January 10, 2025

Aether Industries Limited: Ratings reaffirmed; rated amount enhanced

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	246.00	[ICRA]A+ (Stable); reaffirmed and assigned for enhanced amount
Short term – Non-fund based - Letter of credit/Bank guarantee	29.80	-	-
Short term – Non-fund based – (Interchangeable) Letter of credit/ Bank guarantee	-	(246.00)	[ICRA] A1; reaffirmed and assigned for enhanced amount
Long-term/Short-term - Fund based/Non-fund based	55.00	-	-
Total	**132.80**	**246.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings of Aether Industries Limited (AIL) favourably factors in its track record in the speciality chemicals business, the experience of its promoters, its strong R&D capabilities, a 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, with the operating margin remaining in the range of 22-29% over the last few years owing to its well-differentiated product portfolio.

ICRA notes that a fire broke out on November 29, 2023, due to a blast in a storage tank. Plant 2 of site 2 was majorly damaged. The Gujarat Pollution Control Board (GPCB) had issued a closure notice for the facility. In January 2024, the GPCB then revoked the closure order for the unaffected areas and since then majority of the plant has become operational. The company has filed a claim of Rs. 100 crore with its insurer, of which it has received an on-account payment of Rs. 21 crore against the loss of assets.

ICRA also notes that AIL is a market leader in some of the products 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 and capex requirements. This equity raise has also enabled the company to retire its debt, translating into strong capital structure and debt protection metrics. However, over the last few months, the working capital requirements are being met by availing working capital borrowings. The company is also planning another QIP that will help it fund its future capex requirements as well as meet the regulatory requirements regarding promoter shareholding.

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. ICRA also notes the new tie-ups announced by the company with reputed counterparties for a few products, which will ensure a healthy top line growth, going forward.

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 the 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 a blockage of sizeable capital for the company. While the working capital intensity has moderated in the current fiscal, it remains to be seen whether this trend can be sustained. The company is also undertaking a heavy capex programme, which involves capacity expansion of the existing products as well as manufacturing of new products 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 an expected growth in the scale and earnings profile and its established presence in the industry. Further, the company has raised sizeable equity which will fund the capex and is likely to result in strong credit metrics, even as the working capital intensity remains elevated.

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, Sun Pharmaceutical Industries Limited and others. Continuous R&D has helped the company manufacture products using multiple chemistries and technologies, thus diversifying its product portfolio and end-user industries and contributing materially to the revenue growth. Further, for many of its key products, AIL is the only large-scale manufacturer in India, 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 growth in revenues and sustained operating margins. The company clocked a revenue of ~Rs. 378.81 crore with an operating margin of ~25.6% in H1 FY2025.

Differentiated portfolio of market-leading products - AIL has 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 announced new tie-ups/associations with companies like H.B. Fuller, Saudi Aramco Technologies Company, Novoloop, Seqens Group and also entered into an agreement with an EV car company for the supply of additives for battery electrolytes. These tie-ups indicate the company's strong R&D and product development capabilities.

Strong R&D capabilities - AIL has strong in-house research and development capabilities. Its investments in R&D have given it a leading market position in certain products. It spends 7-7.5% of its revenue on R&D and the same is likely to continue. The R&D spend increased in FY2024, which was on account of expansion of the R&D facility and a pilot plant and lower revenues owing to the fire incident, adjusted for that the R&D expenses as a percentage of the total revenues were around 9%.

Strong and consistent financial performance, led by healthy profitability and comfortable credit metrics - The revenue and profitability in FY2024 were affected by excessive inflow of Chinese imports as well as by the fire that broke out at the company's site 2. 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 due to elevated inventory and receivable levels - The working capital intensity has remained high owing to the 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. A wider product basket and the high work-in-progress of its manufacturing operations have also resulted 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 142 days in FY2024. The inventory levels have also increased in the current fiscal, translating into an elevated working capital cycle. The working capital intensity moderated to some extent in H1 FY2025 and is expected to moderate further with the increase in the proportion of contract manufacturing. However, the trend remains to be seen.

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 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, there is some natural hedge on its imports.

Environmental and Social Risks

Environmental considerations - The industry in which the company operates and the products it deals with involves the handling of hazardous and inflammable materials. The company has ensured that the required process control, safety equipment and infrastructure are in place, as per the global safety standards. These risks are somewhat mitigated by the company's track record of environmental compliance and strong operational capabilities. Further, most of its plants are zero liquid discharge. Also, the company has installed a 16-MW solar power plant and plans to enhance the renewable power capacity to fulfil its entire captive power requirements.

Social considerations - The company is also exposed to social risks related to responsible production, human capital, health, and safety issues.

Liquidity position: Adequate

AIL's liquidity position is expected to remain adequate with cash balances of around Rs. 508.05 crore as on September 30, 2024, and cushion in working capital limits. The cash balance includes Rs. 750-crore funds raised as equity in June 2023, a portion of which remains unutilised as on date. At present, this amount is maintained as fixed deposit. However, it will be utilised for the company's sizeable capex plans, going forward.

Rating sensitivities

Positive factors – The rating could be upgraded in case of a significant scale-up in the company's revenues and earnings along with an improvement in the working capital cycle.

Negative factors – The rating could be revised downwards if there is a sustained pressure on AIL's revenue and profitability. Moreover, a consistently high working capital cycle and further elongation in the same will have an adverse impact on the company's liquidity position and trigger a downward rating revision. Moreover, any time or cost overruns in the ongoing capex as well as delay in ramp-up can weigh on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Chemicals
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 specialty chemical manufacturer in India focused on producing advanced intermediates and specialty 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 have 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.

Key financial indicators (audited/Provisional)

	FY2023	FY2024	H1FY25*
Operating income	654.4	599.5	378.8
PAT	130.4	82.5	64.7
OPBDITA/OI	29.0%	22.3%	25.6%
PAT/OI	19.9%	13.8%	17.1%
Total outside liabilities/Tangible net worth (times)	0.1	0.2	0.2
Total debt/OPBDITA (times)	0.1	1.4	1.1
Interest coverage (times)	37.2	15.7	21.1

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

Note: All financial ratios as per ICRA's calculation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash credit	Long term	246.00	10-Jan-2025	[ICRA]A+ (Stable)	06-Dec-2023	[ICRA]A+; rating watch with negative implications	-	-	-	-
			10-Apr-2024	[ICRA]A+ (Stable)	04-Oct-2023	[ICRA]A+ (Stable)	-	-	-	-
(Interchangeable) LC/BG	Short term	(246.00)	10-Jan-2025	[ICRA]A1	-	-	-	-	-	-
			-	-	-	-	-	-	-	-
LC/BG	Short term	-	10-Apr-2024	[ICRA]A1	06-Dec-2023	[ICRA]A1; rating watch with negative implications	-	-	-	-
			-	-	04-Oct-2023	[ICRA]A1	-	-	-	-
Fund-based /Non-fund based	Long-term/Short term	-	10-Apr-2024	[ICRA]A+ (Stable)/ [ICRA]A1	06-Dec-2023	[ICRA]A+; rating watch with Negative Implications /[ICRA]A1; rating watch with negative implications	-	-	-	-

Instrument	Current (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
			-	-	04-Oct-2023	[ICRA]A+ (Stable) /[ICRA]A1	-	-	-	-

Note - Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund-based - Cash credit/PCFC	Simple
Short term – Non-fund based – (Interchangeable) Letter of credit/Bank guarantee	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' 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	246.0	[ICRA]A+ (Stable)
NA	**(Interchangeable) LC/BG**	NA	NA	NA	(246.0)	[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

Source: Company

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