Press Release

Crystal Quinone Private Limited

13 September, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 64.00 Cr
Long Term Rating	SMERA BBB-/Stable (Assigned)
Short Term Rating	SMERA A3 (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of **'SMERA BBB-' (read as SMERA triple B minus)** and short-term rating of **'SMERA A3' (read as SMERA A three)** on the Rs. 64.00 crore bank facilities of Crystal Quinone Private Limited (CQPL). The outlook is **'Stable'**.

The Ahmedabad based CQPL, incorporated in 1983 is promoted by Mr. Anang K. Shah and Mrs. Nayna A Shah. The company is engaged in the manufacturing and export of pigment intermediates (derivatives of Hydroquinone) i.e. Vinyl Sulphones and trading of polymers. The company acts as Del credere agent and consignment dealer for Indian Oil Corporation Limited's polymer products (polypropylene and polyethylene). It has also been trading in other polymer products such as LDPE and PVC grade since 2010. CQPL has three manufacturing plants located at Vatva Industrial Estate, Ahmedabad with total installed capacity of 900 Metric Tonnes Per annum (MTPA) for organic chemicals and 1500 MTPA for inorganic chemicals. The company derives around 55 percent of its revenue from manufacturing and remaining from trading activity. The day-to-day operations are led by Mr. Anang K Shah, Mr. Aniket Shah and Mr. Hitendra K. Chopra.

CQPL exports around 65 percent of its total sales to several countries including China, Taiwan, Korea, Indonesia, Italy, Germany and Thailand. The major raw material 'Hydroquinone' along with LDPE and PVC grades are imported from Taiwan, Middle East and Turkey, which forms around 34 percent of its total purchases.

List of key rating drivers and their detailed description

Strengths:

Established track record of operations and experienced promoters:

CQPL is engaged in the manufacturing of pigment intermediates for dyestuff, antioxidants and food preservatives since 1983. It is also an authorised distributor for polymer products of Indian Oil Corporation Limited (IOCL) at Ahmedabad since 2010. The promoters collectively possess more than four decades of experience in the chemical industry. The established operational track record and experienced promoters have helped the company maintain long standing relations with customers and suppliers.

Above average financial risk profile

The financial risk profile is above average marked by tangible net worth of Rs.44.64 crore (Provisional) as on 31 March, 2017 compared to Rs.30.18 crore as on 31 March, 2016. The adjusted gearing position stood at 0.85 times (Provisional) as on 31 March, 2017 as against 0.80 times in the previous year. The adjusted gearing has been arrived at after considering unsecured loan of Rs.14.77 crore from related parties as part of equity as the same is subordinated to bank debt. The total debt of Rs. 37.95 crore as on 31 March, 2017 (Provisional) mainly includes short term borrowings of Rs. 35.79 crore and unsecured loan from directors of Rs. 2.16 crore. The total liabilities to tangible networth (TOL/TNW) stood at 1.42 times (Provisional) as on 31 March, 2017 compared to 1.36 times in the previous year.

The interest coverage ratio is comfortable at 3.18 times (Provisional) compared to 3.33 times in the previous year. The Net cash accurals to Total Debt (NCA to TD) stood at 0.15 times (Provisional) as on 31 March, 2017 compared to 0.19 times in the previous year.

Going forward, SMERA expects the company to maintain above average financial risk profile in the absence of major debt funded capex plan.

Weaknesses

Modest scale of operations

The operations of CQPL are modest with operating income of Rs. 128.31 crore for FY2016-17 as against Rs. 130.39 crore in the previous year. The marginal decline is mainly on account of de-growth in the trading income impacting the overall revenue growth of the company.

However, SMERA expects the company to achieve moderate growth in a highly competitive and fragmented industry on the back of its established market position and experienced promoters.

Working capital intensive operations

The operations are working capital intensive with high gross current assets (GCA) at 231 days (Provisional) for FY2017 as against 190 days in the previous year. This is on account of stretched receivables of 199 days (Provisional) for FY2017 as against 141 days in the previous year. However, the company has comfortable liquidity position with average cash credit limit utilisation at 70 percent during the last six months ended April, 2017.

Susceptibility of profit margins to volatility in raw material prices, forex rates

The major raw material for CQPL - Hydroquinone is mainly imported from Taiwan, Turkey and Middle East. The price of the raw material is highly volatile. Hence, adverse movements in raw material prices can impact profitability. The major raw material 'Hydroquinone' along with LDPE and PVC grades are imported from Taiwan, Middle East and Turkey which forms around 34 percent of its total purchases. Further, the company also exports around 70 percent of its total sales to China, Indonesia, Thailand, Germany, Italy among others. Hence, the profitability is susceptible to volatility in forex rates. However, the risk is partially mitigated as the company benefits from natural hedge with around 90 percent of its forex exposure covered under forward contract.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of the company for arriving at the rating.

Applicable Criteria

- Manufacturing Entities–https://www.smera.in/criteria-manufacturing.htm
- Trading Entities-https://www.smera.in/criteria-trading.htm
- Default Recognition -https://www.smera.in/criteria-deafult.htm
- Application of Financial Ratios and Adjustments - https://www.smera.in/criteria-fin-ratios.htm

Outlook: Stable

SMERA believes that CQPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenues and profitability while maintaining a comfortable financial risk profile and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or deterioration in the financial risk profile and liquidity position due to major debt funded capex or higher than expected working capital requirements.

About the Rated Entity –Key Financials

In FY2016-17 (Provisional), CQPL reported profit after tax (PAT) of Rs. 6.86 crore on operating income of Rs.128.31 crore (Provisional) against PAT of Rs. 6.75 crore on operating income of Rs. 130.39 crore in the previous year. The networth stood at Rs. 44.64 crore (Provisional) as on 31 March, 2017 as against Rs. 37.79 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the 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. Crore)	Ratings/ Outlook
Cash Credit	N.A	N.A	N.A.	24.00*^	SMERA BBB-/Stable (Assigned)
Electronic Dealer Finance	N.A	N.A	N.A.	33.00#	SMERA BBB-/Stable (Assigned)
Bank Guarantee	N.A	N.A	N.A.	7.00	SMERA A3 (Assigned)

** Fully interchangeable with post-ship and pre-shipment finance*
^Includes sublimit of Letter of Credit to the extent of Rs. 17.00 crore; Working Capital Demand Loan, Buyers Credit and Bill Discounting of Rs. 11.00 crore and Bank Guarantee of Rs. 2.00 crore.
#Includes One way interchangeability with Bank Guarantee to the extent of Rs. 3.00 crore.

Note on complexity levels of the rated instrument:
https://www.smera.in/criteria-complexity-levels.htm

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ABOUT SMERA

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