March 15, 2024

Crystal Quinone Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund-based – Cash credit/Electronic dealer finance	75.00	75.00	[ICRA]BBB (Stable); reaffirmed
Short term - Non-fund based limits – Bank guarantee	10.00	10.00	[ICRA]A3+; reaffirmed
Total	**85.00**	**85.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation takes into account Crystal Quinone Private Limited's (CQPL/the company) comfortable financial risk profile, characterised by healthy return indicators, satisfactory debt coverage metrics and an adequate liquidity position. The ratings also derive comfort from the extensive experience of the promoters in the chemical manufacturing and polymer trading business (del credere agent for Indian Oil Corporation Limited). ICRA also factors in the company's wide range of product portfolio in the chemical segment as well as its diversified clientele with a track record of repeat business.

The ratings, however, are constrained by the company's moderate scale of operations, the exposure of profitability to raw material price volatility, the fluctuations in foreign exchange rates and intense competitive pressure. The ratings are also constrained by the exposure of its profitability to interest rate movements. Moreover, the credit exposure undertaken by CQPL for del credere agent (DCA) sales, compared to its net worth, exposes it to the credit risk of its customers. Nevertheless, after the revision in the credit policy of the DCA business in FY2020, most of the DCA sales are carried out on cash or advances basis, which restricts the counterparty credit risk to a larger extent.

CQPL is setting up a greenfield project at Bharuch under its 100% subsidiary, Crystal Colourchem Private Limited (CCPL). It will be a multi-product plant producing various speciality amines. The total cost of the project is likely to be around Rs. 86 crore, to be funded by Rs. 60 crore of borrowings from the bank and the remaining Rs. 26 crore is to be provided by CQPL to CCPL as an inter-corporate deposit (ICD). The capex is underway and the project is expected to be commissioned by June/July 2024. The large capex, which will be partly debt-funded, will put some pressure on the consolidated capital structure and coverage indicators, although they are expected to remain comfortable. The company remains exposed to residual project execution risks and the implementation of the project without major time and cost overruns will be crucial and monitored.

The Stable outlook on the rating reflects ICRA's opinion that the credit profile of CQPL will be supported by its heathy financial performance, backed by the extensive experience of its promoters in the chemical industry and its established market position as a DCA for IOCL in the western region.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in chemical manufacturing and established DCA for IOCL – CQPL, established in 1983, is promoted by Mr. Anang Shah who is a technocrat and has three decades of experience in the chemical industry. Mr. Shah's experience has enabled the company to diversify its product portfolio and establish strong relationships with customers as well as suppliers. CQPL has been a DCA of IOCL to distribute the latter's polymer products in western India since 2010. It has been among the leading DCAs of IOCL for the last three fiscals. It sells polymer products, such as polyethylene (PE) and polypropylene (PP), manufactured by IOCL. The other promoters, Mr. Aniket Shah and Mr. Hitendra Chopra, have also been instrumental for the growth of IOCL's DCA business and the expansion of its chemical business.

Wide range of product portfolio and diversified revenue stream – CQPL's product portfolio includes a range of vinyl sulphones, dyes and pigment intermediates and antioxidants, which find application in the production of lubricants, ink, resins, edible oil, fibre glass, cosmetics and dyes. CQPL also trades in polymer granules and acts as a DCA agent for IOCL. The company derived ~38% of its revenue from the export market in FY2023. CQPL's diversified product range and revenue stream reduces dependence on the performance of a specific segment.

Comfortable financial risk profile and diversified customer base – The company's capitalisation and coverage ratio have remained healthy with TD/OPBDITA of 1.7x in FY2023, which moderated slightly from 1.3x owing to the subdued operating profitability, although the debt levels have also come down in FY2023. The gearing of the company improved to 0.4x as on March 31, 2023 against 0.6x as on March 31, 2022, driven by lower debt levels and healthy accretion to reserves during the year. The interest coverage ratio moderated to 3.3x in FY2023 from 8.3x in FY2022 on the back of lower operating profits and an increased interest costs.

Going forward, the credit metrics are expected to moderate as the company, on a consolidated basis i.e. including Crystal Colourchem Private Limited (CCPL), is availing around Rs. 60-crore term debt to fund the upcoming project with a total capex of Rs. 86 crore. Nevertheless, the credit metrics are expected to remain in line with the rating category once the project is commissioned and starts generating cash for the company. The availability of ~Rs. 48.5 crore of cash and liquid investments (including investments in mutual funds etc) also aids the liquidity profile of the company.

Credit challenges

Vulnerability of profitability to fluctuations in raw material prices and foreign currency exchange rates – The profit margins remain exposed to fluctuations in key raw material prices (being crude-based derivatives). Nevertheless, majority of the company's raw material procurement is order-backed, which results in low inventory holding requirement, thereby mitigating the price fluctuation risks to some extent. The profitability also remains susceptible to the adverse movements in foreign exchange rates, given its export-driven revenue profile. However, the company's profitability is shielded from currency fluctuations, not only by the natural hedge from imports but also by a strict hedging policy.

Exposure to counterparty credit risk and decline in interest income for DCA business – The company bears credit risk while supplying IOCL's products to customers and any default on payments by the customers could adversely affect the profitability. CQPL charges interest from customers for payments received after the given credit period. The interest cost on the working capital borrowings availed by CQPL is lower than the interest charged from customers, allowing it to earn an income from interest arbitrage. The company normally offers credit period only to select customers and makes sales against spot/advance payments. Consequently, the counterparty credit risk related to the DCA business moderated significantly.

Exposure to intense competition – The chemical and polymer industry is highly competitive with many organised and unorganised players. However, established relationships with its customers have helped the company to receive repeat orders.

Project execution risk – CQPL is setting up a greenfield project at Bharuch under its 100% subsidiary- CCPL - which will be a multi-product unit producing various speciality amines. The total cost of the project is likely to be around Rs. 86 crore of which 60 crore is being funded through term debt (guaranteed by CQPL) and the remaining Rs. 26 crore through advances/ICD from CQPL. The project, once completed, will support the growth in the scale of operations and provide diversification benefits. However, the large capex, which is partly debt-funded, will put some pressure on the consolidated capital structure and coverage indicators in the near to medium term, although they are expected to remain comfortable. The company expects to commission the project by June/July 2024. The company remains exposed to residual project implementation risks and the timely commissioning of the project within the envisaged timelines remains a key monitorable.

Liquidity position: Adequate

The liquidity position of the company is expected to remain adequate, given the nil debt repayments over the course of the next one year, while the cash accruals are expected to be at Rs. 13-16 crore per annum on an ongoing basis. Moreover, healthy cash and cash equivalents (including investments in mutual fund) of Rs. 48.5 crore as on March 31, 2023, debt tie-ups for the ongoing capex in the subsidiary and the availability of unutilised working capital limits (average utilisation of 52% over the last 12 months ended December 2023) provide comfort.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to improve its scale of operations along with a sustained increase in profit margins, while maintaining healthy leverage and coverage metrics and an adequate liquidity position.

Negative factors – The ratings may be under pressure if there is a substantial decline in the scale of operations or dent in profitability, or if there is a large capex or stretch in the working capital cycle that would adversely impact the liquidity profile. Any material time/cost overruns in the project being set up under the subsidiary may lead to a downgrade. Inability to maintain an interest coverage ratio of 3.0x (consolidated) on a sustained basis may trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Methodology for Entities in the Chemical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has considered the consolidated financials of the company along with its subsidiary – CCPL - which is setting up a greenfield project. CQPL will be extending support in the form of equity/ICD and corporate guarantee for debt availed by subsidiary

About the company

Crystal Quinone Pvt. Ltd., established in 1983, is promoted by Mr. Anang Shah and Mr. Aniket Shah. It is involved in the manufacturing and trading of chemicals such as antioxidants (food preservatives and works as oxygen scavenger: TBHQ – tert-butylhydroquinone and BHA - butylated hydroxy anisole), dyes and pigment intermediaries and a range of vinyl sulphones. Since 2010, the company also acts as a del credere agent (DCA) for Indian Oil Corporation Limited for PP (polypropylene) and PE (polyethylene) polymers in the domestic market.

The company has three manufacturing units at GIDC, Vatva (Ahmedabad). Of these three units, two are engaged in manufacturing dyes and pigment intermediaries, while the third unit manufactures oxygen scavengers/antioxidants such as TBHQ and BHA. The company has an annual installed production capacity of 600-MT organic and 1,500-MT inorganic chemicals.

The company's manufacturing facility complies with the standards of ISOQAR (9001-2008), KOSHER Certificate, Halal Assurance System - Malasiya. The company is also acknowledged as a Star Export House by the Government of India.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	417.6	410.6
PAT	27.2	13.8
OPBDIT/OI	10.4%	6.1%
PAT/OI	6.5%	3.4%
Total outside liabilities/Tangible net worth (times)	1.2	1.0
Total debt/OPBDIT (times)	1.3	1.7
Interest coverage (times)	8.3	3.3

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA

CRA	Status of Non-Corporation	Date of Press Release
CRISIL	CRISIL B+(Stable)/ CRISIL A4; ISSUER NOT COOPERATING	January 17, 2024
ACUITE	ACUITE BB-/ ACUITE A4+ ISSUER NOT COOPERATING	August 17, 2023

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					March 15, 2024	Dec 30, 2022	Sep 30, 2021	Jul 29, 2020
1	**Cash credit**	Long term	50.00	-	**[ICRA]BBB (Stable)**	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	**Electronic dealer finance**	Long term	25.00	-	**[ICRA]BBB (Stable)**	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	**Bank Guarantee**	short term	10.00	-	**[ICRA]A3+**	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund-based – Cash credit/Electronic dealer finance	Simple
Short term - Non-fund based limits – Bank guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash credit**	NA	NA	NA	50.00	[ICRA]BBB (Stable)
NA	**Electronic dealer finance**	NA	NA	NA	25.00	[ICRA]BBB (Stable)
NA	**Bank guarantee**	NA	NA	NA	10.00	[ICRA]A3+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Crystal Colourchem Private Limited	100.00%	Full Consolidation

ANALYST CONTACTS

Girish Kumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Prashant Vasisht
+91 124 4545322
prashant.vasisht@icraindia.com

Varun Gogia
+91 124 4545 319
varun.gogia1@icraindia.com

Mohika Kundara
+91 95991 33619
mohika.kundara@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

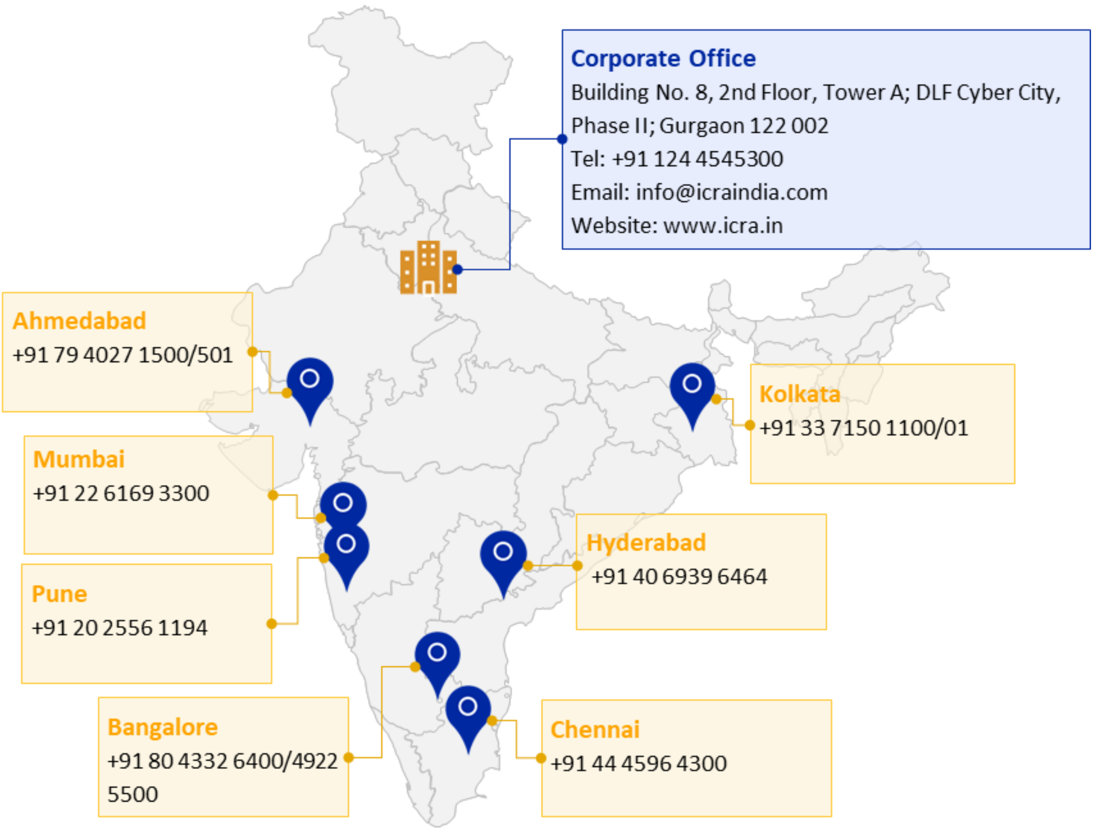
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.