ANUPAM RASAYAN INDIA LTD.

ARILSLDSTX20241018045 Date: October 18, 2024

To,	To,
BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai -400001, India **SCRIP CODE: 543275**	**National Stock Exchange of India Limited** 'Exchange Plaza', C-1, Block-G, Bandra Kurla Complex Bandra (East), Mumbai 400051, India **SYMBOL: ANURAS**

Dear Sir/ Madam,

Subject: Intimation of Credit Rating under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations").

Pursuant to the provisions of Regulation 30 of the SEBI Listing Regulations, we wish to inform the Exchanges that the credit rating agency **India Ratings and Research (Ind-Ra)**, has affirmed Anupam Rasayan India Limited's Long-Term Issuer Rating at "IND AA- "and the Outlook is stable. The instrument-wise ratings are as below:

Instrument Type	**Rating/ Outlook**
Long-Term Issuer Rating	IND AA-/Stable (Affirmed)
Fund-based working capital limit	IND AA-/Stable/IND A1+ (Affirmed)
Term loan	IND AA-/Stable (Affirmed)
Non-fund-based working capital limits	IND A1+ (Affirmed)
Fund-based limits	IND AA-/Stable/IND A1+ (Assigned)

The Rating Rationale dated October 18, 2024 is enclosed herewith. We request you to kindly take note of the same and take into your records.

This intimation is also being disclosed on the website of the Company at www.anupamrasayan.com.

Thanking You,
Yours faithfully,

For, Anupam Rasayan India Limited

ASHISH GUPTA Digitally signed by ASHISH GUPTA Date: 2024.10.18 18:00:12 +05'30'

Ashish Gupta
Company Secretary and Compliance Officer

Encl.: As above

India Ratings & Research
A Fitch Group Company

India Ratings Affirms Anupam Rasayan India at ‘IND AA-’/Stable; Rates Additional Limits

Oct 18, 2024 | Specialty Chemicals

India Ratings and Research (Ind-Ra) has affirmed Anupam Rasayan India Limited’s (ARIL) Long-Term Issuer Rating at ‘IND AA-’. The Outlook is Stable. The instrument-wise rating actions are as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Long-Term Issuer Rating	-	-	-	-	IND AA-/Stable	Affirmed
Fund-based working capital limit	-	-	-	INR2,800	IND AA-/Stable/IND A1+	Affirmed
Term loan	-	-	FY29	INR2,351 (reduced from INR4,269)	IND AA-/Stable	Affirmed
Non-fund-based working capital limits	-	-	-	INR320	IND A1+	Affirmed
Fund-based working capital limits	-	-	-	INR6,490	IND AA-/Stable/IND A1+	Assigned

Analytical Approach

Ind-Ra continues to take a fully consolidated view of ARIL and its subsidiaries while arriving at the ratings, as they are in the similar/ancillary businesses.

Detailed Rationale of the Rating Action

The ratings reflect ARIL’s sustained strong EBITDA margins of 24%-28% over FY21-FY24 along with the infusion of funds through qualified institutional placement (QIP) and preferential share allotment. While the working capital cycle remained elongated in FY24 on account of a slowdown across the industry and the build-up of channel inventory, the agency and the management expect a recovery over the medium term as demand picks up. The consolidated adjusted net leverage ratio is also likely to improve with the planned equity infusion over the next two years along with the improvement in the working capital cycle, resulting in lower net debt and leverage levels.

The ratings also factor in ARIL’s continued strong business profile given the company’s established presence in the specialty chemicals segment. While the sector is likely to witness a subdued performance in FY25, due to the continued weakness mainly in the agrochemical segment, Ind-Ra takes comfort from ARIL’s demonstrated ability to successfully ramp up large projects in a timely manner, with its revenue increasing at a CAGR of 40% over FY21-FY23 and letter of intents (LOI’s) of close to INR90 billion to be executed over the next seven years. Ind-Ra expects a sequential improvement in performance in 2HFY25, with a meaningful pick-up in demand 4QFY25 onwards, leading to a double-digit growth in revenue in FY26. The company is incurring a capex of INR2,000 million for FY25 at the standalone level, which is close to completion, while the capex at its subsidiary, TANFAC Industries Limited (Tanfac), has been completed in FY25.

While the company received equity infusion of INR2.7 billion in FY24 (including INR1.8 billion from the promoters), the increase in the working capital coupled with the ongoing capex, led to an increase in net adjusted leverage (net debt factoring in the off-balance sheet debt/ EBITDA) to around 2.1x in FY24. While the leverage could remain elevated in FY25 given the subdued demand environment, Ind-Ra expects the recovery in demand and completion of the capex to lead to deleveraging in FY26. Out of INR3.7 billion of share warrants issued in FY24, ARIL received 25% of the issue proceeds during FY24 with the balance due in 1QFY26, which would lead to a debt reduction. Its EBITDA margin remained healthy at 25.8% in FY24 (FY23: 26.9%), indicating the company's ability to pass on input price changes. While the margins fell to 20.9% in 1QFY25, Ind-Ra expects a recovery in 2HFY25. The ratings continue to be constrained by the high working capital requirement, which was further elevated in FY24 given the demand slowdown. A correction in the working capital remains a key rating monitorable.

List of Key Rating Drivers

Strengths

- Established player in specialty chemicals industry with inherent customer stickiness
- Adequate diversification across business, but customer concentration risk remains
- Cost pass-through contracts limit margin volatility despite demand slowdown
- Likely recovery in growth in FY26 after subdued FY25
- Net adjusted leverage likely to reduce in FY26 after a stretch in FY24-FY25

Weaknesses

- Elevated net working capital due to weak demand; Likely to remain high despite normalisation in FY26
- Exposure to forex risks

Detailed Description of Key Rating Drivers

Established Player in Specialty Chemicals Industry with Inherent Customer Stickiness: ARIL is an established player in the chemicals industry in India, offering custom synthesis and manufacturing of specialty chemicals. The company's products are primarily divided into two business verticals: life science-related specialty chemicals (91% of FY24 revenue), comprising products related to agrochemicals, personal care, and pharmaceuticals, and other specialty chemicals (9%), comprising specialty pigments and dyes, and polymer additives. The company derived approximately 60% of its FY24 revenue from long-term contracts (FY23: 70%; FY22: 50%), and for majority of the products under contract, ARIL is either the sole or the primary supplier to its customers. As the company's customers are required to register their suppliers with various regulatory bodies, the customer choose their suppliers after a careful review, leading to customer stickiness in the business. In order to limit the spread of sensitive and confidential information, only a select number of suppliers are selected by the customers, which further adds to the customer loyalty. At FYE24, the total installed capacity stood at 27,242 tonnes per annum (TPA), spread across six units all located in Gujarat, with four units at Sachin (cumulative capacity of about 15,687 TPA) and two at Jhagadia (11,555 TPA).

ARIL's investment in Tanfac has also strengthened its position specially in the fluorination chemistry segment, helping the company with an uninterrupted access to chemicals including potassium fluoride and hydrogen fluoride, which are the key raw materials in fluorination chemistry. This backward integration has helped ARIL reduce its dependence on imports from China.

Adequate Diversification across Business, but Customer Concentration Risk Remains: ARIL's product portfolio consists of around 70 specialty chemicals at FYE24 (FYE23: 53), spread across life-sciences and other specialty chemicals. While the expansion of 17 new molecules in FY24 supports the company's market presence, it also reduces its dependence on any single product or segment. The company also added four new multinational clients, strengthening its global footprint. As of 1QFY25, the company's client base stood at 75, aided by the addition of a few chemicals to its product portfolio and new LOIs signed in FY24. The customer base remained well-diversified geographically, with domestic customers accounting for 51% of the revenue in FY24 (FY23: 36%), and the remainder from exports. Its major export markets include Japan (14% of revenue in FY24; FY23: 16%) and Singapore (8%; 11%), followed by Europe (4%; 30%), whose demand was affected by the potential recession.

In addition, its end-use industries comprise agrochemicals (including crop protection), personal care, pharmaceuticals, specialty pigments, specialty dyes and polymer additives. ARIL's supplier base is also well-diversified, with none of the suppliers accounting for more than 10% of total purchases in FY24. While ARIL enjoys adequate product and geographic diversification, it is are also exposed to significant customer concentration risk, with the top five customers accounting for 54% of its FY24 revenue (FY23: 62%), while the top 10 customers accounted for 77% (83%). However, Ind-Ra derives some comfort from the fact that the majority of these customers are large and reputed multi-national companies. In addition, with commercialisation of new products and on-boarding of new customers, the agency expects the customer concentration risk to decline to some extent over the medium term.

Cost Pass-through Contracts Limit Margin Volatility despite Demand Slowdown: Approximately 60% of the company's FY24 revenue was through long-term contracts of two-to-five years. These contracts allow for complete cost pass-through either on a semi-annual or annual basis depending on the underlying inventory holding period. Furthermore, the management claims that ARIL has yet to see a contract not been renewed. ARIL has signed LOIs worth around INR89,190 million for the next four-to-seven years, supporting its long-term revenue and cash-flow visibility, along with range-bound margins, despite significant volatility inherent to the industry. Its long-term visibility is further supported by the fact that many of the customers are large and well-reputed MNCs, including BASF SE, Sumitomo Chemical Company Ltd., Syngenta, UPL Limited, and Adama Ltd., among others.

Despite the revenue decline in FY24, ARIL maintained healthy EBITDA margins of 26%, consistently through the cycle over the previous periods, majorly on account of the pass-through nature of the contracts with most of its customers. ARIL is setting up a hybrid (solar plus wind) power plant of 9.6 MW capacity with a capital outlay of INR593 million. This will result in savings of about INR150 million per year, adding further to its margins.

Likely Recovery in Growth in FY26 after a Subdued FY25: ARIL's revenue declined 8% yoy to INR14,751 million in FY24 (FY23: INR16,019 million; FY22: INR10,738 million), primarily due to subdued demand in the agrochemical and pharmaceutical sectors, and high channel inventory amid the global demand slowdown. While the sector is likely to witness a subdued performance in FY25, with some recovery in 2HFY25 with restocking demand, Ind-Ra expects the revenue to pick up in FY26, on the back of the ramp-up of existing capacities as well as incremental contribution from new capacities that are slated to come on stream in the near term.

ARIL has undertaken total capex of INR12,300 million over the past four years, that were funded through a mixture of internal accruals, borrowings (external and shareholder), as well as proceeds from an initial public offering and QIP to expand its product line. This has resulted in growth in installed capacity to 27,242 tonnes in FY24, (FY18: 12,000 tonnes) with product offerings increasing to 71 (25). The capacity utilisation improved across its production units until FY23 but saw a slowdown in FY24. Currently, ARIL is incurring a capex of INR6,700 million mainly to improve its product offerings, of which INR5,307 million has already been incurred till 1QFY25. The capex is primarily towards the signed LOI and the contracts have already been in place. Although Ind-Ra believes that the successful completion and stabilisation of the planned capex programmes would improve revenue visibility and operating profile, the timely ramp-up remains a rating monitorable.

Net Adjusted Leverage likely to Reduce in FY26 after a Stretch in FY24-FY25: The company's net adjusted leverage increased to 2.08x in FY24 (FY23: 0.44x), due to the fall in its EBITDA coupled with the ongoing capex and build-up of inventory and receivables. The interest coverage (EBITDA/gross interest expense) declined to 4.4x in FY24 (FY23: 8.0x; FY22: 10.4x; FY21: 2.8x). The net working capital increased by around INR2.0 billion in FY24 (FY23: INR1.1 billion), due to the inventory build-up coupled with the overall slowdown in the industry. While a part of the capex plan undertaken in FY24 was funded via the equity infusion of INR2.7 billion (including INR1.8 billion from promoters), net debt rose to INR7.2 billion at FYE24 (FY23: INR1.9 billion). ARIL also extended a corporate guarantee for bank facilities of INR750 million taken by Tangent Science Private Limited (associate company of its subsidiary) in FY24 in addition to an advance of INR750 million against future supplies. With the commencement of operations in the entity, no material support is likely to be extended by ARIL over the near term.

While the leverage could remain elevated in FY25 given the subdued demand environment and ongoing capex, Ind-Ra expects the recovery in demand and the completion of the capex cycle to lead to deleveraging in FY26 with net adjusted leverage within 1.5x. Out of INR3.7 billion of share warrants issued in FY24, ARIL received 25% during FY24 with the balance proceeds due in 1QFY26 which would lead to debt reduction.

Elevated Net Working Capital; likely to Remain High despite Normalisation in FY26: ARIL's cash conversion cycle rose sharply to 395 days in FY24 (FY23: 312; FY22: 433; FY21: 287), primarily on account of high inventory days of 390 (318; 446). While the company's inventory days have always been high historically, due to its inventory holding strategy to ensure consistent supply to customers even during volatile environments, its inventory days increased substantially at FYE24 following weak demand. The receivables elongated to 143 in FY24 (FY23: 95). Receivables outstanding for over 180 days rose to INR1.4 billion at FYE24 but a sizeable part of this has been collected in 1HFY25. Ind-Ra expects the working capital cycle to remain elevated in FY25 despite sequential improvement and is likely to normalise in FY26 which remains a rating monitorable. However, the net working capital cycle is structurally high given the inventory requirement although Ind-Ra takes some comfort from the inherent cost pass-through nature of the contracts.

Exposure to Forex Risks: ARIL's significant portion of revenue is generated through exports (FY24: 49%; FY23: 64%; FY22: 56%; FY21: 58%), while only a small portion of the company's purchases were accounted for by imports (17%; 20.3%; 22.2%). As there is only a small degree of natural hedge against currency fluctuation, the company's operating performance remains vulnerable to sharp changes in forex rates. However, this risk is largely mitigated as the company enters into forward contracts. The company recorded foreign exchange-related gains from a transaction/translation of INR50.1 million in FY24.

Liquidity

Adequate: At FYE24, the consolidated cash and equivalents stood including current investments stood at INR3,544 million (FYE23: INR6,299 million). ARIL's average utilisation of its fund-based facilities was moderate at close to 83% for the 12 months ended August 2024 but rose to 86% in 1HFY25 on account of the working capital lock-up. The cash flow from operations turned negative in FYE24 on account of the build-up of inventory. Ind-Ra expects the operating cash flows to remain positive over the medium term, supported by the normalisation of the inventory levels, the incremental cash flow contribution from existing facilities as well as the upcoming capacities with their expected ramp-up. The free cash flow remained negative over the past few years, partly due to the significant capex undertaken to expand the capacity and partly owing to the significant build-up of inventory. The agency expects the free cash flow to improve after FY25. The company's total outstanding term debt stood at INR3,240 million at FYE24.The company has a scheduled term loan repayment of INR1,270 million and INR790 million in FY25 and FY26, respectively, which can be easily funded through internal accruals.

The company has already secured the sources of funding for the current capex plans, including QIP, and term loan, along with internal accruals. Additionally, ARIL has raised money by issuing 19,04,540 equity shares on a preferential basis worth INR1,800 million to one of the promoters and by issuing 39,14,886 convertible share warrants worth INR3,700 million. Out of these share warrants, ARIL already received 25% of the issue price of warrants worth INR925 million during FY24. The balance proceeds of INR2,775 million would be received in 1QFY26 which will be used to repay the term debt availed to support the capex.

Ind-Ra notes that 10.3% of ARIL's promoter holding is pledged towards INR2.0 billion of promoter debt which is due for repayment in FY27. The management stated that ARIL's cash flows would not be utilised for the repayment of this debt.

Rating Sensitivities

Positive: A growth in scale led by a successful capex ramp-up, the rationalisation of the working capital cycle, an improvement in the return on capital employed and the maintenance of EBITDA margins, leading to the net leverage remaining below 1.0x, all on a consolidated and sustained basis, could lead to a positive rating action.

Negative: A delay in the ramp up of the capex and/or significant deterioration in the EBITDA margin and/or negative cash flow from operations and/or an elongation of the working capital cycle, leading to the net leverage exceeding 1.5x, all on a consolidated and sustained basis, would lead to a negative rating action.

Any Other Information

Comfortable Standalone Performance: ARIL's standalone revenue declined 12% yoy to INR11,287 million in FY24 (FY23: INR12,841 million) while the EBITDA fell to INR2,766 million (INR2,960 million).

About the Company

Established in 1984, ARIL is engaged primarily in the custom synthesis and manufacturing of specialty chemicals. The company's operations are divided into two business verticals, namely i) life science-related specialty chemicals: products related to agrochemicals, personal care and pharmaceuticals, and ii) other specialty chemicals: comprising specialty pigment and dyes, and polymer additives.

ARIL has six manufacturing sites, all located in Gujarat, of which four are in Surat and two in Jhagadia, with a total installed capacity of 27,242 metric tonnes at FYE24.

Key Financial Indicators

CONSOLIDATED

Particulars	FY24	FY23
Revenue (INR million)	14,751	16,019
EBITDA (INR million)	3,807	4,314
EBITDA margin (%)	25.8	26.9
Interest coverage (x)	4.4	8.0
Net adjusted leverage (x)	2.08	0.44
Source: ARIL, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable