

Press Release

Aether Industries Limited

February 06, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 187.15 Cr. (Enhanced from Rs. 125.88 crores)
Long Term Rating	ACUITE BBB / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs. 187.15 crores bank facilities of AETHER INDUSTRIES LIMITED (AIL). 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 total installed capacity of 2600 MT for specialty chemicals and 120 MT facility for CRAMS.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of AIL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

AIL is 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 an established player in the chemical industry. The extensive experience of the promoters in the chemical industry has helped the company to maintain healthy and long-standing relations with its customers and suppliers, which in turn has helped the company secure repeat orders. This is well reflected in revenue levels, which stood at Rs. 201.93 crore in FY2019 against Rs. 24.40 crore in FY2017. Acuite believes that the company will be able to generate a healthy growth in revenues backed by promoter's technical expertise, new product innovation, niche products with limited competition, increase in capacity utilisation and repeat orders from customers.

• Reputed clientele

Due to promoter's extensive experience in the industry and strong relationship with customers, AIL has managed to acquire reputed customers such as Byk Chemie GmbH, Divis Laboratories Limited, Sun Pharmaceutical Industries Limited and Aarti Drugs Limited to name a few. AIL has registered revenue of Rs.201.93 crore in FY2019 in its second full year of operations. Further, AIL recorded revenue of ~Rs.146.00 crore till September 2019 and holds orders worth Rs. 192.00 crore approximately as on date.

• Comfortable financial risk profile

AIL has comfortable financial risk profile marked by healthy net worth, moderate gearing and coverage indicators. The net worth of AIL stood healthy at Rs. 72.18 crore as on March 31, 2019 (includes quasi equity of Rs. 9.04 crore) against Rs. 47.32 crore as on March 31, 2018 (includes quasi equity of Rs. 7.58 crore). The increase in the network is on account of healthy accretion to reserves due to healthy profitability. The gearing of the company improved to 1.28 times as on March 31, 2019 against 1.98 times as on March 31, 2018. Although, the company is undergoing capex of Rs.95.00 crore (funded by mix of debt and equity), gearing is expected to improve further on account of

healthy accretion of reserves in the near to medium term. The total debt of Rs. 92.09 crore as on March 31, 2019 comprises long-term loans from bank worth Rs. 59.02 crore and short-term working capital debt from bank of Rs. 33.07 crore. Interest Coverage Ratio (ICR) has improved considerably to 4.25 times for FY2019 against 2.45 times for FY2018. Similarly, Debt Service Coverage Ratio (DSCR) has improved to 3.56 times for FY2019 against 2.15 times for FY2018. The total outside liabilities to tangible net worth (TOL/TNW) stood at 1.86 times as on March 31, 2019 against 2.33 times as on March 31, 2018. Further, the net cash accruals of the company stood healthy at Rs.29.50 crore for FY2019 against the debt obligation of Rs.8.30 crores.

Acuite believes that the financial risk profile of the company will continue to improve in the near to medium term backed healthy order book position, further improvement in profitability and healthy net cash accruals.

Weaknesses

• Working capital intensive nature of operations

ALL's working capital operations are intensive marked by GCA days of 173 in FY2019 as against 178 days in FY2018. The GCA days are high on account of debtor and inventory days of 87 and 92 respectively. The company normally allows credit period of 75-90 days to its customers thereby leading to high debtor days. Inventory days are high due to different variety of products the company manufactures. The company gets around 45-60 days of credit period from its suppliers. The average working capital utilization stood at ~83 per cent.

• Susceptibility of margins to forex risk

The company generates ~50 percent of its revenue through exports and imports ~40 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.

Rating Sensitivities

- Continuous improvement in the scale of operations while maintaining profitability leading to improvement in overall financial risk profile.
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.

Material Covenants

1. Minimum DSCR of 1.50 times.
2. TOL / TNW $\leq$ 2x
3. Net FA / Term Debt $\geq$ 1.5 times.
4. Term Debts / NCA $\leq$ 4.5 times.
5. Current Ratio $\geq$ 1.30 times.
6. Minimum ICR of 3.56 times.
7. Debt / EBITDA $<$ 1.62 times

Liquidity Position: Adequate

ALL has adequate liquidity marked by healthy net cash accruals of Rs. 29.50 crore against maturing debt obligations of Rs. 8.30 crore during FY2019. The operations are working capital intensive as marked by gross current asset (GCA) days of 173 in FY2019 as compared to 178 days in FY2018. The cash credit limit of the company remains utilized at ~80 per cent during the last six months period ended November 2019. The unencumbered cash and bank balances stood at Rs. 0.10 crore as on March 31, 2019. The current ratio stood at 1.20 times as on March 31, 2019. Acuite believes that the liquidity of the company will improve on account of increasing net cash accruals vis-a-vis maturing debt obligations, improving financial risk profile and reducing reliance on external debt.

Outlook: Stable

Acuite believes that ALL will maintain a stable outlook over the medium term owing to its experienced management and improving financial risk profile. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenue while maintaining profitability margins, improvement in capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue, profit margins or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	201.93	108.69
PAT	Rs. Cr.	23.30	7.77
PAT Margin	%	11.54	7.15
Total Debt / Tangible Net Worth	Times	1.28	1.98
PBDIT / Interest	Times	4.25	2.45

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing entities - <http://acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
03-Jan-2020	Cash Credit	Long Term	20.00	ACUITE BBB / Stable (Upgraded from ACUITE BBB- / Stable)
	Bills Discounting	Short Term	15.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Cash Credit	Long Term	16.00	ACUITE BBB / Stable (Upgraded from ACUITE BBB- / Stable)
	Term Loan	Long Term	41.15	ACUITE BBB / Stable (Upgraded from ACUITE BBB- / Stable)
	Term Loan	Long Term	9.20	ACUITE BBB / Stable (Upgraded from ACUITE BBB- / Stable)
	Standby Line of Credit	Long Term	1.00	ACUITE BBB / Stable (Upgraded from ACUITE BBB- / Stable)
	Proposed Bank Facility	Long Term	4.53	ACUITE BBB / Stable (Upgraded from ACUITE BBB- / Stable)
	Letter of Credit	Short Term	8.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Letter of Credit	Short Term	10.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Standby line of credit	Short Term	1.00	ACUITE A3+ (Upgraded from ACUITE A3)
07-Jan-2019	Cash Credit	Long Term	23.00	ACUITE BBB- / Stable (Reaffirmed)

	Bills Discounting	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	16.00	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	52.58	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	11.50	ACUITE BBB- / Stable (Assigned)
	Standby Line of Credit	Long Term	2.00	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	6.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	6.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Short Term	1.80	ACUITE BBB- / Stable (Assigned)
12-Dec-2018	Cash Credit	Long Term	16.00	ACUITE BBB- / Stable (Assigned)
	Bills Discounting	Short Term	1.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	6.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A3 (Assigned)

***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	20.00	ACUITE BBB / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	41.15	ACUITE BBB / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	9.20	ACUITE BBB / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BBB / Stable (Reaffirmed)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB / Stable (Reaffirmed)
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	1.80	ACUITE BBB / Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ (Reaffirmed)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3+ (Reaffirmed)

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