

## Press Release

### Aether Industries Limited

November 23, 2020



#### Rating Upgraded

<b>Total Bank Facilities Rated*</b>	Rs. 187.15 Cr.
<b>Long Term Rating</b>	ACUITE BBB+ /Stable (Upgraded from ACUITE BBB/Stable)
<b>Short Term Rating</b>	ACUITE A2 (Upgraded from ACUITE A3+)

\* Refer Annexure for details

#### Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB+** (read as ACUITE triple B plus) from **ACUITE BBB** (read as ACUITE triple B) and the short term rating to '**ACUITE A2**' (read as ACUITE A two) from **ACUITE A3+** (read as ACUITE A three plus) on the Rs.187.15 crore bank facilities of Aether Industries Limited (AIL). The outlook is '**Stable**'.

#### Reason for revision in rating

The upgrade in the rating is on account of a significant improvement in revenue and profitability, healthy financial risk profile and strong interest coverage ratio. The operating income of the company has grown by 49.50 percent in the FY2020 over FY2019. Operating Income for FY2020 stood at Rs.301.87 Crore as against Rs.201.93 Crore for the FY2019. The performance of the company has improved even during the current COVID-19 period as the company have achieved a revenue of Rs.226 Crore as on 30th September, 2020. This was mainly due to an increase in demand for the products offered by the company and high number of orders. The EBITDA Margins have significantly improved to 23.44 percent for FY2020 as against 22.14 percent in FY2019. The PAT Margins have also significantly improved to 13.12 percent for FY2020 as against 11.54 percent in FY2019. This is mainly due to significant growth in revenue and optimum utilization of installed capacity. The net worth of the company stood high at Rs.113.93 Crore as on 31 March 2020 as against Rs.72.18 Crore as on 31 March 2019. The interest coverage ratio (ICR) stood strong at 8.60 times in FY2020 as against 4.25 times in FY2019. NCA/TD (Net Cash Accruals to Total Debt) ratio improved to 0.35 times in FY2020 as against 0.32 times in FY2019.

#### About the Company

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 3000 MT for specialty chemicals and 120 MT facility for CRAMS.

#### Analytical Approach

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

#### Key Rating Drivers

##### Strengths

- **Experienced management and reputed clientele**

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 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. The key customers of the company include reputed names like Byk Chemie GmbH, Divis Laboratories Limited, Sun Pharmaceutical Industries Limited and Aarti Drugs Limited, to name a few.

Acuité believes that the company will be able to generate healthy growth in revenues backed by an increase in capacity utilization and repeat orders from customers.

- **Healthy Financial risk profile**

The company's financial risk profile has remained healthy marked by high net worth, moderate gearing and strong debt protection metrics. The net worth of the company stood at Rs.113.93 Crore as on 31 March 2020 as against Rs.72.18 Crore as on 31 March 2019. The net worth levels have seen significant improvement over the last three years on account of healthy accretion to reserves during the same period. The net worth also includes an unsecured loan from directors and related parties amounted to Rs.11.06 Crore as that amount will sustain in the business for the longer run. The gearing level (debt-equity) stood at 1.17 times as on 31 March 2020 as against 1.28 times as on 31 March 2019. The total debt of Rs.132.93 Crore as on 31 March 2020 consists of long term debt of Rs.81.54 Crore and working capital borrowings of Rs.51.39 Crore. The interest coverage ratio (ICR) improved significantly and stood at 8.60 times in FY2020 as against 4.25 times in FY2019 due to low interest cost and high EBITDA during the year. NCA/TD (Net Cash Accruals to Total Debt) ratio increased to 0.35 times in FY2020 as against 0.32 times in FY2019. Debt to EBITDA stood at 1.85 times in FY2020 as against 2.05 times in FY2019.

Acuité expects the financial risk profile of the company to remain healthy over the medium term on account of healthy accretion to reserves and strong debt protection metrics leading to lower reliance on external borrowings.

- **Significant growth in operating income and profitability:**

The Company have shown significant growth in the past few years. In FY2020 the operating income of the company stood at Rs.301.87 Crore as against Rs.201.93 Crore for the FY2019. This was mainly due to an increase in demand for the products offered by AIL and high number of orders. The EBITDA Margins improved to 23.44 percent for FY2020 as against 22.14 percent in FY2019. The PAT margin have also improved and stood at 13.12 percent in FY2020 from 11.54 percent in FY2019. This is mainly due to significant growth in revenue and optimum utilization of installed capacity.

In the current financial year, the Covid-19 Pandemic didn't impact the operational performance of the company as significantly as it did to the company in other industry. The company was operating continuously during the lockdown as their products were classified as essential commodities. As of 30-09-2020, the group have achieved total revenue of ~Rs.226.00 Crore with a PAT of Rs.33.00 Crore.

## **Weaknesses**

- **Working capital intensive nature of operations**

The working capital management of the company stood intensive in FY2020 marked by Gross Current Assets (GCA) of 179 days in FY2020 as against 173 days in FY2019. The inventory and debtor levels stood at 114 days and 74 days in FY2020 as against 92 and 87 days in FY2019, respectively. The company has to maintain a huge inventory because of the variety of products it procures. Besides, the company also imports chemicals in bulk. The creditor days stood at 77 days in FY2020 as against 62 days in 2019. The average utilization of bank limits stood at ~82 per cent in the last six months ending September 2020.

Acuité believes that the working capital requirements will continue to remain intensive over the medium term mainly on account high inventory holding period.

- **Susceptibility of margins to forex risk**

The company generates ~50 percent of its revenue through exports and imports ~44 percent of its raw materials. Hence, it faces foreign exchange risk on account of currency fluctuations. Although, the same is mitigated on account of the presence of natural hedge.

### Rating sensitivity

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

### Material Covenant

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

### Liquidity position: Adequate

The Company has adequate liquidity marked by high net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.47.05 Crore in FY2020 as against debt maturity obligation of Rs.11.09 Crore for the year. The cash accruals of the company are estimated to remain in the range of around Rs.67.10 Crore to Rs.101.33 Crore during FY2021-23 against the CPLTD of Rs.16.80 Crore each year for the same period. The company's working capital operations are intensive, marked by Gross Current Asset (GCA) days of 179 days in FY2020. The average utilization of bank limits stood at 82 per cent in the last six months ending September 2020. The current ratio stands at 1.42 times as on 31 March 2020. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual vis-a-vis maturing debt obligations.

### Outlook: Stable

Acuité believes that AIL 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 a decline in revenue, profit margins or deterioration in the financial risk profile and liquidity position.

### About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	301.87	201.93
PAT	Rs. Cr.	39.61	23.30
PAT Margin	(%)	13.12	11.54
Total Debt/Tangible Net Worth	Times	1.17	1.28
PBDIT/Interest	Times	8.60	4.25

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

Not Applicable

### Any other information

Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

**Rating History (Up to last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
February 06, 2020	Cash Credit	Long Term	20.00	ACUITE BBB/Stable (Reaffirmed)
	Cash Credit	Long Term	35.00	ACUITE BBB/Stable (Reaffirmed)
	Term Loan	Long Term	41.15	ACUITE BBB/Stable (Reaffirmed)
	Term Loan	Long Term	9.20	ACUITE BBB/Stable (Reaffirmed)
	Term Loan	Long Term	60.00	ACUITE BBB/Stable (Reaffirmed)
	Standby Line of Credit	Long Term	1.00	ACUITE BBB/Stable (Reaffirmed)
	Proposed Long Term Facility	Long Term	1.80	ACUITE BBB/Stable (Reaffirmed)
	Letter of Credit	Short Term	8.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Standby Line of Credit	Short Term	1.00	ACUITE A3+ (Reaffirmed)
January 03, 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 January, 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	Long Term	1.80	ACUITE BBB-/Stable (Assigned)
12 December, 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 (Upgraded from ACUITE BBB/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
Term Loan-I	June-2016	Not Applicable	June-2024	38.86	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
Term Loan-II	December-2017	Not Applicable	December-2024	8.74	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
Term Loan-III	November-2019	Not Applicable	May-2026	60.00	ACUITE BBB+/Stable (Upgraded from ACUITE

					BBB/Stable)
Standby line of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	4.55	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A2 (Upgraded from ACUITE A3+)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2 (Upgraded from ACUITE A3+)
Standby line of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A2 (Upgraded from ACUITE A3+)

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### About Acuité Ratings & Research:

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