

December 30, 2022

## Crystal Quinone Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash credit/electronic dealer finance	78.00	75.00	[ICRA]BBB (Stable); reaffirmed
Non-fund based limits – Bank guarantee	7.00	10.00	[ICRA]A3+; reaffirmed
<b>Total</b>	<b>85.00</b>	<b>85.00</b>	

\*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, comfortable debt coverage metrics and 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 notes the company's diversified 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, when compared to its net worth size, 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 in a mix of term debt (to be guaranteed by CQPL) and advances/ICD from CQPL. 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 will also be exposed to 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 healthy 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. The other promoters, Mr. Aniket Shah and Mr. Hitendra Chopra, have also been instrumental for the growth of IOCL's DCA business

and expansion of its chemical business. 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.

**Diversified 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 ~48% of its revenue from the export market in FY2022. CQPL's diversified product range and revenue stream reduces dependence on the performance of a specific segment.

**Comfortable financial risk profile** – A healthy accretion to reserves strengthened CQPL's net worth base (Rs. 100.9 crore in FY2022 versus Rs. 73.9 crore in FY2021). The capital structure remained healthy, despite a marginal increase in debt levels as on March 31, 2022, evident from gearing and TOL/TNW of 0.6 times and 1.2 times, respectively, as on March 31, 2022. The debt protection metrics continued to be above average, with interest coverage of 8.3 times and total debt/OPBIDTA of 1.3 times in FY2022. The operating income (OI) has increased to ~Rs. 418 crore in FY2022 from ~Rs. 301 crore in FY2021 owing to higher sales of manufactured chemicals and polymer trading. The OPM has also increased to 10.4% in FY2022 from 8.3% in FY2021 due to the higher share of manufacturing sales in FY2022.

### 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 in the form of imports but also by a strict hedging policy.

**Exposure to counterparty credit risk and decline in interest income for DCA business** - The company bears the credit risk when supplying IOCL's products to the customers and any default on payments by the customers could adversely affect the profitability. CQPL charges them interest 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 selected 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 to be funded in a mix of term debt (to be guaranteed by CQPL) and 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 will be 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 will also be exposed to project execution risks and the implementation of the project without major time and cost overrun will be crucial and monitored.

## Liquidity position: Adequate

The liquidity position of the company remains adequate with the estimated cash accrual likely to be in range of ~Rs. 19-21 crore in FY2023, with no scheduled term debt repayments over the next two years. While the company has no major capex plans, a large greenfield project is being implemented under a subsidiary for which a total capex of ~Rs. 86 crore will be incurred in FY2023 and FY2024, which will be partly funded by bank debt (which will be guaranteed by CQPL) and from equity/ICD extended by CQPL. However, despite the capex, the liquidity profile is supported by the cash and liquid investments at hand (~Rs. 35 crore as on March 31, 2022) and the availability of unutilised working capital limits (with average utilisation of ~40-45% for the last 12 months ended September 2022).

## Rating sensitivities

**Positive factors** – The rating may be improved if there is improvement in scale of operations along with increase in profit margins on a sustained basis, while maintaining healthy debt-coverage indicators and working capital cycle.

**Negative factors** – The rating may witness negative pressure if there is substantial decline in scale of operations or dent in profitability, leading to deterioration in key credit metrics with net debt/EBIDTA (for consolidated entity<sup>1</sup>) of more than 2.75 times on a sustained basis or large capex or stretch in working capital cycle adversely impacting the liquidity profile. Further, any major cost-overruns under its subsidiary wherein it is setting up greenfield project will also be critical.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Chemical Industry</a>
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 Private Limited, established in 1983, is promoted by Mr. Anang Shah and his family. CQPL manufactures a range of vinyl sulphones, dyes and pigment intermediates, and antioxidants. The company has three manufacturing facilities at GIDC Vatva, Ahmedabad. It has a total installed production capacity of 900 MT of organic chemicals and 1,500 MT of inorganic chemicals. The company has also been the del credere agent (DCA) for Indian Oil Corporation since 2010 for its polymer products, namely polypropylene/polyethylene (PP/PE). It also trades other polymer products, such as low-density polyethylene and polyvinyl chloride (PVC). Key promoters, Mr. Anang Shah and Mr. Aniket Shah, look after the chemical business, while Mr. Hitendra Chopra is responsible for the polymer business.

<sup>1</sup>Including the subsidiary - CCPL

### Key financial indicators (audited)

CQPL Standalone	FY2021	FY2022
Operating income	301.3	417.6
PAT	14.3	27.2
OPBDIT/OI	8.3%	10.4%
PAT/OI	4.7%	6.5%
Total debt/OPBDIT (times)	2.1	1.3
Interest coverage (times)	5.6	8.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

### Status of non-cooperation with previous CRA: Not applicable

CRA	Status of non-cooperation	Date of Press Release
Acuite RATINGS & RESEARCH	ACUIITE BB-/ ACUIITE A4+ Downgraded and reaffirmed & ISSUER NOT CO-OPERATING	May 19,2022
CRISIL	CRISIL B+ /Stable/ CRISIL A4 ; ISSUER NOT COOPERATING	November 21, 2022

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31,2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & Rating in FY2020
				December 30,2022	Sep 30, 2021	Jul 29, 2020	-
1 Cash credit	Long Term	50.0	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
2 Electronic dealer finance	Long Term	25.0	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
3 Bank guarantee	Short Term	10.0	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term -Fund based (Cash credit/Dealer finance)	Simple
Short term -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	50.00	[ICRA]BBB (Stable)
NA	Electronic dealer finance	-	NA	NA	25.00	[ICRA]BBB (Stable)
NA	Bank guarantee	-	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	100.0%	Full Consolidation

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### Branches



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