ICRA

October 28, 2024

DRT-Anthea Aroma Chemicals Private Limited: Placed on rating watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term – Fund-based – Overdraft	3.00	3.00	[ICRA]A2; Placed on rating watch with developing implications
Short term – Fund-based – Others	82.00	82.00	[ICRA]A2; Placed on rating watch with developing implications
Short term – Non-fund based – Letter of credit	24.00	24.00	[ICRA]A2; Placed on rating watch with developing implications
Total	**109.00**	**109.00**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has put the rating of DRT-Anthea Aromatics Chemicals Private Limited (DAACPL) on 'rating watch with developing implications' as India Resurgence Fund (IRF) is in the process of acquiring a majority stake in Anthea Aromatics Private Limited (AAPL), which owns a 50% stake in DAACPL. The rating has been put on watch with developing implications as the share purchase agreement (SPA) is yet to be signed and there is not much clarity on the business strategy of the Group for DAACPL after the change in ownership of the JV partner i.e. AAPL. Further, AAPL holds a 75% stake in Catasynth Specialty Chemicals Private Limited (CSCPL, rated [ICRA]D; issuer not cooperating) and the overall credit profile of the Group is expected to change as the revival of CSCPL is part of the acquisition plan. ICRA will continue to monitor the developments on the front and its impact on the credit profile of the group and DACCPL.

The rating continues to factor in the long and established track record of the promoters along with the presence of a global chemical player as joint venture (JV) partner, the long-term supply contract with the JV partner ensuring adequate offtake and the healthy financial risk profile of the company. DAACPL is a JV between Anthea Aromatics Private Limited (Anthea) and DSM -Firmenich (earlier the JV partner was Les Derives Resiniques Et Terpeniques, DRT which was acquired by Firmenich International SA, which in turn later merged with Royal DSM N.V. to form DSM-Firmenich). The Anthea Group has been engaged in the flavours and fragrance (F&F) business for more than three decades, while DSM-Firmenich is a major global supplier of F&F chemicals. DAACPL has recently renewed its long-term supply agreement with DSM-Firmenich wherein it meets nearly 85% of the requirement of anthamber and dihydromyrcenol (DHM), the key inputs used by DSM-Firmenich in its end products, thereby providing revenue and cash flow visibility for the company, as over 70% of the revenue is derived from this supply agreement.

DAACPL's cash generation and financial risk profile has remained robust, given the healthy ramp-up of production and offtake by DSM-Firmenich over the last couple of years. In FY2024, there was a robust growth in the company's operating margins, net profit margin as well as RoCE on account of the increased contribution margin and low freight costs amid a stable offtake under the long-term agreement with DSM-Firmenich. Going forward, ICRA expects DAACPL to benefit from the supplies under the long-term contract, which assures volume offtake and stable profitability.

ICRA notes that in 5M FY2025, the company has witnessed lower sales volume owing to the failure of an effluent treatment plant (ETP) which has restricted the production of Anthamber and DHM. This has resulted in lower revenue. Additionally, due to space constraints at the plant for storing the by-products, the company had to pay demurrage charges at the ports as it was not able to evacuate the incoming raw material. This had a negative impact on the profitability. As informed by the management, the ETP operations have now been restored and the company's profitability is expected to recover in H2 FY2025, although on a full-year basis it will be much lower than the FY2024 levels. Nevertheless, the credit profile will continue to be healthy amid no major capex plans or term debt repayments.

The rating, however, remains constrained by the working capital-intensive operations of the company, the susceptibility of the profit margin to fluctuation in raw material prices and the high customer and product concentration risk. Moreover, as the company is largely export-oriented, its profitability remains exposed to the volatility in foreign exchange prices and changes in freight charges. The foreign exchange price risk can be mitigated to some extent by the natural hedge provided by raw material imports. The company also remains vulnerable to operational risks such as fire incidents and ecological hazards that are inherent in the F&F industry.

ICRA also notes that Catasynth Speciality Chemicals Private Limited (CSCPL, rated [ICRA]D; issuer not cooperating), a group entity promoted by AAPL, is currently unable to meet its debt servicing requirements due to a fire incident at its facility in April 2021 and the shutdown of operations for the past two years. However, ICRA takes note of the advance stages of discussion between IRF and AAPL, the promoters of CSCPL, for the infusion of fresh equity in AAPL which will be used to clear the pending dues of CSCPL with the banks and provide funds to restart the operations. The infusion of equity and the developments thereafter will remain a key monitorable, going forward.

Key rating drivers and their description

Credit strengths

Experienced management and established track record of the Group along with presence of a global major as JV partner - DAACPL is a JV between AAPL and Les Derives Resiniques et Terpeniques (DRT France, owned 100% by Firmenich SA) and manufactures a range of terpene based aromatic chemicals used in the flavours & fragrances (F&F) industry. AAPL was incorporated in 1991 and has nearly three decades of experience in the F&F industry. DRT is a large global supplier of F&F chemicals and is based out of France. DAACPL benefits from the experience of AAPL in terms of its operations in India, while DRT supplies key raw material to the JV under the long-term supply agreements.

Sourcing and supply arrangement with JV partner, which is a global F&F major - The company has a long-term supply agreement with Firmenich for supplying anthamber and dihydromyrcenol (DHM), which are used further by DRT for catering to its consumers in various industries, including flavours, fragrances, soaps, detergents etc. DAACPL meets a large part of DSM Firmenich's requirement of the aforementioned products and derives over 70% of its revenues from its sale to DRT. Under the long-term contract, the product offtake and raw material supply prices are fixed on a six-month basis, providing visibility on the gross margins. Thus, DAACPL benefits in terms of raw material security for the material it needs to supply to Firmenich. The contract with DSM-Firmenich has been renewed for the next 5 years which provides revenue and cash flow visibility for the near to medium term.

Healthy capital structure and coverage indicators - The financial risk profile remains stable with healthy operating margins, a comfortable capital structure and satisfactory coverage indicators. There was a modest growth in revenues as the capacity remains optimally utilised. However, with the easing of freight costs, the operating margin improved to 20.1% in FY2024 from 16.6% in FY2023. The company's debt profile comprises entirely of the working capital debt and the interest coverage ratio remained robust at 15.5x in FY2024 against 12.0x in FY2023. The leverage indicator also remains healthy with TD/OPBDITA at 0.3x as on March 31, 2024, against 0.5x as on March 31, 2023. ICRA notes that the revenue and operating profitability has moderated due to the failure of the ETP operations in 5M FY2025,. However, the issue has been resolved and the operating profits should improve for the remaining part of FY2025, although the overall cash generation would be lower. Nevertheless, the credit profile continues to be healthy, given the steady internal cash generation, no major capex plans, free liquidity at hand and low incremental working capital requirements.

Credit challenges

Customer and product concentration risk - DAACPL derives majority of its revenue from the sale of two products which are sold mainly to Firmenich under the long-term contract. While the products are supplied to Firmenich under a long-term contract, the absence of a take or pay arrangement or minimum offtake guarantee obligations exposes the company to product and customer concentration risks. DAACPL's cash flows will get impacted if DSM Firmenich's offtake for these products drops significantly .

Susceptibility of profit margin to volatility in raw material prices and forex risks - Volatility in raw material prices impacts the company's margins on non-DRT sales, as the margins on the sales to DSM-Firmenich are fixed for six months. Further, a major share of revenue is derived from exports. While the forex risk is covered by the natural hedge provided by the import of raw material to an extent, the company remains exposed to foreign exchange risks as it does not hedge its net forex exposure.

Working capital-intensive operations - The working capital-intensive operations are a result of the high inventory levels the company has to maintain for raw materials. Majority of the raw materials are imported, which leads to higher inventory days. The credit period offered to customers also remains slightly higher as a major share of the revenue comes from exports. Thus, the overall working capital intensity is expected remain in the range of 25-30%, going forward.

Liquidity position: Strong

ICRA expects DAACPL's liquidity to remain strong, supported by Rs. 82.9 crore of free cash as on March 31, 2024, cushion in working capital limits, no debt repayments and minimal capex plans. While ICRA expects the dividend payout to remain elevated, in line with the FY2024 payout levels, the liquidity position will be supported by the existing cushion in the liquidity which is expected to continue, going forward.

Rating sensitivities

Positive factors – The rating could be upgraded in case of a significant scale-up in the company's revenues and profitability, along with a diversification in its customer profile on a sustained basis. ICRA could also upgrade the rating if the Anthea Group's overall credit profile improves.

Negative factors – The rating could be revised downwards if any adverse impact on the company's revenue/profitability results in a deterioration of the debt protection metrics. Further, any materially large dividend payout and/or higher working capital requirement, adversely impacting the company's liquidity position, can trigger a downward rating revision. Any material form of support, apart from dividends, by DAACPL to the Anthea Group/group entities that would adversely impact the former's liquidity or credit profile will also weigh on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in the Chemicals
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

DRT Anthea Aromatics Private Limited (DAACPL) is a 50:50 joint venture between AAPL and Les Derives Resiniques et Terpeniques (DRT France - a world leader in terpene chemistry) and manufactures a range of terpene-based aromatic chemicals such as anthamber, dihydromyrcene, geraniol, nerol etc. used in the F&F industry i.e. the homecare segment – soaps, detergents, handwash and perfumeries. The company has two manufacturing facilities at Roha in Maharashtra. The total annual production capacity is 20,520 MT. In June 2020, Firmenich S.A. acquired 100% equity stake in DRT {from Ardian (PE), Tikehau Capital (AMC) and family shareholders}, thereby becoming the JV partner in DAACPL. Firmenich had an equal merger with DSM in May 2023, forming a single entity, DSM Firmenich.

Key financial indicators (audited)

DAACPL Standalone	FY2023	FY2024
Operating income	506.9	535.5
PAT	45.4	61.4
OPBDIT/OI	16.6%	20.1%
PAT/OI	8.9%	11.5%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	0.7	0.3
Interest coverage (times)	12	15.5

Status of non-cooperation with previous CRA:

CRA's	PR date	Rating
CARE	January 10, 2024	CARE BB+(Stable)/CARE A4+; ISSUER NOT COOPERATING

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Oct 28, 2024	Date	Rating	Date	Rating	Date	Rating
Overdraft	Short term	3.00	[ICRA]A2; rating watch with developing implications	Jul 26, 2023	[ICRA]A2	-	-	-	-
Fund-based	Short term	82.00	[ICRA]A2; rating watch with developing implications	Jul 26, 2023	[ICRA]A2	-	-	-	-
Letter of credit	Short term	24.00	[ICRA]A2; rating watch with developing implications	Jul 26, 2023	[ICRA]A2	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short term – Fund-based – Overdraft	Simple
Short term – Fund-based – Others	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	**Overdraft**	NA	NA	NA	3.00	[ICRA]A2; rating watch with developing implications
NA	**Fund-based – Others**	NA	NA	NA	82.00	[ICRA]A2; rating watch with developing implications
NA	**Letter of credit**	NA	NA	NA	24.00	[ICRA]A2; rating watch with developing implications

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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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.

For more information, visit www.icra.in

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