

Press Release

Crescent Organics Private Limited

November 15, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	210.00	-	ACUITE A3 Reaffirmed
Bank Loan Ratings	29.36	ACUITE BBB- Positive Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	239.36	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating to '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.239.36 Cr. bank facilities of Crescent Organics Private Limited (COPL). The outlook is '**Positive**'.

Rationale for Rating Reaffirmation

The rating takes into account the improvement in the revenues of the Crescent Group (CG) in FY2022(Prov.). The rating 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 Company

Incorporated in 1991 by the Shah family, COPL based out of Mumbai is engaged in trading of bulk chemicals and solvents. The company is a part of the CG which is engaged in the similar line of business. The company also manufactures polypropylene (PP) bags & fabrics at its manufacturing facility located at Savli in Baroda, Gujarat, equipped with an installed capacity of 55 lakh bags per month. The products dealt with by the company find varied application in diversified sectors viz. pharmaceuticals, chemicals, agrochemicals, paints, food packaging, petrochemicals, etc. Moreover, COPL is registered as delcredere agent (DCA) for ONGC Petro Additions Limited (OPAL).

About the Group

CG includes three companies viz. COPL, Asian Solvochem Private Limited (ASPL) and Crescent Chemicals (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 PP bags and fabrics with installed capacity of 55 lakh bags per month.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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

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.1247.51 Cr. in FY2022(Prov.) against Rs.808.99 Cr. in FY2021.

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 variegate sectors coupled with diverse 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 around 60 percent in FY2022(Prov.) and around 73 percent in FY2021.

Healthy financial risk profile

The financial risk profile of CG stood healthy marked by healthy tangible net-worth base, comfortable capital structure & debt coverage indicators. The tangible net-worth base stood healthy at Rs.144.09 crore as on March 31, 2022 (Prov.) as against Rs.107.37 crore as on March 31, 2021, owing to accretion in reserves. Moreover, the capital structure stood improved with an overall gearing of 0.87 times as on March 31, 2022 as against 0.94 times as on March 31, 2021, given the higher accretions to reserves. The total debt as on March 31, 2022 (Prov.) comprised the term loans from banks & NBFCs worth Rs. 6.54 crore. The unsecured loans from promoters & related parties stood at Rs.5.13 crore and working capital bank borrowings stood at Rs.113.71 crore (comprising CC & buyer's credit). Whereas the total debt as on March 31, 2021 comprised the term loans from banks & NBFCs worth Rs.5.65 crore, unsecured loans from promoters & related parties worth Rs.5.59 crore, and working capital bank borrowings worth Rs.89.71 crore (comprising CC & buyer's credit). Moreover, the debt coverage indicators stood improved with healthy interest coverage and DSCR of 7.03 times and 4.50 times respectively in FY2022 (Prov.) as against 6.25 times and 3.88 time in FY2021.

Weaknesses

Working capital intensive nature of operations

The operations of CG are working capital intensive in nature reflected by the although improved but high GCA of 138 days in FY2022 (Prov.) against 166 days in FY2021. This is majorly

driven by the debtors of 93 days in FY2022 as against 100 days in FY2021, given the credit period of over 90-100 days required to be extended to them, which is the prevalent industry practice. The inventory holding period stood at 32 days in FY2022 (Prov.) as against 49 days in FY2021. On the other hand, the creditors' period stood at 82-108 days, given the LC period ranging from 90-120 days in case of foreign LCs.

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 profit margins to volatile 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 and even during current year. The average price of all the chemicals under the chemical trading sales basket decreased from Rs.38.03 per kg in FY2020 to Rs.26.71 per kg in FY2021 and again witnessed a sharp increase to Rs. 44.42 per kg in FY2022 (Prov.) in case of COPL, and from Rs.55.21 per kg in FY2020 to Rs.41.78 per kg in FY2021 and at Rs. 141.33 per kg during FY2022(Prov.) in case of ASPL. CG is also highly exposed to foreign exchange fluctuation risk, since the imports comprise more than 70% 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 FY2020 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 FY2019. 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 FY2021 and Rs. 2.92 Cr. in FY2022(Prov.). 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.

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

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. 37.51 Cr. in FY2022(Prov.) as against Rs.26.57 Cr. in FY2021 against the repayment obligations in the range of Rs.1.89-2.03 Cr. in the same period. Going forward, CG's net cash accruals are expected to be in the range of Rs.40-43 Cr. in FY23-24, against the repayment obligations at around Rs.1.21Cr. The operations of the group are working capital intensive in nature with GCA days and WC cycle of 138 days and 43 days respectively in FY2022(Prov.) as against 166 days and 41 days respectively in FY2021. Further, the free cash & bank balance stood healthy at Rs.41.91 Cr. as on March 31, 2022 as against Rs.39.30 Cr. as on March 31, 2021. On the other hand, the current ratio stood moderate at 1.26 times as on March 31, 2022 (Prov.) as against 1.20 times as on March 31, 2021. The liquidity position of CG stood adequate marked by working capital intensive nature of operations, healthy free cash & bank balance, and moderate current ratio.

Outlook:

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	1247.51	808.99
PAT	Rs. Cr.	33.08	22.12
PAT Margin	(%)	2.65	2.73
Total Debt/Tangible Net Worth	Times	0.87	0.94
PBDIT/Interest	Times	7.03	6.25

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

None

Any Other Information

None

Applicable Criteria

- 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Nov 2021	Bills Discounting	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BBB- Positive (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB- Positive (Reaffirmed)
	Inventory Funding	Long Term	10.00	ACUITE BBB- Positive (Reaffirmed)
	Letter of Credit	Short Term	185.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	0.49	ACUITE BBB- Positive (Reaffirmed)
	Working Capital Term Loan	Long Term	2.08	ACUITE BBB- Positive (Reaffirmed)
	Bills Discounting	Short Term	5.00	ACUITE A3 (Reaffirmed)

	Proposed Bank Facility	Long Term	1.79	ACUITE BBB- Positive (Reaffirmed)
	Bank Guarantee	Short Term	15.00	ACUITE A3 (Reaffirmed)
20 Oct 2021	Bank Guarantee	Short Term	15.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Bills Discounting	Short Term	5.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	10.00	ACUITE BBB- Positive (Upgraded from ACUITE BB+ Positive)
	Letter of Credit	Short Term	185.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Proposed Bank Facility	Long Term	1.79	ACUITE BBB- Positive (Upgraded from ACUITE BB+ Positive)
	Cash Credit	Long Term	5.00	ACUITE BBB- Positive (Upgraded from ACUITE BB+ Positive)
	Inventory Funding	Long Term	10.00	ACUITE BBB- Positive (Upgraded from ACUITE BB+ Positive)
	Working Capital Term Loan	Long Term	2.08	ACUITE BBB- Positive (Upgraded from ACUITE BB+ Positive)
	Term Loan	Long Term	0.49	ACUITE BBB- Positive (Upgraded from ACUITE BB+ Positive)
11 Mar 2021	Cash Credit	Long Term	10.00	ACUITE BB+ Positive (Reaffirmed)
	Bills Discounting	Short Term	5.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A4+ (Withdrawn)
	Letter of Credit	Short Term	185.00	ACUITE A4+ (Reaffirmed)
	Inventory Funding	Long Term	10.00	ACUITE BB+ Positive (Assigned)
		Long		
	Term Loan	Term	0.78	ACUITE BB+ Positive (Reaffirmed)
	Bank Guarantee	Short Term	15.00	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Short Term	10.00	ACUITE A4+ (Withdrawn)
	Cash Credit	Long Term	5.00	ACUITE BB+ Positive (Reaffirmed)
	Working Capital Term Loan	Long Term	3.58	ACUITE BB+ Positive (Reaffirmed)
	Proposed Bank Facility	Long Term	14.00	ACUITE BB+ (Withdrawn)
	Proposed Bank Facility	Long Term	14.00	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable)
	Letter of Credit	Long Term	20.00	ACUITE A4+ (Downgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	5.00	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable)
	Letter of Credit	Short Term	185.00	ACUITE A4+ (Downgraded from ACUITE A3)

31 Mar 2020	Letter of Credit	Short Term	10.00	ACUITE A4+ (Withdrawn)
	Bills Discounting	Short Term	5.00	ACUITE A4+ (Downgraded from ACUITE A3)
	Cash Credit	Long Term	10.00	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable)
	Term Loan	Long Term	1.00	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable)
	Working Capital Demand Loan	Long Term	5.00	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable)
	Proposed Bank Facility	Short Term	10.00	ACUITE A4+ (Downgraded from ACUITE A3)
	Bills Discounting	Short Term	5.00	ACUITE A4+ (Downgraded from ACUITE A3)
15 Jan 2019	Bills Discounting	Short Term	5.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	185.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	15.00	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	20.00	ACUITE A3 (Assigned)
	Bills Discounting	Short Term	5.00	ACUITE A3 (Assigned)
	Working Capital Term Loan	Long Term	5.00	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A3 Reaffirmed
Union Bank of India	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A3 Reaffirmed
Union Bank of India	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A3 Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB- Positive Reaffirmed
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB- Positive Reaffirmed
State Bank of India	Not Applicable	Inventory Funding	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB- Positive Reaffirmed
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	185.00	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.79	ACUITE BBB- Positive Reaffirmed
Indusind Bank Ltd	Not Applicable	Term Loan	May 26 2019 12:00AM	9.05	Apr 26 2024 12:00AM	Simple	0.49	ACUITE BBB- Positive Reaffirmed
Indusind Bank Ltd	Not Applicable	Working Capital Term Loan	Jan 18 2019 12:00AM	9.05	Oct 18 2023 12:00AM	Simple	2.08	ACUITE BBB- Positive Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.

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