

Press Release

Asian Solvochem Private Limited

March 31, 2020

Rating Downgraded



Total Bank Facilities Rated*	Rs. 88.00 Cr.
Short Term Rating	ACUITE A4+ (Downgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the short-term rating to '**ACUITE A4+** (read as **ACUITE A four plus**)' from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 88.00 crore bank facilities of Asian Solvochem Private Limited.

The rating revision is in view of significant unhedged exposure likely to have impact on profit for medium term. Significant forex loss of Rs.14.34 crore in FY2019 has impacted the coverage indicators leading to Interest coverage ratio (ICR) of 0.75 times in FY2019 as against 2.26 times in FY2018.

Asian Solvochem Private Limited was incorporated in 2010 by Mr. Mukesh Doshi and Mr. Nitin Shah. The company is engaged in trading of bulk chemicals and solvent. ASPL is a part of Crescent Group which is engaged in similar line of business. The products of the company find application in various industry segments including pharmaceuticals, chemicals, agrochemicals, paints, food packaging and petrochemicals.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of Asian Solvochem Private Limited (ASPL), Crescent Organics Private Limited (COPL) and Crescent Chemicals (CC) together referred to as the 'Crescent Group' (CG) to arrive at the rating. The consolidation is in view of the similarities in the lines of business, operational and financial synergies and common management. Extent of consolidation: Full

About the Group

CG includes three companies i.e. ASPL, COPL and CC. The group has its presence in the industry since 1964 and is engaged in trading of bulk chemicals and solvent. Apart from trading, COPL is engaged in manufacturing of poly bags with installed capacity of 55 lac bags per month.

Key Rating Drivers

Strengths

• Experienced management

The group has been in operations since 1964 and is engaged in trading bulk chemicals and solvent. The group has a diversified application for the product portfolio as it caters to the need of various industries such as pharmaceuticals, chemicals, agrochemicals, paints, food packaging and petrochemicals, among others. Mr. Mukesh Doshi and Mr. Nitin Shah possess over three decades of experience in chemical industry. The group benefits from its experienced management which is reflected in revenues which have grown at a CAGR of ~35.52 percent from FY2017 to FY2019.

Acuite believes that the group will benefit from its experienced management, which helps the company maintain long-standing relations with its customers and suppliers.

• Efficient working capital operations

The group maintains moderate working capital cycle as the same stood at 27 days for FY2019 as against 59 days in the previous year. This is on account of low inventory maintained by the company and quick receivables. The liquidity position of the company is comfortable as the average working capital limit utilisation stood at around 80 percent for the last six months ended February, 2020.

Acuite believes that the, going ahead also efficient working capital management will be a key rating sensitivity.

Weaknesses

- **Low profitability and susceptibility of margins to volatility in chemical prices and forex rates**

The group's profitability margins are susceptible to fluctuations in the raw material prices of traded chemicals and foreign exchange fluctuations as the raw materials are imported. The group reported operating margin of 2.00 percent for FY2019 as against 2.52 percent in FY2018. The low margins are on account of the trading nature of operations. CG reported Profit after tax (PAT) margin of negative 0.80 percent for FY2019 as against 0.87 percent in the previous year. This is majorly on account of high forex loss of Rs. 14.34 crore incurred by the group as the market was volatile in FY2019.

- **Highly competitive and fragment industry**

The chemical trading industry is a highly fragmented industry and there are large numbers of organised and unorganised players which has led to high competition in the industry. The company faces competition from few large players as well as numerous players in the unorganised segment. Also, on account of its trading nature of business, the entry barriers are low, leading to stiff competition for the company.

Rating Sensitivities

- Stretch in Gross Current Asset (GCA) to 180-200 days.
- Sustained improvement in the scale of operations while maintaining profitability leading to improvement in overall financial risk profile.

Material Covenants

None

Liquidity position: Stretched

The group has stretched liquidity marked by negative cash accruals for FY2019 as against the repayment obligation of Rs.1.21 crore. However, the group has been able to infuse unsecured loans to support the repayment. Working capital borrowings stands 80 percent utilised for the six months ended February, 2020. However, the group maintains unencumbered cash and bank balances of Rs.23.47 crore as on March 31, 2019. The current ratio of the group stood at 1.08 times as on March 31, 2019. Acuite believes that the liquidity profile will be key factor to maintain a stable credit profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	1146.98	921.77
PAT	Rs. Cr.	-9.13	8.06
PAT Margin	(%)	-0.80	0.87
Total Debt/Tangible Net Worth	Times	1.15	1.65
PBDIT/Interest	Times	0.75	2.26

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-Jan-2019	Letter of Credit	Short Term	48.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Assigned)
	Standby Line of Credit	Short Term	25.00	ACUITE A3 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	48.00^	ACUITE A4+ (Downgraded from ACUITE A3)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00*	ACUITE A4+ (Downgraded from ACUITE A3)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A4+ (Withdrawn)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A4+ (Downgraded from ACUITE A3)

^includes sublimit of cash credit, UBD/UDBP under LC and UBD (non LC-clean) to the extent of Rs. 15.00 crore, 3.00 crore and 2.00 crore respectively.

*includes sublimit of Inland LC of Rs. 5.00 crore, cash credit of Rs.5.00 crore, working capital demand loan of Rs. 5.00 crore, PCFC of Rs.1.00 crore, PSFC of Rs.1.00 crore, counter bank guarantee of Rs.15.00 crore and SBLC for imports of Rs.15.00 crore.

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About Acuité Ratings & Research:

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