October 04, 2023

Aether Industries Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based – Cash credit	48.00	[ICRA]A+ (Stable); assigned
Long term/Short term – Fund-based/Non-fund based – Other	55.00	[ICRA]A+ (Stable)/[ICRA]A1; assigned
Short-term non-fund based – Letter of credit	29.80	[ICRA]A1; assigned
Total	**132.80**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned ratings favourably factors in the track record of Aether Industries Limited (AIL) in the speciality chemicals business, the experience of its promoters, its strong R&D capabilities, its well-spread out product mix and a diversified customer base comprising reputed companies in the domestic and export markets. The ratings also factor in the consistent revenue growth posted by the company along with a healthy margin profile as reflected in the operating margins which have remained in the range of 25-29% over the last few years owing to its well differentiated product portfolio. ICRA also notes that AIL is a market leader in some of the products that it deals in. Moreover, the company has raised sizeable equity in the last two years (including the latest QIP of Rs. 750 crore in June 2023) to fund its growth requirements. This equity raise has also enabled the company to retire its debt, translating into strong capital structure and debt protection metrics. The company plans to add new products and expand the capacities of the existing product base, which is likely to provide a thrust to the operating income as well as profit generation and keep the credit profile comfortable.

While the company's performance is susceptible to volatility in raw material prices and foreign exchange rates, its ability to pass on the input cost fluctuations to some extent mitigates the risk. The company also remains exposed to foreign currency exchange fluctuations as well as changes in regulatory environment. Moreover, the ratings remain constrained by the elevated working capital intensity of operations because of the high inventory and receivable levels, which in a high growth scenario, results in blockage of sizeable capital for the company. The company is also undertaking a heavy capital expenditure programme, which involves capacity expansion for existing products as well as new product segments with high growth potential. The timely completion of the planned capex within estimated costs and scaling up of the capacity utilisation will remain the key monitorable.

The Stable outlook reflects ICRA's opinion that the credit profile of the company will remain comfortable in the medium term, aided by expected growth in scale and profitability and its established presence in the industry. Further, the company remains debt free and thus the credit metrics are likely to remain strong.

Key rating drivers and their description

Credit strengths

Established market presence and long-standing relationships with a diversified customer base – AIL's products find application across diverse end-user segments like pharmaceutical, agrochemicals, material sciences, coatings, high performance photography, additives, and the oil & gas industry. It has an established market position due to its long-term relationships with customers like UPL Limited, Bajaj Healthcare Limited, Polaroid Film GmbH & Polaroid Film BV, Divis Laboratories Limited, Sun Pharmaceutical Industries Limited etc. Continuous research and development has helped the company manufacture products using multiple chemistries and technologies and thus widen its product portfolio and diversify the end-user industry which has contributed materially to the revenue growth. Further, for many of its key products, AIL is the only large-scale manufacturer in India of various niche products, which gives it a competitive advantage over other players and strengthens its market position. The business risk profile is expected to improve over the medium term, supported by above-average growth in revenue and sustained operating margins. The company clocked a revenue of ~Rs. 161.1 crore with an operating margin of ~27.8% in Q1 FY2024.

Differentiated portfolio of market-leading products – As on March 31, 2023, AIL had over 28 products. Around 50 more products are under R&D of which 20-22 products are for large-scale manufacturing and the remaining for contract research and manufacturing services (CRAMS). It is the sole manufacturer in India and also the largest manufacturer in the world by volume for some of the products, which reflects its leadership position.

Strong R&D capabilities –AIL has strong in-house research and development capabilities. Its investments in R&D have translated into a differentiating factor for it to attain leading market positions for certain products. It spends 7-7.5% of its revenue on R&D and the same is likely to continue, going forward.

Strong and consistent financial performance, led by revenue growth, healthy profitability and comfortable credit metrics – In a period of 11 years of incorporation and seven years into commercial manufacturing, AIL has reached a revenue of over Rs. 654 crore as of FY2023, growing at a CAGR of nearly 44% between FY2018 and FY2023. The revenues and profitability have been affected by stock corrections in the agrochemical segment and dumping by Chinese companies in the current fiscal. The company has no long-term debt on its books as it has raised substantial equity over the last 2-3 years – close to Rs. 1,530 crore to fund its capex and repay its long-term debt. Going forward, the net debt to OPBDITA is expected to continue to be low in the absence of any debt as the capex planned is likely to be funded by equity infusion as well as internal accruals.

Credit challenges

High working capital intensity, led by elevated inventory and receivable levels – The working capital intensity has remained high owing to elevated receivables and inventory levels. AIL's inventory days have increased significantly as the company needs to keep sufficient inventory for some of the critical raw materials, which are imported. Moreover, a wider product basket also results in elevated inventory levels. AIL enjoys a credit period of 90-120 days from its suppliers and offers 90-120 days to its customers. The debtor days went up to 145 days in FY2023 from 101 days in FY2022. The working capital intensity is likely to remain high going forward as well.

Exposure to foreign exchange and raw material price volatility – AIL's margins remain vulnerable to the volatility in raw material prices for key intermediates and chemicals. It has significant dependence on China for the procurement of some key raw materials (42-45% imports are from China), prices of which have been volatile over the last few quarters. AIL is also exposed to the adverse movement in foreign currency rates; however, as exports drive nearly 70% of its revenues, it enjoys some degree of natural hedge on its imports.

Environmental and Social Risks

AIL, being present in the chemical industry, is exposed to the risk of tightening regulations on environment and safety and potential penalties in case of any non-compliance. However, as per the disclosures in the audit report, the company is environmentally compliant and adheres to various industry standards. Further, it has appropriate waste management systems across its facilities. The company is also compliant with environmental law/regulations pertaining to water and air pollution.

The company's exposure to social risks mainly pertains to safe operations and remaining compliant to all environmental regulations to ensure the safety of employees and the community in the vicinity of its manufacturing units. As per the disclosures, the company has safety equipment in place at its units.

Liquidity position: Adequate

AIL's liquidity position is expected to remain adequate with healthy cash balances of around Rs. 100 crore as on March 31, 2023 and cushion in working capital limits. The company raised Rs. 750 crore as equity recently, which remains largely unutilised as on date. While this amount is maintained as fixed deposit as of now, it will be utilised for the sizeable capex plans that the company has, going forward.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of significant scale-up in the revenues and profitability of the company, along with an improvement in the working capital cycle.

Negative factors – The ratings could witness downward revision in case of any sustained pressure on AIL's revenue and profitability. Further, any material elongation of the working capital cycle, adversely impacting the company's liquidity position can trigger a downward rating revision. Moreover, any time or cost overruns in the ongoing capex as well as delays in ramp-up can also be a negative for the rating.

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	Consolidated For arriving at the ratings, ICRA has combined the business and financial risk profiles of Aether Industries Limited (AIL) and its wholly-owned subsidiary, Aether Speciality Chemicals Limited, as the entities are owned and managed by the same promoters and are involved in related sectors

About the company

Aether Industries Limited is a speciality chemical manufacturer in India focused on producing advanced intermediates and speciality chemicals involving complex and differentiated chemistry and technological core competencies. The business was started in 2013 with a vision to create a niche in the global chemical industry and a creative approach towards chemistry, technology and systems that would lead to sustainable growth. In the first phase of the development through fiscal 2017, the company focused on building the team, infrastructure and the R&D centred around building the core competencies. The company's revenue generation commenced in the second phase of fiscal 2017. Aether is one of the fastest growing specialty chemical companies in India, growing at a CAGR of nearly 44% between fiscal 2018 and fiscal 2023.

Key financial indicators (audited)

Consolidated	FY2022	FY2023	Q1FY24*
Operating income	593.0	654.4	161.1
PAT	108.9	130.4	29.8
OPBDIT/OI	28.8%	29.0%	27.8%
PAT/OI	18.4%	19.9%	18.5%
Total outside liabilities/Tangible net worth (times)	1.0	0.1	-
Total debt/OPBDIT (times)	1.7	0.1	-
Interest coverage (times)	13.0	37.2	38.2

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

Status of non-cooperation with previous CRA: Not applicable

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
					Oct 04, 2023	-	-	-
1	**Cash credit**	Long term	48.00	-	[ICRA]A+ (Stable)	-	-	-
2	**Fund based/ Non-fund based**	Long term and short term	55.00	-	[ICRA]A+ (Stable) /[ICRA]A1	-	-	-
3	**Letter of credit**	Short term	29.80	-	[ICRA]A1	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple
Long term/Short term – Fund-based/Non-fund based – Other	Simple
Short-term non-fund based – Letter of credit	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	48.00	[ICRA]A+ (Stable)
NA	**Fund-based/Non-fund based**	NA	NA	NA	55.00	[ICRA]A+(Stable)/[ICRA]A1
NA	**Letter of credit**	NA	NA	NA	29.80	[ICRA]A1

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
Aether Speciality Chemicals Limited	100%	Full Consolidation

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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.

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