

January 21, 2025

Pon Pure Chemical India 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 (Cash credit) | 128.00 | 168.0 | [ICRA]A- (Stable); reaffirmed |
| Short-term, non-fund based facilities | 482.0 | 417.0 | [ICRA]A2+; reaffirmed |
| Long-term/short-term, fund- based/non-fund based limits | 177.50 | 202.5 | [ICRA]A- (Stable)/ [ICRA]A2+; reaffirmed |
| Long-term fund-based/non-fund based (Sublimit) | (422.20) | (141.2) | [ICRA]A- (Stable); reaffirmed |
| Short-term, fund-based/non-fund based (Sublimit) | (1158.50) | (302.0) | [ICRA]A2+; reaffirmed |
| Long-term/short-term, fund- based/non-fund based (Sublimit) | (75.00) | - | - |
| 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 ratings reaffirmation continues to factor in 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. Further, the Group has adequate support facilities, helping it cater to diverse customers from various regions. The Group is also planning to expand its warehouses to support its future growth, and invest in its specialty business to enhance margins. ICRA notes 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.

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.

The Stable outlook on the rating reflects ICRA's expectation that PPC is likely to sustain its operating metrics. Further, the outlook underlines ICRA's expectation that the entity's incremental capex to further expand its operations will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

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 moderated with a moderation in the scale of operations. The operating margins improved to 3.2% in FY2024 from 2.4% in FY2023, though still thin, and are expected to remain in a similar range in FY2025 as well. 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 average working capital utilisation was around 51% of the sanctioned working capital limits in the last 12 months ended November 2024, which provides cushion to the liquidity. The company does not have any major repayment obligations for FY2025. The Group has a capex plan of Rs. 35-40 crore per year over the next three years, which is expected to be partially debt funded. However, the liquidity is expected to be adequate on the back of expected stable cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade PPC's ratings if the Pure Group demonstrates a sustained improvement in its operating profitability, debt coverage metrics and liquidity position.

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 for downgrade is the Group's TOL/TNW being higher than 1.5 times on a sustained basis.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Corporate Credit Rating Methodology |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | 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 | FY2023 | FY2024 |
|--|---------|---------|
| Operating income | 4,077.6 | 3,718.0 |
| PAT | 39.5 | 64.2 |
| OPBDIT/OI | 2.4% | 3.2% |
| PAT/OI | 1.0% | 1.7% |
| Total outside liabilities/Tangible net worth (times) | 1.6 | 1.4 |
| Total debt/OPBDIT (times) | 3.8 | 2.5 |
| Interest coverage (times) | 2.7 | 3.1 |

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

| PPC Standalone | FY2023 | FY2024 |
|--|---------|---------|
| Operating income | 3,608.2 | 3,377.1 |
| PAT | 22.1 | 44.5 |
| OPBDIT/OI | 1.8% | 2.5% |
| PAT/OI | 0.6% | 1.3% |
| Total outside liabilities/Tangible net worth (times) | 1.7 | 1.4 |
| Total debt/OPBDIT (times) | 5.2 | 2.9 |
| Interest coverage (times) | 2.3 | 2.7 |

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 | Current rating (FY2025) | | | Chronology of rating history for the past 3 years | | | |
|--------------------------------------|-------------------------|--------------------------|----------------------------|---|------------------------------|----------------------------|----------------------------|
| | Type | Amount rated (Rs. crore) | Date & rating in FY2025 | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | |
| | | | Jan 21, 2025 | Oct 09, 2023 | Dec 30, 2022 | Dec 30, 2021 | Sep 21, 2021 |
| 1 Cash credit (Fund-based) | Long term | 168.0 | [ICRA]A-(Stable) | [ICRA]A-(Stable) | [ICRA]A-(Positive) | [ICRA]A-(Stable) | [ICRA]A-(Stable) |
| 2 Non-fund based | Short term | 417.0 | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2+ |
| 3 Proposed facilities | Short term | 0.0 | - | - | - | - | [ICRA]A2+ |
| 4 Fund-based/Non-fund based | Long term/Short term | 202.5 | [ICRA]A-(Stable)/[ICRA]A2+ | [ICRA]A-(Stable)/[ICRA]A2+ | [ICRA]A-(Positive)/[ICRA]A2+ | [ICRA]A-(Stable)/[ICRA]A2+ | [ICRA]A-(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 | (141.2) | [ICRA]A-(Stable) | [ICRA]A-(Stable) | [ICRA]A-(Positive) | [ICRA]A-(Stable) | [ICRA]A-(Stable) |
| 7 Fund-based/Non-fund based sublimit | Short term | (302.0) | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2+ |
| 8 Fund-based/Non-fund based sublimit | Long term/Short term | 0.0 | - | [ICRA]A-(Stable)/[ICRA]A2+ | [ICRA]A-(Positive)/[ICRA]A2+ | [ICRA]A-(Stable)/[ICRA]A2+ | [ICRA]A-(Stable)/[ICRA]A2+ |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|----------------------|
| Fund based - Working capital facilities | Simple |
| Non-fund based - Working capital facilities | Very Simple |
| Fund-based/Non-fund based | Very simple |
| Fund-based/Non-fund based (sub-limits) | Simple |

Fund-based/Non-fund based (sub limits)

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 | 168.0 | [ICRA]A-(Stable) |
| NA | Non-fund based working capital facilities | NA | NA | NA | 417.0 | [ICRA]A2+ |
| NA | Long term/Short term, fund-based/non-fund based | NA | NA | NA | 202.5 | [ICRA]A-(Stable)/[ICRA]A2+ |
| NA | Long term, fund-based/non-fund based (sub-limits) | NA | NA | NA | (141.2) | [ICRA]A-(Stable) |
| NA | Short term, fund-based/non-fund based (sub limits) | NA | NA | NA | (302.0) | [ICRA]A2+ |

Source: Company; *The sub-limits can be utilised 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 |
| Pon Pure Renewable Energy Pvt. Ltd | 100.0% | Full Consolidation |

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

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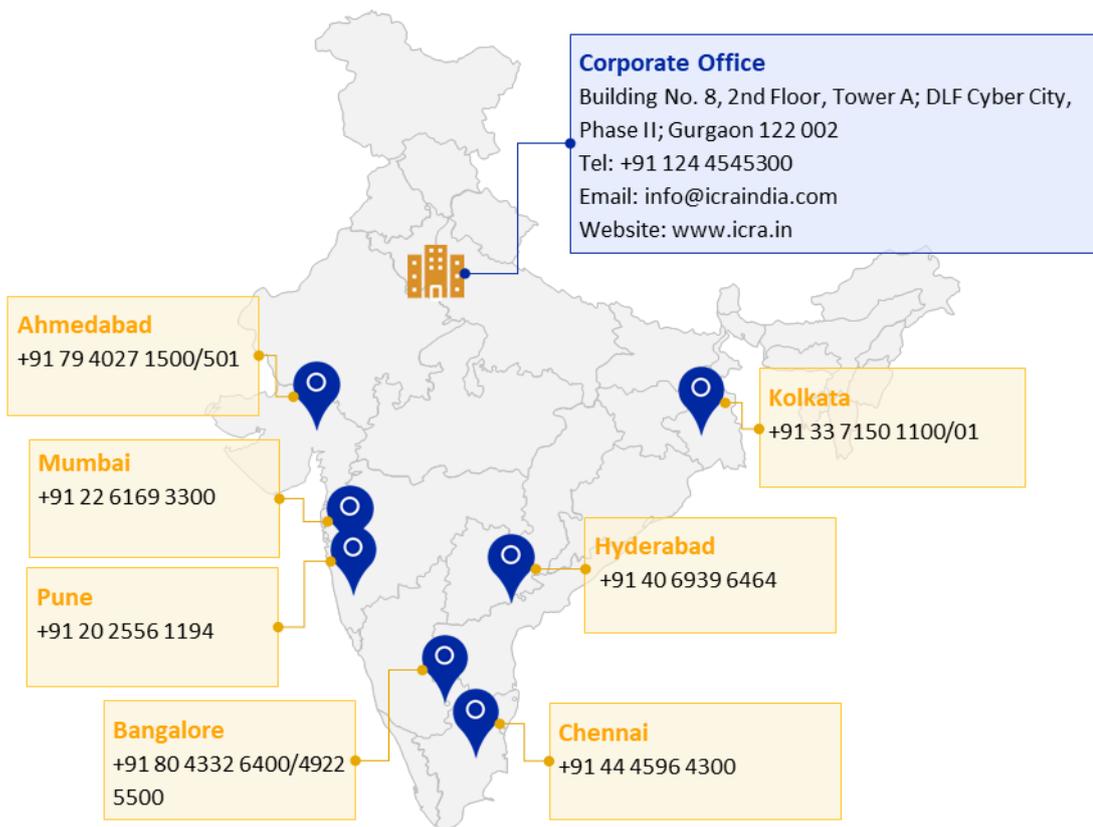
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