July 26, 2023

DRT-Anthea Aroma Chemicals Private Limited: [ICRA]A2 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Short Term – Fund Based - Overdraft	3.00	[ICRA]A2 assigned
Short Term – Fund Based – Others	82.00	[ICRA]A2 assigned
Short Term – Non Fund Based – Letter of Credit	24.00	[ICRA]A2 assigned
Total	**109.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned to the bank lines of DRT-Anthea Aroma Chemicals Private Limited (DAACPL) factors in the long & established track record of the promoters along with presence of a global chemical player as Joint Venture (JV) partner, long term supply contract with the JV partner ensuring adequate offtake and healthy financial risk profile of the company. DAACPL is a JV between Anthea Aromatics Private Limited (Anthea) and Les Derives Resiniques Et Terpeniques (DRT, owned by Firmenich SA). Anthea group has been engaged in the flavors and fragrance business for more than three decades while DRT is a major global supplier of Flavor & fragrances (F&F) chemicals based out of France. DAACPL has a long-term supply agreement with Firmenich wherein it meets nearly 85% of the requirement of Anthamber and Dihydromyrcenol, key inputs used by 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. Given the healthy ramp up of production and offtake by Firmenich over the last couple of years, cash generation for the company has remained healthy and the financial risk profile remains robust. While in FY2023, company had faced headwinds in terms of operating margins on account of elevated freight costs and volatility in raw material pricing on non-DRT sales, ICRA expects with the freight costs normalizing and raw material costs also stabilizing, the company's operating margins should remain in the range of 17%-18% going forward.

The rating, however, remains constrained by the working capital-intensive operations of the company, susceptibility of profit margin to fluctuation in raw material prices and high customer and product concentration risk. In addition, given that the company is largely export oriented, its profitability remains exposed to volatility in foreign exchange prices, mitigated to some extent by the natural hedge provided by raw material imports up to some extent. ICRA also notes that Catasynth Specialty Chemicals Private Limited (rated [ICRA]D) 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 slow ramp up in offtake thereafter. As a result, the Anthea group's credit profile has moderated significantly and remains a constraining factor for DAACPL's ratings.

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 Flavors & 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 Flavor & fragrances (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 as per 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 Dihydro Myrcenol (DHM) which are used further by DRT for servicing its consumers in the various industries including flavours, fragrances, soaps, detergents etc. DAACPL meets a large part of Firmenich's requirement of the aforementioned products and derives over 70% of its revenues from sale to DRT. Under the long-term contract, the product offtake and raw material supply prices are fixed on a six-monthly basis, thus providing visibility on gross margins. Thus, DAACPL benefits in terms of raw material security for the material it needs to supply to Firmenich. The contract is renewed every four years and given the high dependence of Firmenich on DAACPL along with its partnership in the JV, the probability of renewal of the contract, which is coming up in December 2024, remains high. Since Firmenich uses these products to services its consumers in the soaps, detergents, perfumes etc., the demand for these products is expected to remain relatively stable and in turn provide cash flow stability for DAACPL also.

Healthy capital structure and coverage indicators - The financial risk profile remains comfortable with healthy operating margins, a comfortable capital structure and healthy coverage indicators. The company has already achieved a topline of Rs. 506.9 crore (Provisional) in FY2023 and is expected to reach approximately Rs. 600 crores for FY2024 vis-à-vis Rs. 506.9 crore in FY2023. The company has already recorded a revenue of Rs. 135.2 crore and OPBDITA levels of Rs. 27.3 crore in Q1 FY2024. The OPM has improved to 20.2% in Q1FY2024 vis-à-vis 16.6 % in FY2023 as input prices as well as freight costs have softened. DRT's financial profile continues to be robust, characterised by strong debt protection metrics and coverage indicators. The operating margins in FY2023 were 16.6% vis-à-vis 24.7% in FY2022 given the significant headwinds on account of freight cost and power costs witnessed during the year. From FY2024 onwards, the margins are expected to improve to around 17%-18% with the moderation in the power and freight costs. The capital structure was comfortable with gearing of 0.1 times as on March 31, 2023, and healthy coverage metrics with interest coverage of 12.4x, TOL/TNW of 0.5 times for FY2023.

Credit challenges:

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

Susceptibility of profit margin to volatility in raw material prices and forex risks - DAACPL's margins remain exposed to volatility in the raw material prices which can impact the margins of the company on non-DRT sales, as the margins for sales to Firmenich are fixed for six months. DAACPL's major share of revenue is derived from exports and while a major share of forex risk is covered by the natural hedge provided by the import of raw material, company remains exposed to foreign exchange risk given company does not hedge its net forex exposure.

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

Liquidity position: Strong

ICRA expects DAACPL's liquidity position to remain strong given the expectations of cash flow from operations in the range of Rs. 65-75 crore per annum, moderate working capital intensity with no incremental long term debt repayment as the long-term debt has been prepaid in July 2023. This is further supported by large un-encumbered cash balance of Rs. 64.6 crore as on June 2023 end along with cushion in working capital facilities and no major capex plans.

Rating sensitivities

Positive factors – The rating could be upgraded in case of a significant scale up in the revenues and profitability of the company, along with diversification in its customer industry profile on a sustained basis. ICRA could also upgrade the ratings in a scenario of improvement in the Anthea group's credit profile.

Negative factors – The rating could witness a downward revision in case of any adverse impact on the revenue/ profitability of the company leading to deterioration in debt protection metrics. Further, any materially large dividend payout and/or higher working capital requirement leading to an adverse impact on the liquidity position of the company can trigger a downward rating revision. Any material form of support apart from dividends by DAACPL to The Anthea Group/group entities will lead to a rating downgrade.

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	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 and Linalool, used in F&F industry i.e homecare segment – soaps, detergents, handwash and perfumeries. The company has 2 (two) manufacturing facilities located in Roha, Maharastra. The total production capacity is presently 20,520 MT p.a. 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.

Key financial indicators (audited)

DRT Standalone	FY2021	FY2022	FY2023*
Operating income	331.5	472.7	506.9
PAT	33.7	65.9	45.4
OPBDIT/OI	20.5%	24.7%	16.6%
PAT/OI	10.2%	13.9%	8.9%
Total outside liabilities/Tangible net worth (times)	0.6	0.5	0.5
Total debt/OPBDIT (times)	1.2	0.5	0.7
Interest coverage (times)	17.0	18.8	12.4

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

Source: Company, ICRA Research

Status of non-cooperation with previous CRA: CARE has continued to maintain the rating for DRT-Anthea Aromatics Private Limited (DAAPL) bank loans under Issuer not- cooperating category as per the latest PR dated June 28, 2023. DAAPL had requested CARE to withdraw its credit ratings however the No objection certificate (NOC) from its banker is yet to be received. CARE Ratings believe that in the absence of necessary information to monitor the rating it cannot assess the credit profile of the company as on date. The rating will continue to appear as CARE BBB; Stable; ISSUER NOT COOPERATING/ CARE A3+; ISSUER NOT COOPERATING on the agency's website.

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 as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					July 26, 2023			
1	**Overdraft**	Short Term	3.00	-	**[ICRA]A2**	-	-	-
2	**Fund Based – Others**	Short Term	82.00	-	**[ICRA]A2**	-	-	-
3	**Letter of Credit**	Short Term	24.00	-	**[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
NA	**Fund Based – Others**	NA	NA	NA	82.00	[ICRA]A2
NA	**Letter of Credit**	NA	NA	NA	24.00	[ICRA]A2

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.

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