

Aarti Surfactants Limited

August 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	189.50	CARE BBB+; Stable	Reaffirmed
Long Term Instrument - Preference Shares- Redeemable	18.50	CARE BBB; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Detailed Rationale and key rating drivers

The Rating reaffirmed to long term bank facilities and instrument of Aarti Surfactants Limited (ASL) as it derives its strength from steady growth in revenue, reputed client base comprising of multinational companies from FMCGs, extensive experience of the promoters and recovery in profitability. These strengths are partially offset by vulnerability of the operating margin due to volatility in raw material prices and intensive competition in the surfactants segment.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable improvement in Total Debt to PBILDT below 2.50x.
- Healthy revenue growth while maintaining range bound EBITDA margin of 9% on a sustainable basis.

Negative factors

- Lower than expected revenue growth and profitability.
- Total debt to PBILDT maintaining above 3.5x

Analytical approach: Standalone

For arriving at the ratings, CARE has considered the standalone financial of ASL. ASL has one subsidiary namely, Aarti HPC Limited which is non-operational.

Outlook: Stable

The Stable outlook reflects expected revenue growth in FY24 with expected uptick in revenue in FY24. CARE expects ASL to report healthy cash flows which are likely to remain sufficient for debt obligation of FY24.

Detailed description of the key rating drivers:

Key Rating Strengths

Steady growth in revenue assisted by higher realizations in FY23; growth momentum expected to continue in FY24: The Revenue from sale of product has shown a steady growth for last 5 years till FY23 with a CARG of ~14%. The revenue has shown a y-o-y growth of ~5% with total revenue from operations stood at Rs. 601 crores in FY23 as against Rs. 574 crores in FY22, which is driven by higher realizations. The contribution of Domestic and Export sales has remained rangebound at 75% and 25% respectively. Going forward company plans to increase its export share to ~35% by FY26 which is likely to boost the EBITDA margins.

CARE believes that increasing population and growing disposable income of the people in both developed and developing countries will lead the growth in home and personal care segment. In addition to this, the global supply chain driven by China plus one policy, will further boost demand for surfactants and other speciality products manufactured by ASL.

Established market position with reputed client base: ASL caters to reputed multinationals and domestic customers in FMCG sector and is a preferred supplier for Hindustan Unilever, Procter & Gamble Home Products Pvt. Ltd., and Dabur as well as other reputed global brands in India. ASL's customer concentration risk continues to remain moderate as contribution of top

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

3 customers to total sale is around 56%. Revenue growth has been achieved primarily through expansion in the domestic market with continued strong relationship with large MNCs in the FMCG sector and expansion in global footprint.

Strong background of the promoters in chemical industry vide Aarti Industries Limited: ASL continues to benefit from rich experience of their promoters in chemical/pharma sector through the Aarti Group founded by them. Also, ASL is managed under the guidance of Mr. Chandrakant Vallabhaji Gogri, who is the founder and the current Chairman Emeritus of Aarti Industries Limited (AIL). ASL's Managing Director, Mr. Nikhil Parimal Desai, is the son of Mr. Parimal H Desai, Whole Time Director of AIL. Aarti Industries was incorporated in 1984 and is a leading Indian manufacturer of speciality chemicals and pharmaceuticals with a global footprint. Aarti Industries Limited possesses a diverse portfolio of basic chemicals, agrochemicals, speciality chemicals and intermediates, which are extensively used in the manufacture of pharmaceuticals, agri-products, polymers, additives, pigments and dyes. The promoter's shareholding have increased to 49.81% as on June 30, 2023 (FY 22: 45%) due to the rights issue in January, 2023.

Profitability shown recovery in FY23; continues in Q1 FY24: The PBILDT margin of ASL declined to 5.40% in FY22 (FY21:9.54%) largely due to fire incident in Q4FY22 which caused a short disruption in operations. And the company was not able to fully pass on the raw material prices increase to its customers, who are large players as ASL has limited bargaining power. However, the margins have recovered in FY23 at 7.7% based on higher realization. Further, due to the decrease in raw material prices and better realizations in Q1FY24 the EBIDTA margin improved to 10% as compared to Q1FY23 (7%).

Key Rating Weakness

Susceptibility of operating profitability to volatility in raw material prices: ASL has high dependency on Lauryl alcohol (LA), fatty acids (HCFA) and Alpha Olefin (AO) which forms major portion of the raw material costs. The pricing of these raw materials is volatile in nature and is linked to palm oil price. Given, the price of the palm oil was volatile from FY20 which have impacted the palm oil derived products. Raw material cost forms ~80% of the revenue, impacting the EBIDTA margin. The Countervailing Duty (CVD) levied on Lauryl alcohol imported from Thailand, Indonesia has increased landed cost in India.

Lower Capacity utilization in FY23 due to fire incident: The overall capacity utilization has reduced to 45% in FY23 as against 51% in FY22, this was majorly due to fire incident at the Silvassa plant. The company has installed 132600 MTA as of FY23 as against the installed capacity of Galaxy surfactants leading pure surfactants player is ~320000 MTA in India.

Intense competition from domestic and international players: The speciality chemicals industry is highly competitive. The primary competitors of ASL are multi-national companies such as BASF Corporation, Godrej Industries Limited, Clariant Limited, Croda International Plc, Evonik Industries, Solvay S.A., Stepan Company and The Dow Chemical Company. In the domestic market Galaxy Surfactant Limited is the largest pure play surfactant manufacturer. Flexibility to respond to changing business conditions, including research and creation capabilities, is an important element towards maintaining a competitive position in the surfactants industry. In addition to competition within the surfactants industry, ASL is also affected by competition faced by its customers, specifically manufacturers of FMCG products which also limits its pricing power.

Liquidity: Adequate

The liquidity of the company is adequate with gross cash accrual of Rs. 30.70 crore in FY23. The gross accruals are expected to improve in near to mid-term backed by likely improvement in top line and profitability. The average maximum working capital utilisation of its fund-based limit of Rs. 100.00 crore remained at around 63% for the last 12 months ended 31 May 2023. ASL's cash flow from operations continued to remain positive for fourth consecutive year at Rs. 24.58 crores in FY23 (FY22: Rs. 23.36 crores FY21: Rs. 35.83 crores). The company has repayments of Rs. 26 crores in FY24 & Rs. crores in Q1FY24. The unrestricted cash and bank balance remains modest at Rs. 4.39 crores as on July 10, 2023 (FY22: Rs. 4.73 crore).

Assumptions/Covenants: NA

Environment, social, and governance (ESG) risks

In CARE Ratings' assessment, the environmental risks faced by the company is present but steps are taken to mitigate the same. As ASL discharges effluents but steps taken by the company install air filters to reduce air pollution. The company has high usage of Energy, hence CNG used as an alternate of coal. The company is under discussion to install Solar Power Plant at their facilities to further reduce power and fuel cost. In terms of social factors also, the company has 308 permanent employees in ASL with additional ~200 contract-based labour working at their facilities. Governance standards appear to be adequate,

based on compliance with listing agreements, reporting standards and disclosures by the company. ASL has two independent Directors Mr. Mulesh Salva (Chairman & Independent Director) and Ms. Misha Gala.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Commodity Chemicals

Aarti Surfactants Limited (ASL) was formed as a result of the demerger of the home and personal care division of Aarti Industries Limited. ASL is engaged in the manufacture of ionic and non-ionic surfactants and specialty products serving the home and personal care (HPC) industry. Its product portfolio includes surfactants, mild surfactants, rheology modifiers, pearlescing agents, UV filters, soap bases as well as conditioning agents. ASL supplies surfactants, including concentrates for shampoo, hand wash, dish wash and oral care. Apart from India, ASL also exports its products to USA, Europe and Southeast Asian countries with exports accounting for 27% of the sales in FY23. ASL is a preferred supplier to Hindustan Unilever, Procter & Gamble, Patanjali and Dabur. Its Manufacturing Units are located at Pithampur in Madhya Pradesh and Silvassa in Dadra Nagar Haveli.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1 FY24 (A)
Total operating income	574.41	600.18	148.70
PBILDT	31.03	46.63	14.84
PAT	5.50	12.71	5.25
Overall gearing (times)	1.19	0.89	NA
Interest coverage (times)	2.91	3.15	4.47

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	70.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit		-	-	-	30.00	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	October 2026	89.50	CARE BBB+; Stable
Preference Shares-Redeemable		August 20, 2019	0.00	August 19, 2026	18.50	CARE BBB; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	89.50	CARE BBB+; Stable	-	1)CARE BBB+; Stable (24-Aug-22)	1)CARE BBB+; Stable (11-Aug-21)	1)CARE BBB; Stable (02-Nov-20) 2)CARE BBB; Stable (07-Oct-20)
2	Preference Shares-Redeemable	LT	18.50	CARE BBB; Stable	-	1)CARE BBB; Stable (24-Aug-22) 2)CARE BBB; Stable (15-Apr-22)	1)CARE BBB (RPS); Stable (11-Aug-21)	1)CARE BBB-(RPS); Stable (02-Nov-20) 2)CARE BBB-(RPS); Stable (07-Oct-20)
3	Fund-based - LT-Cash Credit	LT	70.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable	1)CARE BBB+; Stable	1)CARE BBB; Stable

						(24-Aug-22)	(11-Aug-21)	(02-Nov-20) 2)CARE BBB; Stable (07-Oct-20)
4	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (24-Aug-22)	1)CARE BBB+; Stable (11-Aug-21)	1)CARE BBB; Stable (02-Nov-20) 2)CARE BBB; Stable (07-Oct-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Preference Shares-Redeemable	Highly Complex

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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