

Press Release

Palogix Infrastructure Private Limited

June 02, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.35.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.35.00 Cr bank facilities of Palogix Infrastructure Private Limited (PIPL). The outlook is '**Stable**'.

The rating on PIPL takes cognizance of company's comfortable business risk profile marked by experienced promoters, advanced stage of project execution, strategic locations of Private Freight Terminals (PFT) and continuous growth in the scale of operations. The rating is also supported by the strategic investment from Godavari Commodities Limited (GCL) (rated at ACUITE A-/ Negative/A2+). These strengths are, however, partially constrained by the working capital intensity in its operations and project off-take risk.

About the company

Incorporated in 2007, PIPL is a Kolkata based company, promoted by Mr. Ramesh Rai, Mr. Atul Paliwal and Mr. Vishal Rai. The company is engaged in development of PFT and providing logistics solutions through terminal access, transportation of rail borne-cargo, warehousing, road transportation and container handling services. PIPL is the first company to operationalize a Greenfield PFT in India. The company has already commissioned two railway PFTs – Durgapur, West Bengal in October 2012 and Muradnagar, Uttar Pradesh in February, 2015. Furthermore, it is also setting up another two PFTs at Rudrapur in Uttarakhand and Kolkata in West Bengal. PIPL is also undertaking expansion at its existing Durgapur PFT. The company envisages itself to become a complete 3PL and 4PL Logistics provider by managing resources, technology, infrastructure and providing supply chain solutions for businesses.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of PIPL to arrive at the rating. However, Acuite has taken into account the strong parentage of the entity by way of shareholding held by GCL Logistic Terminal LLP, which is a step-down subsidiary of GCL, along with an unconditional and irrevocable corporate guarantee extended by GCL. Hence, to arrive at the rating, Acuite has taken a notch up rating approach based on support from the key stakeholders.

Key Rating Drivers

Strengths

- Experienced management and the new synergy**

PIPL is promoted by Mr. Ramesh Rai (former IRTS), Mr. Atul Paliwal (former IRTS) and Mr. Vishal Rai. Currently, the company is headed by the promoters along with Mr. Sanjay Kumar Mishra as the managing director (who represents the strategic investor GCL Logistic Terminal LLP) and Mr. Ranjan Kumar as the director. The top management team has around two decades of experience in the logistics and rail freight transportation industry. The company is also bagging continuous orders from reputed clients like West Bengal Power Development Corporation Ltd (WBPDC), GCL, Eastern Railway to name a few. The new association with GCL has brought a new synergy into the company and the company is expected to reach multiple Greenfield PFT approvals. GCL has extended a corporate guarantee to PIPL. Acuite derives comfort from the rich experience of the promoters, healthy financial flexibility of the strategic investor and believes this will support the company in ramping up its scale of operations, going forward.

- Improving business risk profile**

PIPL has achieved revenues of Rs.14.85 Cr in FY2020 as compared to revenues of Rs.4.75 Cr in FY2019, thereby registering a y-o-y growth of around 212 per cent in FY'20. The company has achieved revenues of Rs.20.42 Cr till March, 2021 (Provisional). The growth in the top line is on account of continuous repeat orders and thrust in the rail freight transportation industry in FY2021. The company's revenue growth is directly proportional to

the commissioning of new PFTs. Acuite believes timely completion of the balance project within the envisaged cost and the ability to stabilize the operations while achieving a sustainable growth would remain the key rating sensitivities.

The operating margin of the company improved and stood at 24.21 per cent in FY2020 on account of increase in the scale of operations. The cost of goods sold for the company does not increase in tandem with increase in the revenue, one time fixed cost of setting up the freight terminal is high. Acuite believes the operating profit margin will improve further as PIPL has bagged a large order from JSW Steel and also due to Muradnagar PFT being fully operational by mid FY22 and Rudrapur PFT by early FY23.

- **Average financial risk profile**

The company's average financial risk profile is marked by moderate network, comfortable gearing and weak debt protection metrics. The tangible net worth of the company improved to Rs.47.72 Cr as on 31st March, 2020 from Rs.30.73 Cr as on 31st March, 2019. Acuite has treated unsecured loans of Rs.49.32 Cr in FY21 as quasi equity as the management has undertaken to maintain this amount in the business over the medium term. Gearing of the company stood below unity at 0.77 times as on 31st March, 2020 as compared to 1.39 times as on 31st March, 2019. The debt of Rs.36.93 Cr comprises of long term facilities from bank of Rs.25.09 Cr, current portion of long term debt repayment of Rs.6.91 Cr and short term debt of Rs.4.94 Cr as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.02 times as on 31st March, 2020 as against 2.12 times as on 31st March, 2019. The weak debt protection metrics of the company is marked by Interest Coverage Ratio at 0.58 times in FY20 which improved to 2.00 times in FY21 (provisional) and Debt Service coverage ratio at 0.23 times in FY20 which improved to 0.86 times in FY21 (provisional). The Net Cash Accruals/Total Debt (NCA/TD) stood negative as on 31st March, 2020. Acuite believes that going forward the financial risk profile of the company will improve backed by steady accruals and no major debt funded capex plans.

Weakness

- **Working capital intensive nature of operations**

The working capital intensive nature of operations is marked by high Gross Current Assets (GCA) of 517 days in FY2020 as compared to 1654 days in FY2019. The GCA days are high due to high debtor days at 196 days in FY2020 as compared to 355 days as on FY2019. Debtor days are high mainly due to high amount of loans and advances to related parties for purchase of spare parts, construction materials, diesel, pay loader hire charges etc. for smooth functioning of the business. Going forward, Acuite believes that the operations would remain at similar levels mainly due to the inherently high debtor period.

- **Nascent stage of operations**

The company was incorporated in 2007, but due to heavy capital expenditure involved in commissioning of PFTs, the operations commenced in the year 2012 when Durgapur PFT became operational. After investment from GCL in 2019, the scale of operations improved in FY20. Further improvement in the growth in their scale of operations and sustainability in profitability margins would remain a key credit monitorable. However, the favourable outlook for Private Freight Terminal business in the country and increase in Freight/ Cargo movement in FY2021 is expected to positively impact businesses like PIPL in the medium term.

Rating Sensitivity

- Improvement in scale of operations while maintaining profitability margin
- Timely completion of the capital expenditure plan
- Elongation of working capital cycle

Material Covenant

None

Liquidity Profile: Stretched

The company's liquidity position is stretched marked by substantial losses in FY2020 as against long term debt repayment of Rs.9.16 Cr over the same period which will be serviced through capital infusion by the company. The fund based limit remained utilized at 89 percent over the twelve months ended March, 2021. The cash and bank balances of the company stood at Rs.0.56 Cr in FY2020 as compared to Rs.5.02 Cr in FY2019. The company availed a Covid loan of Rs.4.06 Cr. The company's operations are working capital intensive as reflected by high Gross Current Assets (GCA) of 517 days in FY2020 as compared to 1654 days in FY2019. The current ratio stood moderate at 1.03 times as on 31st March, 2020 as compared to 0.77 times as on 31st March, 2019. Going forward, the liquidity is expected to improve on account of stabilization of operations. Further,

Acuite derives comfort from the healthy liquidity of the strategic investor and the corporate guarantee given by GCL.

Outlook: Stable

Acuite believes that the outlook on PIPL will remain 'Stable' over the medium term on account of the experience of the promoters, comfortable business risk profile and the new synergy brought by GCL. The outlook may be revised to 'Positive' in case the company witnesses a material improvement in its scale of operations. Conversely, the outlook may be revised to 'Negative' in case of any significant elongation in its working capital management leading to further deterioration of its liquidity position.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	14.85	4.75
PAT	Rs. Cr.	(7.34)	(10.27)
PAT Margin	(%)	(49.44)	(216.22)
Total Debt/Tangible Net Worth	Times	0.77	1.39
PBDIT/Interest	Times	0.58	(0.49)

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan - FCTL	31-Dec-2018	12.90%	14-Jun-2024	5.81	ACUITE BBB-/Stable (Assigned)
Term Loan - FCTL	31-Dec-2018	12.90%	14-Jun-2024	3.84	ACUITE BBB-/Stable (Assigned)
Term Loan	07-Feb-2019	12.25%	07-Aug-2025	12.09	ACUITE BBB-/Stable (Assigned)
Cash Credit*	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/Stable (Assigned)
Proposed fund based facility	Not Applicable	Not Applicable	Not Applicable	8.26	ACUITE BBB-/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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