

May 30, 2024

Aether Alloys LLP: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term term loans	80.00	80.00	[ICRA]BB- (Stable); reaffirmed
Long term/Short term unallocated limits	25.00	25.00	[ICRA]BB- (Stable)/[ICRA]A4; reaffirmed
Total	105.00	105.00	

*Instrument details are provided in Annexure-1;

Rationale

The reaffirmation of the ratings of Aether Alloys LLP (AALLP) factors in the experience of its key officials in the ferro alloy business and its proximity to raw material sources. The ratings also derive comfort from the low power tariffs in Arunachal Pradesh, which is likely to positively impact the entity's cost competitiveness, given the power-intensive industry.

ICRA notes that the entity is eligible for various fiscal incentives under the Arunachal Pradesh State Industrial and Investment Policy, 2020, which would support its profitability once the operations commence. Among the various subsidies which the entity is eligible for, the most notable one is the power subsidy of Re. 1 per unit consumed from the date of commercial production for a period of five years without any capping and not exceeding 100% of the total investment in plant and machinery. Power tariffs are already low in Arunachal Pradesh; hence, the power subsidy per unit will further lower the entity's cost of production significantly, giving it sizeable cost advantage compared to its peers in other states.

The ratings are, however, constrained by AALLP's exposure to project related risks, including commissioning the project within the budgeted cost and time, stabilising the plant and achieving the desired process parameters and cost efficiencies. The commissioning of the project has been postponed by 18 months, to July 2024 from the initial DCCO of January 2023, due to multiple factors, such as delays in the receipt of machinery initially and thereafter delay in the installation of power infrastructure by the Department of Power, Government of Arunachal Pradesh, in the industrial zone where AALLP's plant is located. The project is also facing a cost overrun of around 10% (excluding margin money for working capital). Any further time and cost overrun would remain a monitorable by ICRA.

The ratings are also constrained by the risks emanating from the firm's status as a limited liability partnership firm (LLP), including the risk of capital withdrawal by the partners. Also, significant debt servicing obligations in the medium to long term are likely to keep the entity's cash flows under pressure. Further, the ratings are constrained by AALLP's exposure to the inherent cyclical nature of the end user, the steel industry.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that the entity would benefit from the experience of its key executives in the ferro alloy business and the low power tariffs in Arunachal Pradesh.

Key rating drivers and their description

Credit strengths

Experience of key executives in ferro alloy – The designated partners of the entity, Mr. Karan Sharma along with his father, Mr. Niraj Sharma (appointed as head of operations of AALLP), have previously been involved in the manufacturing of ferro alloys through other entities and hence AALLP should benefit from the experience of the key executives.

Proximity to raw materials and low power tariff in Arunachal Pradesh to support cost competitiveness – AALLP will have the locational advantage of being close to raw material sources as a major part of the inputs would be sourced from the North

East India, leading to lower landed costs. Additionally, the lower power tariff in Arunachal Pradesh (AP) is likely to give AALLP an edge over its peers in other locations, given the power-intensive nature of the industry.

Eligibility to receive fiscal incentives – AALLP is entitled to various fiscal incentives under the Arunachal Pradesh State Industrial and Investment Policy, 2020, which would support its profitability, after the commencement of operations. Among the various subsidies which the entity is eligible for as per the policy, the most notable one is the power subsidy of Re. 1 per unit consumed from the date of commercial production for a period of five years without any capping and not exceeding 100% of the total investment in plant and machinery. Power tariffs in Arunachal Pradesh are already low. Hence, the power subsidy per unit will further lower the entity's cost of production significantly, leading to sizeable cost advantages compared to its peers in other states.

Credit challenges

Exposure to project-related risks, including risks associated with stabilisation of the plants as per expected operating parameters, post commissioning of the project – The commissioning of the project has been cumulatively postponed by 18 months, to July 2024 from the initial DCCO of January 2023, due to multiple factors, including delays in the receipt of machinery initially and thereafter delay in the installation of power infrastructure by the Department of Power, Government of Arunachal Pradesh, in the industrial zone where AALLP's plant is located. ICRA understands that bulk of the project capex has been completed with the entity now waiting for the power sub-station to be charged by the Department of Power, Government of Arunachal Pradesh, after which AALLP can start drawing power and begin its operations. The entity would remain exposed to project-related risks, including the risk of commissioning the project within the budgeted cost and time, stabilising the plant and achieving the desired operating parameters and cost efficiencies. Apart from the stretched timeline, ICRA has noted that the project is facing a cost-overrun of around 10% (excluding margin money for working capital). Any further time and cost overrun would remain a monitorable by ICRA.

Risks from entity's legal status as a limited liability partnership firm – ICRA notes that AALLP is a limited liability partnership firm and any significant withdrawal of capital by the partners may adversely impact its net worth and liquidity position.

Cyclical nature of ferro-alloy industry with complete dependence on steel sector – Ferro alloys are primarily used in the manufacturing of steel. Therefore, AALLP will be exposed to the inherent cyclicity of the steel industry, which can lead to volatility in realisations and profitability.

Significant debt servicing obligations in the medium-to-long term – The entity will have significant debt servicing obligations in the medium to long term, which are likely to keep its cash flow under pressure.

Liquidity position: Stretched

The liquidity of the firm is likely to remain stretched. Any further delay in commissioning the project may adversely impact the overall financial risk profile of the entity as it has significant debt servicing obligations in the medium to long term.

Rating sensitivities

Positive factors – ICRA may upgrade AALLP's ratings if the entity is able to commission the project as per the revised schedule and within the budgeted cost and run the operations profitably.

Negative factors – Pressure on AALLP's ratings could arise if there is further delay in the commissioning of the project and/or a delay in achieving the expected operating parameters post commissioning of the project, adversely impacting the business risk profile of the entity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of AALLP.

About the company

AALLP, established in 2017, is in the process of setting up a ferro silicon manufacturing plant at Niglok, Arunachal Pradesh, with an installed annual capacity of 15,500 MT. The operations are scheduled to commence in July 2024.

Key financial indicators

AALLP	FY2022 (Audited)	FY2023 (Audited)	FY2024 (Provisional)
Operating income (Rs. crore)	0.00	0.00	0.00
PAT (Rs. crore)	0.00	-0.01	0.00
OPBDIT/OI (%)	-	-	-
PAT/OI (%)	-	-	-
Total outside liabilities/tangible net worth (times)	0.4	1.1	1.1
Total debt/OPBDIT (times)	-1906.4	-3955.0	-18459.9
Interest coverage (times)	-	-	-

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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 on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				May 30, 2024	--	February 09, 2023	Dec 01, 2021
1	Unallocated limits	25.00	--	[ICRA]BB- (Stable)/ [ICRA]A4	--	[ICRA]BB- (Stable)/ [ICRA]A4	[ICRA]BB- (Stable)/ [ICRA]A4
2	Term loan	80.00	73.84	[ICRA]BB- (Stable)	--	[ICRA]BB- (Stable)	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Unallocated limits	NA
Term loans	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-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	Apr 2022	NA	FY2031	80.00	[ICRA]BB- (Stable)
NA	Unallocated limits	NA	NA	NA	25.00	[ICRA]BB- (Stable)/ [ICRA]A4

Source: Company;

[Please Click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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Branches



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