

Press Release

Aether Industries Limited

December 12, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 25.00 crore bank facilities of Aether Industries Limited. The outlook is '**Stable**'.

The Surat-based, AIL was incorporated in 2013 by Mr. Ashwin Desai and family. The company is engaged in manufacturing of specialty chemicals. Further, it also provides contract research and manufacturing services (CRAMS). AIL has two manufacturing units located in Surat with a total installed capacity of 2600 MT for specialty chemicals and a 120 MT facility for CRAMS.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of Aether Industries Limited to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced Management

AIL was promoted by Mr. Ashwin Desai, Mrs. Purnima Desai (his wife) and their sons, Mr. Rohan Desai and Mr. Aman Desai. The family has been associated with the chemical industry for more than four decades with Mr. Ashwin Desai being the founder of Anupam Rasayan (India) Limited (ARIL) which is also in the manufacturing of chemicals. The extensive experience of the promoters in the company's line of business has helped AIL maintain healthy and long standing relations with its customers and suppliers which in turn has helped the company secure repeat orders. Acuité believes that the company will be able to generate a healthy growth in revenues backed by increase in capacity utilisation and repeat orders from customers.

• Reputed clientele

Despite being in operations for a very limited time, AIL has managed to acquire reputed customers such as Byk Chemie GmbH, Divis Laboratories Limited, Sun Pharmaceutical Industries Limited, Aarti Drugs Limited to name a few. AIL registered revenue of Rs.108.69 crore in FY2018, its first full year of operations with an operating income of Rs.24.38 crore. Further, AIL recorded revenue of ~Rs.110.00 crore till September 2018 and holds orders worth Rs.63.00 crore as on date.

• Moderate Financial Risk Profile

AIL has a moderate financial risk profile marked by healthy net worth, moderate gearing and healthy financial risk profile. The net worth of AIL stood healthy at Rs.47.32 crore as on March 31, 2018 (includes unsecured loans from promoters of Rs.7.58 crore) against Rs.40.11 crore as on March 31, 2017. The gearing of the company stood moderate at 1.98 times as on March 31, 2018 against 1.96 times as on March 31, 2017. Although, it is expected to improve on account of healthy accretion of reserves in the near to medium term backed by healthy growth in revenues and no major debt funded capex. The total debt of Rs.93.64 crore as on March 31, 2018 comprises long term loan from bank worth Rs.71.62 crore and short term working capital debt from bank of Rs.22.02 crore. Interest Coverage Ratio (ICR) stood moderate at 2.45 times for FY2018 against 1.73 times for FY2017. Debt Service Coverage Ratio (DSCR) stood at 2.15 times for FY2018 against 0.89 times for FY2017. The total outside liabilities to

tangible net worth ratio (TOL/TNW) stood at 2.33 times as on March 31, 2018 against 2.42 times as on March 31, 2017. Further, the net cash accruals of the company stood healthy at Rs.12.93 crore for FY2018 against a debt obligation of Rs.0.66 crore. Acuité believes that the financial risk profile of the company will improve in the near to medium term backed by decrease in debt on account of repayment of term loans and growth in revenues.

Weaknesses

- **Working capital intensive nature of operations**

AIL's operations are working capital intensive marked by high Gross Current Assets (GCA) of 178 days for FY2018 against 235 days for FY2017. The company maintains raw material inventory of ~70 days and finished goods inventory of around 20 days. AIL extends credit period of 60-90 days to its customers. On the other hand, the company gets a credit period of 45-60 days from its suppliers. The company generated cash accruals of Rs.13.01 crore cumulatively over the last three years through 2018. On the other hand, the incremental working capital requirements and routine capex amounted to ~Rs.38.44 crore, leading to higher reliance on external debt which is visible through an average CC utilisation of ~80-90 percent.

- **Susceptibility of margins to forex risk and government regulations**

The company generates 40 percent of its revenue through exports and imports ~50 percent of its raw materials. Hence, it faces foreign exchange risk on account of currency fluctuations. Although, the same is mitigated on account of presence of natural hedge and bank cover to the extent of 75 percent.

Outlook: Stable

Acuité believes that the outlook AIL will remain 'Stable' over the medium term on account of the promoters' extensive experience. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability while effectively managing its working capital cycle. The outlook may be revised to 'Negative' in case of significantly lower than expected net cash accruals or lengthening of the working capital cycle, thereby resulting in deterioration in the financial risk profile or debt protection metrics of the company.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	108.69	24.40	0.39
EBITDA	Rs. Cr.	24.38	3.07	-0.57
PAT	Rs. Cr.	7.77	-1.09	0.09
EBITDA Margin	(%)	22.43	12.60	-145.18
PAT Margin	(%)	7.15	-4.46	24.14
ROCE	(%)	14.71	6.15	0.52
Total Debt/Tangible Net Worth	Times	1.98	1.96	0.53
PBDIT/Interest	Times	2.45	1.73	17.02
Total Debt/PBDIT	Times	3.83	10.21	54.41
Gross Current Assets (Days)	Days	178	235	16825

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE BBB- / Stable
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3
Letter of credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Jyotsna Nebhnani Analyst - Rating Operations Tel: 022 49294074 jyotsna.nebhnani@acuiteratings.in	

About Acuité Ratings & Research:

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