatility in the market, impacting the prices. The operating margins declined to 2.1% in FY2023 from 4.6% in FY2022. The margins are expected to remain thin in FY2024 though they are likely to improve from the FY2023 levels.

The ratings continue to consider PPC's status as the flagship entity of the Pure Group, which has an established presence in the trading and distribution of chemicals with operations spanning across the country, a wide product portfolio, a diversified customer base and established relationships with suppliers. The ratings also factor in the favourable shift in the product mix with the addition of new products and the various cost reduction measures undertaken by the Group in recent fiscals. ICRA also notes the adequate support facilities of the Group, helping it cater to diverse customers from various regions. Further, the Group is planning to expand its warehouses to support its future growth.

The ratings are, however, constrained by intense competition in the industry, limiting its pricing flexibility. The Group's financial profile is characterised by thin margins in line with the industry trends, partly mitigated by favourable changes in the product mix and cost-control measures. The margins remain susceptible to steep fluctuations in raw material prices and foreign currency rates. Other constraining factors include high dependence on working capital funding to support revenue growth.

Key rating drivers and their description

Credit strengths

Established track record in chemical trading in India – The Pure Group has an established track record of more than two decades in chemical trading and distribution across India, which gives it a competitive advantage in the industry.

Wide product portfolio, diversified customer base and established relationships with suppliers – The Pure Group trades in a wide range of chemicals, including general chemicals, textile and paper chemicals, lubricant chemicals and speciality chemicals. It has a diversified customer and supplier base, which mitigates the business risks. While the company has a major presence in southern India, the revenue share from North India has increased over the years, aided by its marketing efforts and expansion of the warehousing infrastructure. The long-term domestic consumption outlook for imported as well as domestically manufactured chemicals remains favourable. The Group has witnessed a favourable shift in the product mix with the addition of new products and have undertaken various cost reduction measures in recent fiscals.

Adequate storage facilities to support operations; expansion planned to support future growth – The Group has a strong warehousing capacity with 20 warehouses across India, helping it cater to diverse customers from various regions. PPC is planning to expand its warehouses further to support future growth.

Credit challenges

Intense competition and limited pricing flexibility – The Pure Group operates in a highly competitive environment, which limits its pricing flexibility. The margins remain susceptible to crude oil prices. However, a favourable shift in product/customer mix partly mitigates the impact.

Financial profile characterised by thin margins – The Pure Group's financial profile is characterised by thin margins in line with industry trends, which is partly mitigated by favourable changes in the product mix and cost-control measures. The working capital borrowings have increased owing to the growth in the scale of operations. The operating margins declined to 2.1% in FY2023 from 4.6% in FY2022. The margins are expected to remain thin in FY2024 though they are likely to improve from the FY2023 levels. The coverage indicators were also impacted in FY2023 owing to a decline in margins. ICRA also considers the corporate guarantee extended by PPC for the debt availed by its Singapore subsidiary. The Group's working capital intensity is moderate, but vulnerable to increased working capital funding to support revenue growth.

Vulnerability of profitability to fluctuations in forex rates – The margins remain susceptible to the adverse fluctuations in foreign exchange rates. The risk is partly mitigated by a lower share of direct imports and the hedging undertaken by the Group.

Liquidity position: Adequate

The consolidated liquidity position is adequate with cushion in working capital limits. The consolidated average working capital utilisation was around 66% of the sanctioned working capital limits in the last 12 months ended May 2023, which provides cushion to the liquidity. The company does not have any major repayment obligations for FY2024. The Group has a capex plan of Rs. 35-40 crore over the next three years, which is expected to be partially debt funded. However, the liquidity is likely to be adequate on expectations of healthy cash accruals.

Rating sensitivities

Positive factors – ICRA could upgrade PPC's ratings if the Pure Group demonstrates a sustained improvement in its operating profitability and working capital intensity while maintaining a healthy credit profile. Specific credit metrics for an upgrade include the Group's interest coverage ratio remaining more than 6.0 times on a sustained basis.

Negative factors – Pressure on PPC’s ratings could arise if the Group demonstrates a sustained decline in revenue and margin, or if a higher-than-expected capex or a stretch in the working capital intensity weakens its liquidity profile. A specific credit metric that could lead to a downgrade is the Group’s interest coverage being less than 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	While arriving at the ratings, ICRA has considered the consolidated financials of PPC, its four wholly-owned subsidiaries and its Group entities, Pure Chemicals Co. and Color Chemicals, due to the existing operational and financial synergies shared by them (the entities are all enlisted in Annexure-II); it has also considered the corporate guarantee extended to foreign subsidiaries

About the company

Pon Pure Chemical India Private Limited (PPC), formerly Pon Pure Chem Private Limited, trades in and distributes chemicals and dyes. The company is a 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. Pure Chem was set up in 1998 to distribute chemicals procured mainly from the domestic players. Subsequently, to improve operational efficiencies, the management decided to merge Pon Pure with Pure Chem and the company was renamed Pon Pure Chemicals India Private Limited. PPC is the flagship company of the Pure Group, with its own subsidiaries in Dubai, Singapore, Bangladesh and India, and step-down subsidiaries in Sri Lanka and Australia. The Group has other companies in the same sector, including Pure Chemicals Co. and Color Chemicals.

Key financial indicators

Pure Group Consolidated	FY2022	FY2023*
Operating income	3815.0	4187.2
PAT	98.6	43.0
OPBDIT/OI	4.6%	2.1%
PAT/OI	2.6%	1.0%
Total outside liabilities/Tangible net worth (times)	2.2	1.8
Total debt/OPBDIT (times)	1.8	3.8
Interest coverage (times)	5.1	2.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional

PPC Standalone	FY2022	FY2023
Operating income	3249.5	3608.2
PAT	82.6	22.1
OPBDIT/OI	3.9%	1.6%
PAT/OI	2.5%	0.6%
Total outside liabilities/Tangible net worth (times)	1.7	1.7
Total debt/OPBDIT (times)	2.3	5.5
Interest coverage (times)	5.9	2.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years						
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2020	
				Oct 09, 2023	Dec 30, 2022	Dec 30, 2021	Sep 21, 2021	Feb 05, 2021	Dec 18, 2020	
1	Cash credit (Fund-based)	Long Term	128.0	-	[ICRA]A-(Stable)	[ICRA]A-(Positive)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Positive)	[ICRA]BBB+(Stable)
2	Non-fund based	Short Term	482.0	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2
3	Proposed facilities	Short Term	0.0	-	-	-	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2
4	Fund-based/Non-fund based	Long Term/Short Term	177.5	-	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Positive)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]BBB+(Positive)/[ICRA]A2	[ICRA]BBB+(Stable)/[ICRA]A2
5	Proposed limit	Long term/Short Term	0.0	-	-	-	[ICRA]A-(Stable)/[ICRA]A2+	-	-	-
6	Fund-based/Non-fund based sublimit	Long Term	(422.2)	-	[ICRA]A-(Stable)	[ICRA]A-(Positive)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Positive)	[ICRA]BBB+(Stable)
7	Fund-based/Non-fund based sublimit	Short Term	(1158.50)	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2
8	Fund-based/Non-fund based sublimit	Long Term/Short Term	(75.0)	-	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Positive)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]BBB+(Positive)/[ICRA]A2	[ICRA]BBB+(Stable)/[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit (Fund-based)	Simple
Non-fund based	Very Simple
Fund-based/Non-fund based	Very Simple
Fund-based/Non-fund based sublimit	Simple
Fund-based/Non-fund based sublimit	Simple
Fund-based/Non-fund based sublimit	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	Fund based - Working capital facilities (Cash credit)	NA	NA	NA	128.0	[ICRA]A-(Stable)
NA	Non-fund based-working capital facilities	NA	NA	NA	482.0	[ICRA]A2+
NA	Long-term/short-term, fund-based/non-fund based	NA	NA	NA	177.5	[ICRA]A-(Stable)/[ICRA]A2+
NA	Long-term, fund-based/non-fund based (sub-limits)	NA	NA	NA	(422.2)	[ICRA]A-(Stable)
NA	Short-term, fund-based/non-fund based (sub limits)	NA	NA	NA	(1158.5)	[ICRA]A2+
NA	Long-term/short-term, fund based/non-fund based (sub-limits)	NA	NA	NA	(75.0)	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company; *The sub-limits can be utilized to the extent of the main limits.

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	PPC Ownership	Consolidation Approach
Pon Pure Chemical India Pvt. Ltd	100.0% (rated entity)	Full Consolidation
Pure Chemicals Company*	-	Full Consolidation
Color Chemicals*	-	Full Consolidation
Pure Chemicals Pte Ltd	100.0%	Full Consolidation
Pure Chemicals Pty Limited	100.0%	Full Consolidation
Pon Pure Chem FZE	100.0%	Full Consolidation
Pon Pure Chemical Lanka (Private) Limited	100.0%	Full Consolidation
Pon Pure Specialty Chemical Pvt. Limited	100.0%	Full Consolidation
Pon Pure Chemical Bangladesh Pvt. Ltd	100.0%	Full Consolidation

Source: Company; *partnership firms with promoters of Pure group as partners.

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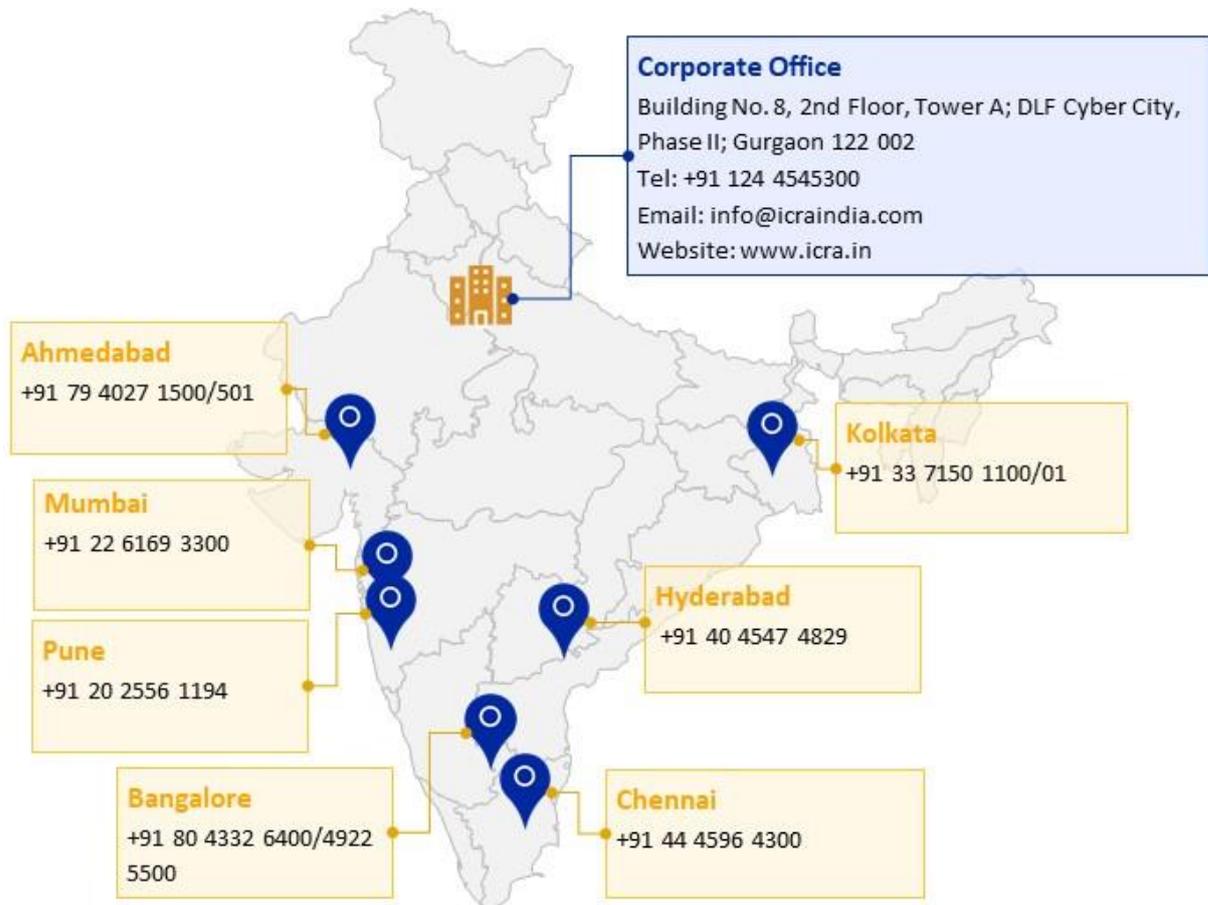
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