April 10, 2024

Aether Industries Limited: Ratings reaffirmed; Ratings removed from Rating Watch with Negative Implications; Stable outlook assigned on long-term rating

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term-Fund -based - cash credit	48.00	48.00	[ICRA]A+ (Stable); reaffirmed; rating removed from Rating Watch with Negative Implications and Stable outlook assigned on long-term rating
Short term – non-fund-based - letter of credit	29.80	29.80	[ICRA]A1; reaffirmed; rating removed from Rating Watch with Negative Implications
Long-term/ Short-term - Fund based / Non fund based	55.00	55.00	[ICRA]A+ (Stable)/ [ICRA]A1; reaffirmed; ratings removed from Rating Watch with Negative Implications and Stable outlook assigned on long-term rating
Total	**132.80**	**132.80**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has removed the ratings of Aether Industries Limited (AIL) from Rating Watch with Negative Implications on expectations of stabilisation of operations after a fire incident at one of its manufacturing facilities at Site 2 in Surat, Gujarat on November 29, 2023. The Gujarat Pollution Control Board (GPCB), after issuing a closure notice for the affected facility, revoked the order for unaffected areas, allowing unaffected plants to resume production in January 2024.

Moreover, plant 1 and plant 3 of the fire-impacted site are expected to commence operations shortly. The estimated loss due to the fire is likely to be around Rs. 100 crore, for which the company has filed an insurance claim, with some on-account payment expected shortly, while the balance will come in instalments. While this incident is likely to result in some moderation in revenue and profit growth for FY2024 and Q1 FY2025, it is not likely to materially impact the company's credit profile.

The ratings continue to factor in the experience of AIL's promoters in the speciality chemicals business, 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 company's consistent revenue growth and healthy margin profile, with operating margins in the range of 25-29% over the last few years owing to its well-differentiated product portfolio provide further comfort. While a demand slowdown and pressure on realisations may moderate margins, they are expected to remain healthy.

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 to fund its growth requirements, which has translated into a 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 boost the operating income as well as profit generation, with a comfortable credit profile.

Although 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 the regulatory environment. Moreover, the ratings remain constrained by the elevated working capital intensity of operations due to 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 the scaling up of the capacity utilisation will remain key monitoring factors.

The Stable outlook reflects ICRA's opinion that the company's credit profile will remain comfortable in the medium term, aided by expected growth in scale and profitability and its established presence in the industry. Further, 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 industries such as pharmaceuticals, agrochemicals, material sciences, coatings, high performance photography, additives, and oil & gas. 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 and others. Continuous R&D 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. 480.6 crore with an operating margin of ~25.4% in 9M 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, with 20-22 of them intended for large-scale manufacturing and the remaining for contract research and manufacturing services (CRAMS). It is the sole manufacturer in India and the largest manufacturer in the world by volume for certain products, which reflects its leadership position in the industry. It has recently executed a strategic agreement and contract with a global lithium-ion battery producer, thereby announcing its entry into the electrolyte additives and battery space.

Strong R&D capabilities – AIL has strong in-house research and development capabilities. Its investments in R&D have gradually led 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 11 years of incorporation and seven years of 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 the Chinese companies as well as a fire that broke out at Manufacturing Facility 2 of the company in the current fiscal. The company has no long-term debt and has raised substantial equity of ~Rs. 1,530 crore over the last 2-3 years to fund its capex and repay its long-term debt. Going forward, the net debt to OPBDITA is expected to remain low in the absence of any major debt, as the planned capex 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 maintain sufficient inventory for some critical raw materials, which are imported. Moreover, a wider product basket and the new product plant as well as its validation also result 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 receivables and inventory levels have also witnessed an increase in the current fiscal and the working capital intensity is likely to remain high going forward.

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 a significant dependence on China for some key raw material procurements (42-45% of imports are from China), whose prices 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

As it operates within the chemical industry, AIL is exposed to the risk of stringent regulations pertaining to environment and safety protocols, including 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 laws/regulations pertaining to water and air pollution.

The company's exposure to social risks mainly pertains to safe operations and adherence to all environmental regulations to ensure the safety of employees and the community in the vicinity of its manufacturing units remains critical. 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. 690 crores as on September 30, 2023, and a cushion in working capital limits. The cash balance includes the funds raised as equity to the tune of Rs. 750 crores in June 2023, the majority of which remains unutilised as on date. At present, this amount is maintained as fixed deposits. However, it will be utilised for the company's sizeable capex plans 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

AIL 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 speciality chemical companies in India, growing at a CAGR of nearly 44% between fiscal 2018 and fiscal 2023.

Key financial indicators (audited)

AIL Consolidated	FY2022	FY2023	9M FY2024*
Operating income	593.0	654.4	480.6
PAT	108.9	130.4	83.9
OPBDIT/OI	28.8%	29.0%	25.4%
PAT/OI	18.4%	19.9%	17.5%
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	25.1

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; 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	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
					Apr 10, 2024	Dec 06, 2023	Oct 04, 2023	-	-
1	**Fund -based - cash credit**	Long term	48.0	--	**[ICRA]A+ (Stable)**	**[ICRA]A+; rating watch with negative implications**	**[ICRA]A+ (Stable)**	-	-
2	**Non-fund-based - letter of credit**	short term	29.8	--	**[ICRA]A1**	**[ICRA]A1; rating watch with negative implications**	**[ICRA]A1**	-	-
3	**Fund based / Non fund based**	Long term and short term	55.0	--	**[ICRA]A+ (Stable)/ [ICRA]A1**	**[ICRA]A+; rating watch with Negative Implications /[ICRA]A1; rating watch with negative implications**	**[ICRA]A+ (Stable) /[ICRA]A1**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term-Fund -based - cash credit	Simple
Short term – Non-fund-based - letter of credit	Very simple
Long-term/ Short-term - Fund based / Non fund based	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	LTHL Ownership	Consolidation Approach
Aether Speciality Chemicals Limited	100%	Full Consolidation

Source: Company

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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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