March 13, 2024

Pon Pure Logistics 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 facilities	8.00	8.00	[ICRA]BBB-(Stable); reaffirmed
Short-term – Fund-based (sub limit)	(7.00)	(7.00)	[ICRA]A3; reaffirmed
Long-term/Short-term non-fund based (sub limit)	(0.50)	(0.50)	[ICRA]BBB-(Stable)/[ICRA]A3; reaffirmed
Total	**8.00**	**8.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation considers Pon Pure Logistics Private Limited's (PPL) long track record in the chemical logistics segment and the established presence of the Pon Pure Group in chemical trading. The Group has been PPL's major customer and has helped it gain reputed customers in chemical logistics, especially in the southern market. ICRA notes the diversification of PPL's customer base in the last few years into the FMCG, paper, automotive and electronics industries. The ratings also factor in the healthy improvement in revenue over the years, primarily driven by growth in the service (tank storage) and parcel segments (express services). ICRA notes the new routes being covered in parcel services, which will improve the revenue from this segment.

The company has comfortable capital structure and adequate debt coverage indicators owing to the asset-light nature of its business. Given the company's limited dependence on debt, ICRA expects PPL's debt protection metrics to remain comfortable, going forward.

The ratings are, however, constrained by the company's moderate scale of operations and thin profit margins due to intense competition and limited value addition in the business. The ratings also remain tempered by the exposure of profitability to volatile diesel prices, particularly in the transportation segment. The ratings also consider the susceptibility of PPL's revenues and margins to changes in the client mix and the broader economic cycles.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that PPL will continue to benefit from being part of the Pure Group, its experience in logistics and established relationships with reputed customers, particularly in the southern market.

Key rating drivers and their description

Credit strengths

Part of the reputed Pon Pure Group with established presence in chemical trading - PPL is a part of the Pon Pure Group of companies, which has an established presence in chemical trading. It commenced operations by providing logistics services to Group companies, mainly to the flagship entity, Pon Pure Chemical India Private Limited (rated [ICRA]A-(Stable)/[ICRA]A2+). PPL derives 25-30% of its revenues from the Group by providing transportation and storage facilities. Since its establishment, PPL has diversified its customer base by providing end-to-end logistics services to customers in the FMCG, automotive, electronics, textile, paper and pharma industries.

Expansion of parcel/express delivery services provides diversification benefits and aids growth – Earlier, the company's major revenue drivers were tankage and storage services, which accounted for 55-60% of the revenues, followed by transportation services (35-40% of total revenues). However, in FY2016, the company entered the parcel segment (express delivery) under the brand name, Pon Pure Express. The revenue share of this segment has increased over the years to 23-25% in recent fiscals from 0.2% in FY2016. The segment's profitability had remained subdued till FY2020 due to the stabilisation of the routes. However, the segment's profitability has improved in recent years with the routes achieving maturity with the addition of new customers and is expected to be sustainable. Recently, in the parcel segment, the company started plying on routes between Tamil Nadu and Kerala, which has improved the revenues. Going forward, the company plans to add more customers and routes which is expected to drive growth and provide diversification benefits.

Comfortable capital structure and adequate debt protection metrics due to asset-light model - PPL follows an asset-light business model and owns a fleet of only seven vehicles for its transportation operations, while mainly depending on third-party leased vehicles. The company has also rented tankages at tank farms at various ports and warehouse facilities to provide storage services to its customers. Due to its low asset base, PPL's capital structure is characterised by comfortable leverage and adequate debt protection metrics, which further improved in the recent fiscals with better profitability and lower debt levels. Accordingly, the gearing, which remained in the range of 0.8–1.1 times during FY2017-FY2020, improved to 0.1 times as on March 31, 2023. Similarly, the interest cover, which remained in the range of 2.2–2.8 times during FY2017-FY2020, improved to 4.9 times in FY2021, 11.8 times in FY2022 and 14.9 times in FY2023.

Credit challenges

Moderate scale of operations and thin profit margins - The company has a moderate scale of operations with revenues of Rs. 121 crore in FY2023. The revenues are expected to remain moderate in the medium term with no major purchase of vehicles, storage tanks or warehouses in the pipeline. The operating profit also remains moderate with OPM of 3% in FY2023. The company's margins remain thin due to intense competition and low value addition in the business.

Intense competition limits pricing flexibility; margins susceptible to trade cycle, fuel prices and changes in Government policies - The company faces intense competition from much larger integrated logistics players as well as smaller unorganised players, limiting its pricing flexibility. The margins also remain susceptible to volatility in fuel prices, impact of a broader economic cycle on exim cargo and changes in Government policies.

Liquidity position: Adequate

The liquidity is expected to remain adequate on the back of positive cash flow from operations, nil repayment obligation, availability of unutilised limit (no utilisation in Q3FY2024) and no major capex plans in the near term.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a sustained improvement in the scale of operations and profitability, while maintaining a healthy capital structure.

Negative factors – ICRA could downgrade the ratings if there is a sustained decline in revenue or profitability, or a stretch in the working capital cycle, weakening the liquidity. A specific credit metric for downgrade would be interest cover of less than 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on standalone financial statements

About the company

Pon Pure Logistics Private Limited, incorporated in 2004 as Southern Logistics Private Limited, was renamed in 2005. It commenced operations by providing chemical logistics services to Pon Pure Chemicals India Private Limited (the Group's flagship entity) and currently provides end-to-end supply chain logistics services, including air and sea freight forwarding, contract logistics, customs clearances, ground transportation and warehousing, apart from value-added services such as packaging, drumming, inventorying, JIT supply and security.

The company has significant experience in handling both liquid and dry chemical cargo. It recently diversified into handling cargo for industries such as FMCG, automotive, electronics, textile, paper and pharma, among others. The company has added express cargo services to its offerings from January 2016. It has 27 offices across seven states in the country and is a member of the International Air Transport Association (IATA), World Cargo Alliance (WCA), Multimodal Transport Operators (MTO) and Dangerous Goods Logistics Alliance (DGLA).

PPL is a part of the Pure Chemicals Group, which was set up by Group chairman, Mr. M. Ponnuswami, in 1981. The Group's major entities include Pon Pure Chemical India Private Limited (rated [ICRA]A- (Stable)/[ICRA]A2+), Pure Chemicals Co. (rated [ICRA]BBB+(Stable)/[ICRA]A2) and Color Chemicals (rated [ICRA]BBB+ (Stable)).

Key financial indicators (audited)

PPL	FY2022	FY2023
Operating income	107.8	121.0
PAT	3.7	2.2
OPBDIT/OI	5.3%	3.0%
PAT/OI	3.4%	1.8%
Total outside liabilities/Tangible net worth (times)	0.9	0.9
Total debt/OPBDIT (times)	0.4	0.7
Interest coverage (times)	11.8	14.9

*Source: Company, ICRA Research; * Provisional numbers; 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	Current rating (FY2024)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 13, 2024	Feb 28, 2023	Dec 28, 2021	Sep 30, 2020
1	Cash credit	Long term	8.0	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)
2	Bank guarantee	Long term/short term	(0.5)	-	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BB+(Stable)/ [ICRA]A4+
3	Working capital demand loan	Short term	(7.0)	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple
Long term/short term – Non fund-based – Bank guarantee	Very Simple
Short term – Working capital demand loan	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	**Cash credit**	NA	NA	NA	8.00	[ICRA]BBB-(Stable)
NA	**Working capital demand loan***	NA	NA	NA	(7.00)	[ICRA]A3
NA	**Bank guarantee***	NA	NA	NA	(0.50)	[ICRA]BBB-(Stable)/[ICRA]A3

*Source: Company; *Working capital demand loan of Rs. 7.00 crore and bank guarantee of Rs. 0.50 crore are sublimits of cash credit of Rs. 8.00 crore*

Annexure II: List of entities considered for consolidated analysis - NA

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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.

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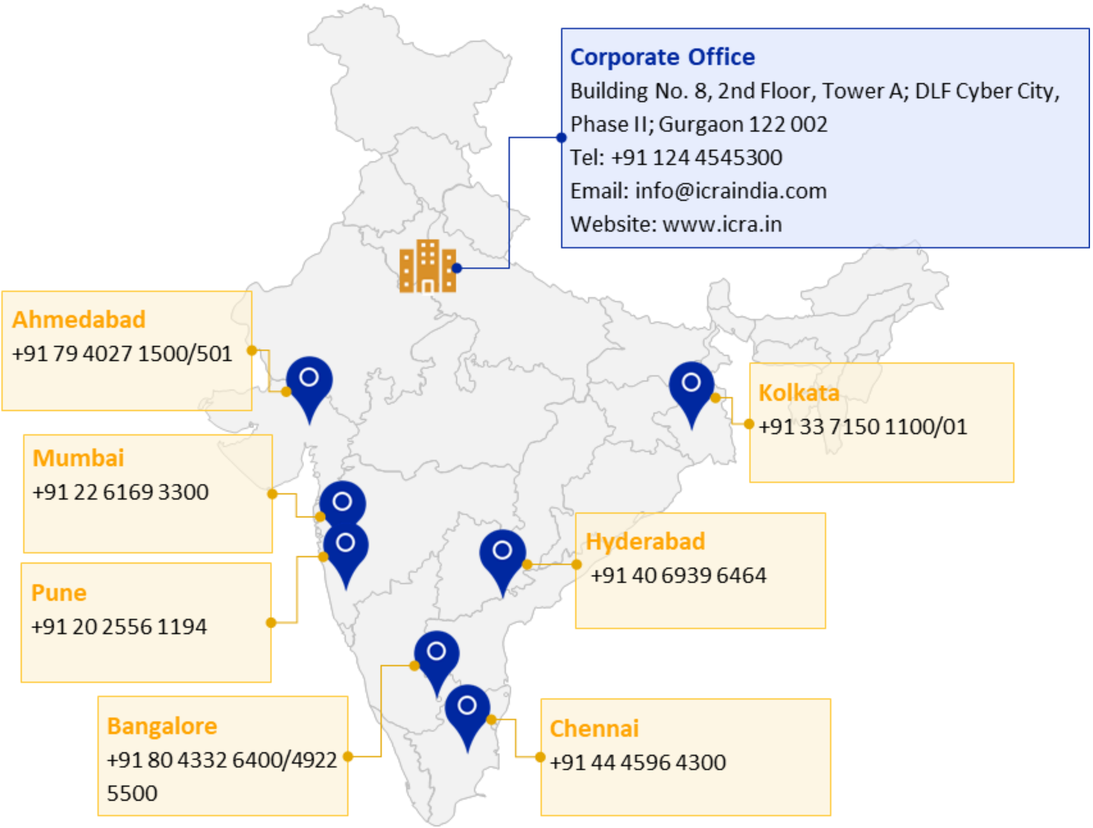

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