Press Release

Crescent Chemicals

October 20, 2021

Ratings Upgraded

Total Bank Facilities Rated*	Rs.7.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Positive (Upgraded from ACUITE BB+/Positive)
Short Term Rating	ACUITE A3 (Upgraded from ACUITE A4+)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB-**' **(read as ACUITE triple B minus)** from **'ACUITE BB+' (read as ACUITE double B plus)** and the short term rating to **'ACUITE A3' (read as ACUITE A three)** from **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs.7.00 Cr. bank facilities of Crescent Chemicals (CC). The outlook is **'Positive'**.

Rationale for Rating Upgrade

The rating upgrade takes into account the higher-than-expected improvement in the overall operating performance of the Crescent Group (CG) in FY21 and FY22 H1. The rating upgrade also derives strength from CG's healthy financial risk profile over the same period.
Further, the ratings continue to derive strength from the established track record of operations of CG with experienced management in the chemical industry.
The ratings, however, continue to remain constrained by working capital intensive nature of operations and susceptibility of profitability to volatile chemical prices & foreign exchange fluctuation, and presence in highly competitive & fragmented chemical trading industry.

About the Firm

CC is partnership firm based out of Mumbai, established in 1964 by the Shah family, and is engaged in trading of bulk chemicals and solvents. The firm is a part of the larger CG which is also engaged in a similar line of business. The firm deals in products that find varied applications in diversified sectors such as pharmaceuticals, chemicals, agrochemicals, paints, food packaging and petrochemicals.

About the Group

CG includes three companies viz. Crescent Organics Private Limited (COPL), Asian Solvochem Private Limited (ASPL) and CC. It has its presence in the industry since 1964 and was established by the Shah family. It is engaged in trading of bulk chemicals and solvents. Apart from trading, the entities in CG are also engaged in manufacturing of polypropylene (PP) bags and fabrics with installed capacity of 55 lakh bags per month.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of COPL, ASPL and CC (together referred to as the 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.

Key Rating Drivers

Strengths

- **Established track record of operations with experienced management**
  CG possesses a long track record of operations of over six decades in the chemical trading business. This has helped the entities in the group to establish long-term relationships with its customers, suppliers, and other stakeholders. This is reflected through the long-term relationships with its customers & suppliers, thereby ensuring a steady flow of orders and a regular supply of raw materials in a timely manner. The day-to-day operations of the group are looked after by Mr. Gunvantrai Shah,

Mr. Ashit Shah, Mr. Dilip Sheth, and Mr. Aditya Shah, who possess decades of experience in the said business.
The experience of the management and established relations with customers and suppliers has helped the Group achieve a robust scale of operations. The consolidated revenues stood Rs.808.99 Cr. in FY21 against Rs.785.77 Cr. in FY20. For FY22, till September 2021 the same stood at ~Rs.500 Cr.
Acuité believes that the group shall continue to benefit from the established track record of operations and experienced management.

- **Diversified product portfolio with varied application in diversified sectors coupled with diversified geographical reach**
  The product portfolio of CG is well-diversified with more than 60 chemical products traded, including methanol, phenol, methyl ethyl, normal butanol, normal propanol, cyclohexanone, heavy aromatics, toluene, techsol-100, and hexane, as the major ones. Moreover, the products dealt with by the group find varied application in diversified sectors such as pharmaceuticals, chemicals, agrochemicals, paints, food packaging, petrochemicals, etc. However, the revenues are concentrated from methanol with a contribution of 73.91 percent in FY21 and 27.27 percent in FY20.

- **Improvement in the operating risk profile of the Group**
  Acuité has observed an improvement in CG's operational risk profile reflected by the improvement in operating income and profitability. The operating income of CG increased from Rs.785.77 Cr. in FY20 to Rs.808.99 Cr. in FY21 owing to increased demand and subsequent increase in the sales volumes. Moreover, in case of COPL, the revenues from the healthcare division and the revenues from the manufacturing of PP bags and fabrics also increased in FY21 over FY20. The operating margin of CG improved from 3.46 percent in FY20 to 4.26 percent in FY21 owing to decrease in the aggregate prices of various chemicals under the chemical trading basket. Further, in FY20 till September 2021 CG has recorded revenue of ~Rs.500 Cr. and PBT of Rs.29.75 Cr. This primarily on account of increase in methanol prices along with various other chemicals. The improvement in the operating income is likely to continue over the medium-term on account of uptrends in the chemical segment. Apart from the improvement in the EBITDA margin, the group posted a foreign exchange gain worth Rs.2.82 Cr. in FY21 as against a loss of Rs.10.51 Cr. in FY20, owing to relaxation on the repayment of ECBs coupled with favorable USD rates. Given all of the above, the PAT increased significantly from Rs.1.32 Cr. in FY20 to Rs.22.12 Cr. in FY21. Further, in H1FY22, the group has been estimated to have touched net sales worth Rs.500 Cr., whereas the PBT stood at Rs.29.45 Cr. in the same period, up from Rs.28.31 Cr. for the entire year of FY21. This was primarily owing to a significant increase in the chemical prices in H1FY22 led by an ongoing uptrend in the organic & inorganic chemicals industry, thereby leading to healthy gains on the inventory held in that period.
  Acuité believes that the group's operating risk profile to improve on account on back of improvement in overall demand.

- **Healthy & improving financial risk profile**
  The financial risk profile of CG stood healthy marked by healthy tangible net-worth, comfortable capital structure and debt coverage indicators. The tangible net-worth stood healthy at Rs.107.37 Cr. as on March 31, 2021 as against Rs.86.05 Cr. as on March 31, 2020, whereas the increase is owing to accretion of profit in reserves. The capital structure of CG stood comfortable with an overall gearing of 0.94 times as on March 31, 2021 as against 0.86 times as on March 31, 2020, the marginal deterioration in FY21 over FY20 is owing to increase in the working capital bank borrowings on the back of increased working capital requirements in that year. On the other hand, given the significant improvement in the profitability, the debt coverage indicators also improved significantly with the improvement in the interest coverage and DSCR from 1.47 times and 1.28 times respectively in FY20 to 6.25 times and 3.88 times respectively in FY21. Going forward, the overall gearing is expected to remain in the range of 0.50-0.76 times, whereas the interest coverage and DSCR are expected to remain in the range of 6.70-7.75 times and 4.15-5.16 times respectively over FY22-FY24.
  Acuité believes that CG's financial risk profile shall continue to remain stable in the absence of any major debt-funded capex and improvement in operating performance.

Weaknesses

- **Working capital intensive nature of operations**
  The operations of CG are working capital intensive in nature reflected by the GCA of 166 days in FY21 as against 150 days in FY20. This is majorly driven by the debtors of 100 days in FY21 as against 83 days in FY20,

given the credit period of over 100-120 days required to be extended to them, which is the prevalent industry practice. The inventory holding period stood at 49 days in FY21 as against 58 days in FY20. On the other hand, the creditors' period stood elongated at 90-120 days, given the LC period ranging from 90-120 days in case of foreign LCs. Given this, the group's dependence on working capital facilities is higher with LC utilization of 90-92 percent in the last 6 months ended August 2021.
Acuité believes that the operations shall continue to remain working capital intensive in nature and the management's ability to maintain the working capital cycle will continue to remain a key rating sensitivity.

- **Susceptibility of profitability to volatility in chemical prices and foreign exchange fluctuations**
The profit margins and the profitability position of CG are highly exposed to volatile chemical prices, which have witnessed sharp fluctuations in the past. The average price of all the chemicals under the chemical trading sales basket decreased from Rs.38.03 per kg in FY20 to Rs.26.71 per kg in FY21 in case of COPL, and from Rs.55.21 per kg in FY20 to Rs.41.78 per kg in FY21 in case of ASPL. Further, methanol is currently trading at ~Rs.46 per kg in October 2021, up from Rs.20-23 per kg over FY20-FY21. CG is also highly exposed to foreign exchange fluctuation risk, since the imports comprise more than 80% of the total purchases in case of COPL and more than 60% in case of ASPL. Moreover, the group reported a foreign exchange loss of Rs.10.51 Cr. in FY20 owing to sharp fluctuations in the USD rates over January 2020 to March 2020. It also reported a foreign exchange loss of Rs.15.26 Cr. in FY19. However, given the RBI's relaxations on the repayment of the ECBs in the form of extension from 180 days to 360 days coupled with rationalization in the USD rates, the group posted a foreign exchange gain worth Rs.2.82 Cr. in FY21.
CG's profitability remains susceptible to volatility in chemical prices and foreign exchange fluctuations and its ability to maintain its profitability is a key rating sensitivity.

Liquidity Position: Adequate
The liquidity position of CG stood adequate marked by healthy net cash accruals, healthy free cash & bank balance, and moderate current ratio. CG generated net cash accruals worth Rs.26.57 Cr. in FY21 as against Rs.5.80 crore in FY20, against the repayment obligations in the range of Rs.1.50-1.73 Cr. in the same period. Going forward, CG's net cash accruals are expected to be in the range of Rs.30-35 Cr. in FY22-24, against the repayment obligations in the range of Rs.1.20-2.10 Cr. The operations of the group are working capital intensive in nature with GCA days and WC cycle of 166 days and 41 days respectively in FY21 as against 150 days and 22 days respectively in FY20. Given this, the group's dependence on working capital facilities is higher with LC utilization of 90-92 percent in the last 6 months ended August 2021. However, the free cash & bank balance stood healthy at Rs.39.30 Cr. as on March 31, 2021 as against Rs.13.76 Cr. as on March 31, 2020, whereas the same stood at Rs.20.31 Cr. as on October 12, 2021. On the other hand, the current ratio stood moderate at 1.20 times as on March 31, 2021 as against 1.11 times as on March 31, 2020. The liquidity position of CG stood adequate marked by working capital intensive nature of operations, healthy free cash & bank balance, and moderate current ratio.

Rating Sensitivities
- Slower than expected scale up of operations or decline in the same
- Significant deterioration in the profitability
- Significant elongation in the working capital cycle

Material Covenants
None

Outlook: Positive
The outlook continues to remain 'Positive' on account of the increasing chemical prices led by an ongoing uptrend in the organic & inorganic chemicals industry, which is expected to further improve CG's operating performance over the medium-term. The rating may be upgraded in case of significant improvement in the operating performance over the medium-term. Conversely, the outlook may be revised to 'Stable' in case of slower-than-expected improvement in the operating performance, the overall financial risk profile or the liquidity position.

About the Rated Group - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	808.99	785.77
Profit after Tax (PAT)	Rs. Cr.	22.12	1.32
PAT Margin	(%)	2.73	0.17
Total Debt/Tangible Net Worth	Times	0.94	0.86
PBDIT/Interest	Times	6.25	1.47

Status of Non-cooperation with Previous CRA (if applicable)

Not Applicable

Any Other Information

Not Applicable

Applicable Criteria

- Trading Entities – https://www.acuite.in/view-rating-criteria-61.htm
- Default Recognition – https://www.acuite.in/view-rating-criteria-52.htm
- Application of 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
11-Mar-2021	Overdraft	Long Term	5.60	ACUITE BB+/Positive (Assigned)
	Standby Line of Credit	Short Term	1.40	ACUITE A4+ (Reaffirmed)
31-Mar-2020	Standby Line of Credit	Short Term	17.00	ACUITE A4+ (Downgraded from ACUITE A3)
08-Jan-2019	Letter of Credit	Short Term	17.00	ACUITE A3 (Assigned)

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
ICICI Bank	Overdraft	Not Applicable	Not Applicable	Not Applicable	5.60	ACUITE BBB-/ Positive (Upgraded from ACUITE BB+/Positive)
Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.40	ACUITE A3 (Upgraded from ACUITE A4+)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Sonali Ved Senior Analyst - Rating Operations Tel: 022-49294000 sonali.ved@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,850 credit 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.