

August 10, 2017

Crescent Petrochem Private Limited

Instrument*	Rated Amount (in crore)	Rating Action
Fund Based- Cash Credit Limit	5.50	[ICRA]BBB(Stable); Reaffirmed
Non-Fund Based Limits	10.00 (enhanced from Rs. 6.00 crore)	[ICRA]A3+; Reaffirmed
Unallocated Limited	4.50 (reduced from Rs. 8.50 crore)	[ICRA]BBB(Stable)/[ICRA]A3+; Reaffirmed
Total	20.00	

*Instrument Details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]BBB (pronounced as ICRA Triple B)¹ on the Rs. 5.50 crore² cash credit limit and Rs. 4.50 crore (reduced from Rs. 8.50 crore) unallocated limit of Crescent Petrochem Private Limited (CPPL). ICRA has also reaffirmed the short-term rating at [ICRA]A3+ (pronounced ICRA A Three Plus) on the Rs. 10.00 crore (enhanced from Rs. 6.00 crore) non fund based limit and Rs. 4.50 crore unallocated limit of CPPL. The outlook on the long term rating is 'Stable'.

Rationale

The rating favourably factors in the steady growth in sales volume in FY2017 supported by established association of CPPL with Reliance Industries Limited (RIL), the principal company. The ratings also take into account the established track record of the company as a Del Credere Agent (DCA), its diversified customer profile, in-place risk management policies, and a comfortable liquidity position. ICRA also notes the increase in commission rate (in Rs/MT) for CPPL and the expected increase in sales volumes post commissioning of RIL's new capacity at Jamanagar which is likely to support the revenues going forward.

The rating is, however, constrained by the relatively small scale of operations and low value added nature of business and decline in operating profit in FY2017. The rating also remains constrained by the limited net worth size of the company in comparison to the credit risk undertaken for its overall sales, exposure of its financial profile to any significant defaults by customers, and the exposure of its profitability to interest rate movements.

Key rating drivers

Credit strengths

- **Established DCA for RIL for more than a decade-** The Company has been a DCA and of RIL for distribution of polymer products in Western India i.e. in Maharashtra, Daman, Silvassa and Goa and is among the top five DCAs for RIL. The company earns a commission of Rs. 350 per MT on the sales volume (increased in FY2018 from Rs 300/MT). RIL has leadership position in the domestic petrochemical market with a commodity polymer production share of 50%.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

- **Diversified customer profile leads to low customer concentration risk-** CPPL has a diversified customer profile of 150 customers, catering to various business segments such as packaging films, woven sacks, pipes, plastic sheet etc. Due to diversification in end-user segments, demand risk associated with a particular segment is low with top five customers accounting for about ~ 30% of total sales in FY2017.
- **Comfortable liquidity position and risk management policies-** While CPPL is exposed to the credit profile of its customers, the same is mitigated to some extent by the following factors – a) significant portion of the customers (60% ~ 70%) make payments within 30 days, b) certain portion of the receivables pertaining to the other customers are backed by LCs from nationalised banks, c) customer base of the company is large reducing exposure to a single client, and d) past track record of the company in terms of managing its receivables has been strong given the experience of the directors in the business.

Credit weaknesses

- **Relatively small scale of operations and low value-added nature of the business-** Although the company sells products worth Rs. 1250 crore, the operating income of the company remains low due to a commission income of Rs. 350 earned per MT earned by the company.
- **Exposure of CPPL's profitability to interest rate fluctuations-** Interest income earned from the customers contributes significantly to the operating income of CPPL. The net interest income of the company thus is required to be maintained to maintain its profitability levels. Thus, the ability of the firm to pass on any increase in interest rates remains important.
- **Significant credit exposure in comparison to firm's net worth size-** The financial profile remains exposed to significant defaults by customers. The net-worth of the firm has increased year on year due to healthy cash accruals but the same remains low as compared to its overall credit exposure.

Analytical approach:

For arriving at the ratings, ICRA has applied its rating methodology as indicated below.

Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology

About the company:

Crescent Petrochem Pvt Ltd (CPPL) is as a Del Credere Agent (DCA) or Consignment Stockist (CS) of Reliance Industries Limited (RIL) and is involved in sales of polymer products, namely HDPE (high density polyethylene), LLDPE (linear low density polyethylene) and PP/PPCP (polypropylene/polypropylene copolymer). CPPL is a closely held company with 100% shareholding held by Mr. Manish Shah and his family members. The operational territory for the firm currently covers the geographical area of Maharashtra, Daman and Silvassa. The company has its warehousing facility at Bhiwandi.

CPPL recorded a net profit of Rs. 3.61 crore on an operating income of Rs. 8.77 crore for the financial year ended March 31, 2016 as against a net profit of Rs 2.63 crore on an operating income of Rs 8.72 crore for the year ended March 31, 2015. Further, as per unaudited provisional financials for FY2017, the company has reported operating income of Rs 8.90 crore and profit after tax of Rs 2.60 crore.

Key Financial Indicators

	FY2016 (Audited)	FY2017 (Provisional)
Operating Income (Rs. crore)	8.77	8.90
PAT (Rs. crore)	3.61	2.60
OPBDIT/ OI (%)	64.45%	56.88%
RoCE (%)	24.13%	16.80%
Total Debt/ TNW (times)	0.59	0.62
Total Debt/ OPBDIT (times)	1.98	2.57
Interest coverage (times)	3.75	3.48
NWC/ OI (%)	2%	2%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S.No	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
				August 2017	October 2016	December 2015	December 2014	
1	Cash Credit	Long Term	5.50	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	
2	Bank Guarantee	Short Term	10.00	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	
3	Unallocated	Long Term and Short Term	4.50	[ICRA]BBB (Stable) / [ICRA]A3+	[ICRA]BBB (Stable) / [ICRA]A3+	[ICRA]BBB (Stable) / [ICRA]A3+	[ICRA]BBB- (Stable) / [ICRA]A3	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of Issuance/ Sanction	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	5.50	[ICRA]BBB (Stable)
Bank Guarantee	-	-	-	10.00	[ICRA]A3+
Unallocated	-	-	-	4.50	[ICRA]BBB (Stable)/ [ICRA]A3+

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