

Press Release
Crescent Organics Private Limited
 March 31, 2020
Rating Downgraded



Total Bank Facilities Rated*	Rs. 260.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable
Short Term Rating	ACUITE A4+ (Downgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BB+**' (**read as ACUITE double B plus**) from '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short-term rating to '**ACUITE A4+**' (**read as ACUITE A four plus**) from '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 260.00 crore bank facilities of Crescent Organics Private Limited. The outlook is '**Stable**'.

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.

Crescent Organics Private Limited was incorporated in 1991. The company is engaged in trading of bulk chemicals and solvent. It is a part of Crescent Group which is engaged in similar line of business. The company is also engaged in manufacturing of poly bags. The installed capacity is 55, 00,000 bags per month.

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' (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.

Acuité 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.

Acuité 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. Acuité believes that the liquidity profile will be key factor to maintain a stable credit profile.

Outlook: Stable

Acuité believes that the group will maintain a 'Stable' outlook over the medium term on account of experienced management and efficient working capital operations. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirement.

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
15-Jan-2019	Cash Credit	Long Term	5.00	ACUITE BBB- /Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB- /Stable (Assigned)
	Working Capital Demand Loan	Long Term	5.00	ACUITE BBB- /Stable (Assigned)
	Term Loan	Long Term	15.00	ACUITE BBB- /Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	185.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	20.00	ACUITE A3 (Assigned)
	Bill Discounting	Short Term	5.00	ACUITE A3 (Assigned)
	Bill Discounting	Short Term	5.00	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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+ /Stable (Downgraded from ACUITE BBB- /Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00*	ACUITE BB+ /Stable (Downgraded from ACUITE BBB- /Stable)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+ /Stable (Downgraded from ACUITE BBB- /Stable)
Term Loan	27-Sept-2018	Not Applicable	31-Mar-2021	1.00	ACUITE BB+ /Stable (Downgraded from ACUITE BBB- /Stable)
Standby Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4+ (Withdrawn)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Downgraded from ACUITE A3)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Downgraded from ACUITE A3)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	185.00^	ACUITE A4+ (Downgraded from ACUITE A3)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00**	ACUITE A4+ (Downgraded from ACUITE A3)

Proposed Short Term Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4+ (Downgraded from ACUITE A3)
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BB+ /Stable (Downgraded from ACUITE BBB- /Stable)

* includes sublimit of letter of credit to the extent of Rs.10.00 crore.

^includes sublimit of letter of guarantee of Rs. 25.00 crore, cash credit of Rs. 20.00 crore, UBP of Rs.5.00 crore, UBD of Rs.5.00 crore, EPC/PCFC of Rs.3.50 crore and FDBP/FUDBP/AFDBC of Rs.5.50 crore.

**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.20.00 crore and SBLC of Rs.20.00 crore.

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About Acuité Ratings & Research:

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