

Press Release

Crescent Organics Private Limited

March 11, 2021

Rating Reaffirmed and Outlook Revised; Withdrawn



Total Bank Facilities Rated*	Rs. 239.36 Cr. (Reduced from 260.00)
Long Term Rating	ACUITE BB+/Outlook: Positive (Reaffirmed and Assigned; Withdrawn)
Short Term Rating	ACUITE A4+ (Reaffirmed and Assigned; Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned the long term rating of '**ACUITE BB+ (ACUITE double B plus)**' and the short term rating of '**ACUITE A4+ (read as ACUITE A four plus)**' on the Rs. 239.36 crores (Reduced from 260.00) bank facilities of Crescent Organics Private Limited (COPL). The outlook is revised to '**Positive**' from '**Stable**'.

Also, Acuité has also withdrawn the long term rating of '**ACUITE BB+ (ACUITE double B plus)**' and the short term rating of '**ACUITE A4+ (read as ACUITE A four plus)**' on previously rated bank facilities of Rs. 20.64 crores on account of request received from the client and NOC received from bankers in accordance with Acuité Policy.

Revision of outlook

The revision in outlook factors in expected improvement in financial and credit risk profile of group on account of reduction in debt levels and forex losses, commensurate with better net cash accruals on back of continuous product additions and sustenance of coverage indicators over the medium term. Acuité has taken cognizance of necessary measures taken by the group to reduce and cover forex fluctuations. The revision also factors in improvement in margins and better than expected operating performance. Further, rating may be upgraded once the group registers expected improvement in operating performance, margins and financial performance from reduction in overall debt levels and forex losses.

About Company

Mumbai based 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. COPL is also registered as del-credere agent (DCA) for Opal and distributor for products of Abbott Laboratories products. The operations are managed by Mr. Gunvantrai Shah, Mr. Ashit Shah, Mr. Dilip Pranlal Sheth and Mr. Aditya Shah.

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 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 establish 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 Pranal 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 witness 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. Acuite 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. Acuite 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 were 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, Acuite 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. Acuite 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. Acuite believes sustaining existing profitability levels to maintain a healthy liquidity profile will remain key deliverable to maintain a stable credit profile.

Outlook: Positive

The outlook on the group's rated facilities is 'Positive' on account of expected improvement in financial and credit profile, commensurate with better net cash accruals on back of continuous product additions and sustenance of coverage indicators over the medium term. The impact of COVID-19 on operating performance of group is likely to be minimal on account of favorable industry prospects. The rating may be upgraded once the group registers expected growth in operating performance, margins and financial performance from reduction in overall debt levels and forex losses. The outlook may be revised to 'Stable' if the company is unable to sustain its growth in revenues, margins and expected performance from reduction in overall debt levels and forex losses.

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-2020	Cash Credit	Long Term	5.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
	Cash Credit	Long Term	10.00*	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
	Working Capital Demand Loan	Long Term	5.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
	Term Loan	Long Term	1.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
	Standby Letter of Credit	Short Term	10.00	ACUITE A4+ (Withdrawn)
	Bill Discounting	Short Term	5.00	ACUITE A4+ (Downgraded from ACUITE A3)
	Bill Discounting	Short Term	5.00	ACUITE A4+ (Downgraded from ACUITE A3)
	Letter of Credit	Short Term	185.00^	ACUITE A4+ (Downgraded from ACUITE A3)
	Letter of Credit	Short Term	20.00**	ACUITE A4+ (Downgraded from ACUITE A3)
	Proposed Short Term Facility	Short Term	10.00	ACUITE A4+ (Downgraded from ACUITE A3)
	Proposed Long Term Facility	Long Term	14.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
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)

^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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+/Positive (Reaffirmed and Outlook Revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00*	ACUITE BB+/Positive (Reaffirmed and Outlook Revised)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	3.58	ACUITE BB+/Positive (Reaffirmed and Outlook Revised)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.78	ACUITE BB+/Positive (Reaffirmed and Outlook Revised)
LC Discounting	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Reaffirmed)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Reaffirmed)
Inventory funding (E-dfs)	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+/Positive (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	185.00^	ACUITE A4+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00**	ACUITE A4+ (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4+ (Assigned)
Proposed Short term Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4+ (Withdrawn)
Proposed Long term Bank Facility	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BB+ (Withdrawn)

^includes Letter of Guarantee of Rs. 25.00 cr., sublimit of cash credit of Rs.20.00 cr., and Foreign BG of Rs.150.00crores

**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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