

April 05, 2024

Crescent Organics Private Limited: Ratings downgraded; Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Cash credit	5.00	5.00	[ICRA]BBB- , downgraded from [ICRA]BBB; Outlook revised to Negative from Stable
Short term – Non-fund based – LC/BG	299.50	299.50	[ICRA]A3; downgraded from [ICRA]A3+
Long term – Fund based – Sublimit	(80.00)	(80.00)	[ICRA]BBB- , downgraded from [ICRA]BBB; Outlook revised to Negative from Stable
Short term – FB/NFB – Sublimit	(294.00)	(294.00)	[ICRA]A3; downgraded from [ICRA]A3+
Long term/Short term – Unallocated	0.50	0.50	[ICRA]BBB-/ [ICRA]A3, downgraded from [ICRA]BBB/[ICRA]A3+; Outlook revised to Negative from Stable
Total	305.00	305.00	

*Instrument details are provided in Annexure-I

Rationale

The rating downgrade factors in the expected weak performance of the Crescent group on a consolidated basis in FY2024 which will result in the key credit metrics for the entity remaining out of line with the rating category. While ICRA notes that the performance in FY2024 will improve over a much weaker FY2023, the overall performance improvement does not commensurate with ICRA's expectations earlier. As a result of the moderation in the profitability levels and an increase in the working capital intensity, the company leverage and coverage metrics have moderated resulting in a rating downgrade of the ratings.

The ratings continue to factor in the established presence of the Crescent Group in the petrochemical trading business with a long track record of operations and the extensive experience of the promoters. The Group's established relationship with international suppliers and its diversified customer base and product mix have also been taken into consideration. ICRA has factored in COPL's diversification into manufacturing operations and trading of healthcare Point of Sale (PoS) devices, although the revenue contribution from these segments remains moderate.

The ratings, however, remain constrained by the Group's modest profitability margins because of the predominantly trading operations. The margins are also vulnerable to the volatility in chemical prices and forex rates due to limited pricing flexibility arising from high competition in the petrochemical trading segment.

The Negative outlook on the [ICRA]BBB- rating reflects ICRA's expectation that the credit profile of the entity will continue to remain subdued in the near to medium term.

Key rating drivers and their description

Credit Strengths

Established track record and experience in petrochemical trading – The Crescent Group has a track record of operations of over six decades and the promoters have extensive experience in the petrochemical trading business. The Group has

an established relationship with reputed international and domestic suppliers and some of the entities are the sole indenting agents/DCAs for large chemical players like Sasol Limited and ONGC Petro Additions Limited in certain regions.

Diversified customer base and product mix - The Group caters to reputed customers in India, while COPL's subsidiary – Kemsol Limited - caters to international customers in the Middle East. The company's established relationship with diversified customers enables it to get repeat orders from many customers and the low concentration mitigates any counterparty credit risk. The company caters to both end-user industries and other traders.

Credit Challenges

High competition and limited pricing flexibility - The Group operates in a highly competitive sector, comprising organised and unorganised players, limiting its pricing flexibility. This, coupled with the low value-added nature of the trading operations, results in thin profit margins.

Vulnerability of profitability to volatility in product prices and foreign exchange fluctuations - The Group's operations remain susceptible to the volatility in product prices and forex rate fluctuations. The group witnessed significant moderation in profitability in FY2023 and the pressure on profitability continued in H1 FY2024 as well amid softening chemical prices. The same resulted in inventory losses for the group and the group posted a consolidated operating profit of Rs. 12.6 crore in FY2023. The company also faced impact on account foreign exchange fluctuations which resulted in an increased interest outgo for the company.

Liquidity position: Adequate

The company's liquidity position is expected to remain adequate backed by improvement in the cash flow from operations in FY2024 after a weak FY2023 and availability of un-utilised working capital limits with no major capex plans and modest repayment of Rs. 0.74 crore in FY2025 and Rs. 0.70 crore in FY2026. The liquidity profile is also supported by unsecured loans extended by promoters and unencumbered cash and bank balance of Rs. 43.4 crore as on March 31, 2023, at the consolidated level.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the Crescent Group demonstrates a sustained improvement in operating profitability and a healthy credit profile while maintaining working capital intensity.

Negative factors – Pressure on the ratings could arise if the Crescent Group demonstrates a sustained decline in revenue and margin, or if a higher-than-expected capex or a stretch in the working capital intensity weakens its liquidity profile. Specific credit metrics that could lead to a downgrade include the consolidated entity's interest coverage being less than 2.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated view of Crescent Organics Private Limited (COPL) (including its subsidiary Kemsol Limited) and its Group companies - Asian Solvochem Pvt Ltd. (ASPL) and Crescent Chemicals - due to the common promoters and the management, operational and financial linkages. (The entities are enlisted in Annexure-2)

About the Company

Crescent Organics Private Limited (COPL) was established in 1991 and is engaged in indenting and the import and trading of petrochemicals, specialty chemicals and fertilisers. The company is part of the Crescent Group, which is engaged in a similar line of business. The company also manufactures polypropylene bags with a manufacturing facility in Baroda. It also has a healthcare division engaged in the trading of hand-held diagnostic devices. The company has a subsidiary (60% stake of COPL) in Kemsol Limited, which is engaged in a similar line of business in the UAE.

About the Group

The Crescent Group was founded by Mr. G. D. Shah in 1964 with petrochemical trading and indenting operations under a partnership firm - Crescent Chemicals. Over the years, the Group also started similar operations under COPL in 1991 and Asian Solvochem Private Limited in 2011, with the entities engaged in the distribution, indenting, import and agency business for petrochemicals, specialty chemicals and fertilisers. The Group entities also act as indenting agents/DCAs for reputed international and domestic chemical companies.

Key financial indicators (audited)

COPL	Consolidated*		Standalone	
	FY2022	FY2023	FY2022	FY2023
Operating income	1,442.7	1,402.8	661.9	652.0
PAT	39.5	- 10.4	18.7	- 7.8
OPBDIT/OI	4.3%	0.9%	4.8%	1.0%
PAT/OI	2.7%	-0.7%	2.8%	-1.2%
Total outside liabilities/Tangible net worth (times)	2.2	2.0	2.5	3.3
Total debt/OPBDIT (times)	2.3	14.5	3.6	23.5
Interest coverage (times)	5.2	0.5	4.7	0.4

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of 31 st March, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022
				Apr 05, 2024	-	Jan 09, 2023	Jul 28, 2022	Jun 24, 2022	-
1 Fund based – Cash credit	Long Term	5.00	-	[ICRA]BBB-(Negative)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
2 Fund based – Term loan	Long Term	-	-	-	-	-	[ICRA]BBB (Stable)	-	-
3 Non-fund based – LC/BG	Short Term	299.50	-	[ICRA]A3	-	[ICRA]A3+	[ICRA]A3+	-	-
4 Fund based – Bills discounting	Short Term	-	-		-		[ICRA]A3+	-	-
5 Fund based - Sublimit	Long Term	(80.00)	-	[ICRA]BBB-(Negative)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
6 FB/NFB - Sublimit	Short Term	(294.00)	-	[ICRA]A3	-	[ICRA]A3+	[ICRA]A3+	-	-
7 Unallocated	Long Term and Short Term	0.50	-	[ICRA]BBB-(Negative)/[ICRA]A3	-	[ICRA]BBB (Stable)/[ICRA]A3+	-	[ICRA]BBB (Stable)/[ICRA]A3+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Cash credit	Simple
Short term – Non-fund based – LC/BG	Very Simple
Long term – Fund based – Sublimit	Simple
Short term – FB/NFB – Sublimit	Very Simple
Long term and short term - Unallocated	NA

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	Fund based - Cash credit	NA	NA	NA	5.00	[ICRA]BBB-(Negative)
NA	Non-fund based - LC/BG	NA	NA	NA	299.50	[ICRA]A3
NA	Fund based - Sublimit	NA	NA	NA	(80.00)	[ICRA]BBB-(Negative)
NA	FB/NFB - Sublimit	NA	NA	NA	(294.00)	[ICRA]A3
NA	Unallocated	NA	NA	NA	0.50	[ICRA]BBB-(Negative) / [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	COPL Ownership	Consolidation Approach
Crescent Organics Private Limited	100.00%	Full Consolidation
Asian Solvochem Private Limited	Common Promoters	Full Consolidation
Crescent Chemicals	Common Promoters	Full Consolidation
Kemsol Limited	60% stake of COPL	Full Consolidation

Note: ICRA has taken a consolidated view of COPL (including its subsidiary) and its group entities while assigning the ratings.

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About ICRA Limited:

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Branches



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