Press Release

Asian Solvochem Private Limited

March 11, 2021

Rating Reaffirmed; Withdrawn

Total Bank Facilities Rated*	Rs. 48.00 Cr. (Reduced from 88.00)
Short Term Rating	ACUITE A4+ (Reaffirmed; Withdrawn)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs. 48.00 crore (Reduced from 88.00) bank facilities of Asian Solvochem Private Limited (ASPL).

Also, Acuité has withdrawn the short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on previously rated facility of Rs. 40.00 crore facility on account of request receded from the client and NOC received from bankers in accordance with Acuité Policy.

About Company

Asian Solvochem Private Limited based of Mumbai, 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.

About 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 an installed capacity of 55.00 lakhs bags per month. COPL is registered as del-credere agent (DCA) for ONGC petro additions Limited (Opal).

Analytical Approach

Acuité 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' 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.

Key Rating Drivers

Strengths

- **Experienced management and establish track record of operations**

  The group has established presence since 1964 and is engaged in trading bulk chemicals and solvent. The operations are managed by Mr. Gunvantrai Shah, Mr. Ashit Shah, Mr. Dilip Pranlal Sheth and Mr. Aditya Shah. The promoters possess over three decades of experience in the chemical industry. The group benefits from its experienced management, which is reflected through longstanding relationship with its customers and suppliers. Thus, ensuring steady flow of orders and regular supply of raw materials in timely manner.

  However, operating income of the group has declined by 31.92 percent Y-o-Y, to Rs. 778.54 crores in FY2020 from Rs. 1,143.64 crores in FY2019. The company has booked revenue of Rs. 619.84 crores (Gross) till December 31, 2020. The scale of operations of group have witnessed decline due to change in strategy by management. The management has decided to focus on high margin based products, rather than focusing on volumes. There is some impact of pandemic visible on the operations in current year. Acuité believes that the group will benefit from its experienced management, and long-standing relationship with its customers and suppliers.

- **Improving margins and well diversified product portfolio**

The margins and profitability have improved due to change in approach by management from last two years ending 11MFY2021 (Provisional). The group is following margin based approach and focusing on bottom line rather than on top line. The same is visible from improvement in operating margins of group to 2.72 percent in FY2020 as against 1.38 percent in FY2019. The EBITDA improved to Rs. 21.21 crore in FY2020 as against Rs.15.80 crores in FY2019. The net profit has also improved to Rs. 1.32 crores in FY2020 as against Rs.9.13 crores in FY2019. The improvement is seen due to lower imports, reduction of forex losses, and decline in raw material prices.

Moreover, group has products which caters to the need of various industries such as pharmaceuticals, chemicals, agrochemicals, paints, food packaging and petrochemicals, among others. Also, COPL has expanded its product line by entering into distributorship of Abbott Laboratories products and registered as del-credere agent (DCA) for Opal. Thus, resulting in diversified revenue mix.

- **Moderate financial risk profile**

The financial risk profile of group is moderate marked by moderate tangible net worth, gearing and coverage indicators. The net worth of group stood moderate at Rs. 86.05 crore as on March 31, 2020 as against Rs. 85.09 crore as on March 31, 2019. The net worth includes Rs. 10.64 crore of unsecured loans considered as quasi equity which are subordinated to bank facility. The total debt of Rs. 73.58 crore outstanding as on March 31, 2020 comprises of Rs.6.35 crore as term loans, Rs.65.95 crore as working capital borrowing from the bank and Rs. 1.28 crores as unsecured loans from promoters. The gearing ratio improved to 0.86 times as on March 31, 2020 as against 1.22 times as on March 31, 2019 on account of reduction in overall debt levels. The Interest Coverage Ratio stood also improved to 1.56 times in FY2020 as against 0.75 times in FY2019 owing to increase operating profits and reduced interest expense. The DSCR stood at 1.31 times in FY2020 as against 0.67 times in FY2019. The NCA/TD ratio stood at 0.08 times in FY2020 as against (0.04) times in FY2019. The improvement in gearing and coverage ratios is visible due to reduction in debt levels, lower interest outgo and improvement in net cash accruals. Acuité believes that the group will benefit from improvement in profitability, reduction in debt levels which will lead to further improvement in financial risk profile and liquidity position.

Weaknesses

- **Moderate working capital cycle, susceptibility of margins to volatility in raw material prices and forex rates**

The operations of crescent group have remained working capital intensive marked by GCA days of 152 in FY2020 as against 131 days in FY2019. This is on account of moderate receivables period and higher inventory holdings than previous year. The receivable days stood at 84 days for FY2020 as against 85 days for FY2019. The inventory holding days stood high at 58 days in FY2020 as against 36 days in FY2019. However, group is able to get extended credit from its suppliers. The same is reflected in higher payable days of 120 days in FY2020 as against 95 days in FY2019. The group reliance on working capital limits also stood high at 85 to 90 percent utilised. However, overall debt has been reduced at group level in FY2020 and FY2021.

However, group's profitability margins have remained susceptible to fluctuations in the raw material prices of traded chemicals and foreign exchange fluctuations as 70 to 75 percent of raw materials are imported from USA, UAE and South Korea. The same is evident from historical forex losses incurred and uneven margins. However, Acuité has also taken cognizance of necessary measures taken by the group to reduce and cover forex fluctuations.

- **Highly competitive industry and profitability susceptible to fluctuations in input cost**

The chemical trading industry is a highly fragmented industry and presence of large number of organised and unorganised players has created high competition in the industry. The group faces competition from 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 thereby leading to stiff competition for the group. Acuité believes that the ability to pass on volatility in raw material to its customers while maintaining profitability and efficiently managing working capital cycle remain key rating sensitivity factors.

Rating Sensitivities

- Decline in profitability and elongation in working capital cycle
- Sustaining existing business and financial risk profile remains key monitorable
- Higher than expected forex exchange fluctuations

Material Covenants

Not Any

Liquidity Position: Adequate

The liquidity of the group stood adequate marked by net cash accruals which improved to Rs. 5.79 crore as against CPLTD of Rs.1.84 crore in FY2020. The unencumbered cash and bank balances available with the company is Rs.15.38 crores as on March 31, 2020. The current ratio stood low at 1.09 times as on March 31, 2020. The utilization of working capital limits stood high at 85 to 90 percent, however, overall debt has been reduced at group level. The NCA/TD ratio stood at 0.08 times in FY2020 as against (0.04) times in FY2019. The group does not have any short term or medium term capex plans. Acuité believes sustaining existing profitability levels to maintain a healthy liquidity profile will remain key deliverable to maintain a stable credit profile.

Outlook:

Not Applicable

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	778.54	1,143.64
PAT	Rs. Cr.	1.32	(9.13)
PAT Margin	(%)	0.17	(0.80)
Total Debt/Tangible Net Worth	Times	0.86	1.22
PBDIT/Interest	Times	1.56	0.75

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
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.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/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument/Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
31-Mar-2019	Letter of Credit	Short Term	48.00^	ACUITE A4+ (Downgraded from ACUITE A3)
	Letter of Credit	Short Term	15.00*	ACUITE A4+ (Downgraded from ACUITE A3)

	Standby Line of Credit	Short Term	25.00	ACUITE A4+ (Withdrawn)
	Proposed Bank Facility	Short Term	25.00	ACUITE A4+ (Downgraded from ACUITE A3)
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)

^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.*

*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+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00*	ACUITE A4+ (Withdrawn)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A4+ (Withdrawn)

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

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in Rupesh Patel Senior Analyst - Rating Operations Tel: 022-49294044 rupesh.patel@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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