

## Press Release

Palogix Infrastructure Private Limited

July 27, 2022



## Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	35.00	ACUITE BB+   Stable   Downgraded	-
Total Outstanding Quantum (Rs. Cr)	35.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has downgraded the long term rating to 'ACUITE BB+' (read as ACUITE double B plus) from '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 downgrade factors in the decline in the profitability margins due to sustained impact of the Covid-19 pandemic and the economic downturns in FY2022. Also, the company's performance has been significantly weaker than expectations, with the delay in commissioning of the Rudrapur PFT. There has been stretch in their liquidity position too with more than 90 per cent utilization in their bank lines. . However, these weaknesses are partially offset by the strategic locations of Private Freight Terminals (PFT) and strategic investment from Godavari Commodities Limited (GCL) (rated at ACUITE A-/ Stable/A2+).

## 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.

## 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 approach based on support from the key stakeholders.

## Key Rating Drivers

## Strengths

## **Experienced management and financial flexibility enjoyed from the new synergy with GCL**

PIPL is promoted by Mr Ramesh Rai (IRTS), Mr. Atul Paliwal (IRTS) and Mr. Vishal Rai. Currently, Mr. Sanjay Kumar Mishra is the managing director and Mr. Ranjan Kumar is the director in the company. The top management team has around two decades of experience in the logistics and railway industry. The company is also bagging continuous orders from reputed clients like West Bengal Power Development Corporation Ltd (WBPDCCL) (Acuite A-/Stable/ A2+), Godavari Commodities Limited (GCL)(Acuite A-/Stable/ A2+), Eastern Railway only to name a few. Acuite derives comfort from the experienced promoters, advanced stage of project execution and believes this will support the company in ramping up its scale of operations, going forward.

The new association with GCL (Acuite A-/Stable/ A2+) has brought a new synergy into the company and the company is well on its way to reach multiple Greenfield PFT approvals. As on March 31, 2022, GCL through its subsidiary, GCL Logistics Terminal LLP holds 72.53 per cent equity stake in PIPL. Godavari Commodities Limited has given a Corporate Guarantee to PIPL. GCL has also given an undertaking for subordination of PIPL's unsecured loans to the bank debt. Acuite draws comfort from the healthy financial flexibility of the strategic investor.

## **Above average financial risk profile**

The company's above average financial risk profile is marked by moderate networth, comfortable gearing and weak debt protection metrics. The tangible net worth of the company improved to Rs.53.61 crores as on 31st March, 2022 (Provisional) from Rs.50.41 crores as on 31st March, 2021. Acuite has treated unsecured loans of Rs.40.00 crores in FY22 as quasi equity as the management has undertaken to maintain this amount in the business over the medium term. Gearing of the company improved to 0.70 times as on 31st March, 2022 (Provisional) as compared to 0.86 times as on 31st March, 2021, on account of repayment of debt. The debt is backed by personal guarantee of the promoters, corporate guarantee of the strategic investor and pledging of 70 per cent of the shares. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at unity as on 31st March, 2022 (Provisional) as against 1.15 times as on 31st March, 2021. The modest debt protection metrics of the company is marked by Interest Coverage Ratio at 3.36 times as on March 31, 2022 (Provisional) and Debt Service Coverage Ratio at 0.80 times as on March 31, 2022 (Provisional). Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.21 times as on March 31, 2022 (Provisional). Acuite believes that the financial risk profile of the company is expected to improve over the medium term with improvement in wagon turn-around time and consequent improvement in availability of wagons in FY2023.

## **Weaknesses**

### **Modest Scale of Operation**

The company's scale of operations continues to be moderate with revenues of Rs. 24.68 Cr in FY2022 (Provisional) as compared to revenues of Rs 20.61 Cr in FY2021. In FY2021, the revenues were mainly impacted by a decline in trade volumes owing to the Covid-19 pandemic. However, the revenues improved in FY22 amidst shortage of wagons to counter the electricity crisis in the country during Q2 of FY22, as Railways deployed 86 per cent of its open wagons to directly transport coal to various power plants in the country. Moreover, the modest scale of operation constrains its ability to benefit from economies of scale and weighs on its competitive position vis-à-vis the large-sized entities. Further, a moderate scale exposes the risk of a business downturn and the company's ability to absorb a temporary disruption and leverage fixed costs. Hence, both the profitability margins moderated in FY22, as the operating margin of the company stood at 38.75 per cent in FY2022 as compared to 51.56 per cent in the previous year. The PAT margins also declined marginally to 12.98 per cent in FY2022 as against 13.59 per cent as on FY2021. Nevertheless, Acuite expects the company's operating margins are expected to gradually improve over the medium term benefitting from economies of scale and thrust in the rail freight transportation industry. The company's revenue growth is directly proportional to the locational advantages of the PFTs-opening of new PFTs at Rudrapur and ramping up of operation at Muradnagar PFT.

## **Working capital intensive nature of operations**

The working capital management of the company is marked by Gross Current Assets (GCA) of 400 days in 31st March 2022 (Provisional) as compared to 554 days in 31st March 2021. The high level of GCA days is on account of high level of current assets due to advance given to suppliers and transportation companies. Further, the debtor period also stood high at 190 days as on 31<sup>st</sup> March 2022 (Provisional) as compared to 116 days as on 31st March 2021 on account on stretched receivables from the government companies. Acuité believes that the working capital operations of the company will remain almost at the same levels as evident from the inherently high debtor period.

## **Susceptibility of revenues to economic slowdown**

The revenues of the company remain susceptible to the economic cycles in the PFT and other container terminal businesses. The variations in Exim trade volumes also impact the overall sales. However, the favourable long-term prospects for PFT and the company's established relationships with reputed clients along with its integrated presence in the logistic chain mitigate the risk to an extent.

The commercial operation date (COD) of the Rudrapur PFT has been revised from June 2022 to April 2023 because of disruption in construction activities during Q1FY22 as there was a shortage of manpower due to the pandemic situation. Acuité draws comfort from the fact that though there has been a delay in project completion timelines, there have been no corresponding cost escalations.

## **Rating Sensitivities**

- Improvement in scale of operations while maintaining profitability margin
- Any further time overrun
- Elongation of working capital cycle

## **Material covenants**

None

## **Liquidity Position: Stretched**

The company's stretched liquidity position is reflected in their highly utilized fund based limits at 92 per cent over the eleven months ended June, 2022. The current ratio also stood moderate at 1.06 times as on 31st March, 2022 (Provisional). Moreover, the working capital management of the company is high marked by Gross Current Assets (GCA) of 400 days in 31st March 2022 (Provisional) as compared to 554 days in 31st March 2021. However, the presence of escrow mechanism to ensure timely repayment is expected to support debt servicing in the near-to-medium term. Further, PIPL maintains DSRA equivalent to three months debt service obligation, which strengthens the liquidity profile of the company. Acuité believes, going forward, the liquidity is expected to improve on account of stabilisation of operations. Further, Acuité derives comfort from the healthy liquidity of the strategic investor and the corporate guarantee given by GCL, as the overall liquidity profile has been supported by timely infusion of funds from the promoter reflecting their resourcefulness and intent to support the business which is expected going forward as well.

## **Outlook: Stable**

Acuité 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.

**Other Factors affecting Rating**

None

**Key Financials**

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	24.68	20.61
PAT	Rs. Cr.	3.20	2.80
PAT Margin	(%)	12.98	13.59
Total Debt/Tangible Net Worth	Times	0.70	0.86
PBDIT/Interest	Times	3.36	3.20

**Status of non-cooperation with previous CRA (if applicable)**

Not Applicable

**Any other information**

Not Applicable

**Applicable Criteria**

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

**Note on complexity levels of the rated instrument**<https://www.acuite.in/view-rating-criteria-55.htm>**Rating History**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Jun 2021	Cash Credit	Long Term	5.00	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	3.84	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	12.09	ACUITE BBB-   Stable (Assigned)
	Proposed Bank Facility	Long Term	8.26	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	5.81	ACUITE BBB-   Stable (Assigned)

### Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
RBL Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+   Stable   Downgraded
RBL Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BB+   Stable   Downgraded
TATA Capital Financial Service Ltd.	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	1.43	ACUITE BB+   Stable   Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.52	ACUITE BB+   Stable   Downgraded
RBL Bank	Not Applicable	Term Loan	31-12-2018	12.90	14-06-2024	3.08	ACUITE BB+   Stable   Downgraded
RBL Bank	Not Applicable	Term Loan	31-12-2018	12.90	14-06-2024	2.72	ACUITE BB+   Stable   Downgraded
TATA Capital Financial Service Ltd.	Not Applicable	Term Loan	07-02-2019	12.25	07-08-2025	8.75	ACUITE BB+   Stable   Downgraded

## Contacts

Analytical	Rating Desk
Pooja Ghosh Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:pooja.ghosh@acuite.in">pooja.ghosh@acuite.in</a>  Srijita Chatterjee Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:srijita.chatterjee@acuite.in">srijita.chatterjee@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

## About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

**Disclaimer:** An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.