Ami Organics Limited

November 23, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	135.00	CARE A; Stable	Assigned
Long Term / Short Term Bank Facilities	115.00	CARE A; Stable / CARE A1	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Ami Organics Limited (AOL) derive strength from the vast experience of its promoters in the pharmaceuticals and speciality chemicals industry, its established manufacturing set-up with strong research and development (R&D) capabilities and its diversified product portfolio built through organic as well as inorganic routes. The ratings also factor in the company's widespread geographical presence with a diversified customer base and the stable demand outlook. The ratings are further underpinned by the consistent growth in AOL's total operating income (TOI) with healthy profitability, comfortable debt protection metrics, and strong liquidity.

The ratings, however, are constrained on account its moderate scale of operations and implementation and saleability risks associated with the ongoing large-sized brownfield capacity expansion project. The ratings are also constrained by the sizeable working capital requirements, the risk related to the volatile raw material prices as well as foreign exchange rates, and the presence in a competitive industry with inherent regulatory risks.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Volume-backed growth in the scale of operations of around ₹1,000 crore with a healthy profit before interest, lease, depreciation and tax (PBILDT) margin and return on capital employed (ROCE) of above 20% on a sustained basis.
- Maintenance of a comfortable capital structure and strong liquidity on a sustained basis.

Negative factors

- Any cost overruns in the ongoing capital expenditure impacting its liquidity or deterioration in the overall gearing beyond 0.50x and/or total debt (TD)/PBILDT beyond 2x on a sustained basis.
- Decline in the TOI below ₹500 crore and moderation in the PBILDT margin below 15% on a sustained basis.
- Elongation in the working capital cycle adversely affecting the cash flow from operations.

Analytical approach: Consolidated

The consolidated financials of AOL comprising AOL, a joint venture (JV), and a subsidiary are considered for the analysis. Details of the subsidiaries consolidated are shown in **Annexure-3**.

Outlook: Stable

The 'stable' outlook on the ratings reflects that the rated entity will continue to maintain is strong business risk profile on the back of its R&D capabilities, reputed and diversified customer base, and diversified product portfolio. Furthermore, CARE Ratings Limited (CARE Ratings) expects the entity to maintain its comfortable financial risk profile, supported by healthy cash accruals and low debt levels.

Detailed description of the key rating drivers:

Key strengths

Established manufacturing set-up with strong R&D capabilities

AOL has three manufacturing facilities (excluding the recent acquisition of Baba Fine Chemicals [BFC] during H1FY24). One of its facilities has received the establishment inspection report (EIR) twice from the United States Food and Drug Administration (USFDA), indicating stringent quality norms followed by the entity. The other two facilities were acquired from Gujarat Organics Limited (GOL) during FY21.

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

AOL has a dedicated R&D centre, which is recognised by the Department of Scientific and Industrial Research, Government of India, at Gujarat Industrial Development Corporation (GIDC), Sachin, in Surat. It has a R&D team of over 120 members comprising scientists, engineers, and PhDs. AOL has spent around 1-2% of its net sales on R&D expenses in the last two to three years ended FY23. It has strong chemistry skills with capabilities to undertake environment-friendly continuous flow chemistry (one of the few companies in India). With this, the company manufactures intermediates from the 'N minus 8' to the 'N minus 1' level (where N is the final active pharmaceutical ingredient [API]).

CARE Ratings expects AOL to continue to benefit from its strong R&D skills with focus on new products and process development.

Strong product portfolio with diversification through organic and inorganic routes
AOL has an established market position in the advanced pharmaceutical intermediates and specialty chemical business, supported by a strong product portfolio. It has a wide product portfolio, with no product forming more than 10-15% of the total sales. Also, its product composition varies as per the market needs and the introduction of new products. AOL is a preferred supplier for various pharmaceutical intermediates and holds high market shares in certain key molecules.

The company's advanced pharma intermediates segment contributes around 84% to the company's net sales and caters to the requirements of APIs and new chemical entities (NCEs) in more than 20 high-growth therapeutic segments such as anti-retroviral, anti-inflammatory, anti-psychotic, anti-cancer, anti-Parkinson, anti-depressant, and anti-coagulant, among others, with over 90% of the revenue derived from chronic segments.

With the acquisition of the two manufacturing facilities of GOL, AOL has been gradually strengthening its foothold in the speciality chemicals business, which constituted around 16% of its net sales during FY23 (FY22: 5%).

GOL had a wide product portfolio, which included specialty chemicals which has applications in preservatives, personal care, pharmaceuticals and resin industries, among others. Post acquisition of the facilities of GOL, AOL also added products catering to the agro-chemicals and paint (UV coating) industries.

Furthermore, in April 2023, AOL's board of directors approved the acquisition of 55% stake in BFC, which is into the manufacturing of speciality chemical products used in the semiconductor industry, thus further diversifying its revenue base. The said acquisition was completed during Q2FY24.

Apart from the above, AOL has also developed two electrolyte additives for lithium-ion batteries used in energy storage devices. And, as articulated by the management, the company is in advanced stages of negotiation of contracts with a few customers.

A small proportion (1-3%) of AOL's sales is also towards contract development and manufacturing (CDMO) and import substitute products.

Widespread geographical presence and diversified customer base
AOL benefits from its geographically diversified clientele spread across Europe, China, Japan, the UK, Latin America, and the US, among others. Exports contributed around 59% to its net sales during FY23 (FY22: 58%).

AOL has a reputed clientele base, with revenue from the top 10 customers calculating to 58% of its sales for FY23 (FY22: 54%). Furthermore, a few of its customers have been associated with AOL for the past 10 years. This apart, during FY23, AOL also entered into a definitive agreement with Fermion for being the exclusive supplier for intermediates used in Darolutamide (an anti-cancerous drug) for a long-term basis.

CARE Ratings believes that the ability of the company to address the diverse needs of the end-users and adherence to the stringent requirements enables it to secure repeat and additional business from its existing clients as well as to add new clients in an industry having high entry barriers.

Consistent growth in TOI with track record of healthy profitability and return indicators
AOL has growing scale of operations, with its TOI having grown at a healthy compounded annual growth rate (CAGR) of 26.55% from ₹190.68 crore during FY18 to ₹618.87 crore during FY23. The growth was driven by sales volume expansion in the existing molecules along with the addition of new molecules and increase of the customer base. It was further supported by expansion of the specialty chemicals business.

AOL has exhibited a trend of healthy profitability, marked by a PBILDT margin of around 20% during FY22-FY23. With this, AOL reported healthy gross cash accruals (GCA) of ₹98.14 crore as compared with ₹84.81 crore for FY22 and ₹58.35 crore during FY21. The overall return indicators remained healthy, with ROCE of over 20% during FY21-FY23.

For H1FY24 (Unaudited), AOL reported a TOI of ₹326.07 crore (H1FY23: ₹277.99 crore) with PBILDT and profit-after-tax (PAT) margins of 18.04% and 1.60%, respectively (H1FY23: 18.36% and 12.19%, respectively). During Q2FY24, AOL fully impaired its investment of ₹31.75 crore in its JV, i.e., Ami Onco-Theranostics, LLC, as revenue generation from the same is assumed to take significant time considering the inherent nature of its research activity with the longer gestation period and an uncertain success rate, leading to significant decline in the PAT. However, the GCA grew by around 10% to ₹45.40 crore during H1FY24 over H1FY23.

With a strong product portfolio, the introduction of new products, and benefits of the recent acquisition, CARE Ratings expects AOL to maintain a healthy growth in its TOI and profitability.

Comfortable debt protection metrics

The net worth base of AOL was augmented with the raising of fresh equity capital through an initial public offering (IPO) during FY21. The IPO size was ₹569.36 crore, which included ₹369.36 crore of offer for sales and the balance ₹200 crore of fresh issue (excluding the pre-IPO preferential allotment of ₹100 crore). Part of the IPO proceeds were utilised for prepayment of debt as well as for funding of the working capital borrowings, leading to a significant rationalisation of the TD of the company, marked by an overall gearing of 0.01x as on March 31, 2023.

AOL has a strong net worth base of ₹594 crore as on March 31, 2023, as well as liquidity in the form of a free cash and bank balance and nil net debt as on the aforementioned date, leading to healthy debt coverage indicators.

The TD of AOL increased from ₹3.60 crore as on March 31, 2023, to ₹101.22 crore as on September 30, 2023, with drawdown of the term debt for the ongoing capex as well as increase in the working capital borrowings. The debt level of AOL is expected to further increase going forward, owing to its capex and enhancement in the working capital borrowings, to support its growing scale. However, CARE Ratings expects AOL to maintain its overall gearing at below 0.25x going forward, considering its strong net worth base and healthy profitability.

Extensive experience of the promoters

Nareshkumar Patel (Executive Chairman and Managing Director) and Chetankumar Vaghasia (Wholetime Director) are the promoters of AOL. Both the founder-promoters have more than 20 years of experience in the chemicals industry.

Furthermore, AOL's board of directors comprises eight members (including four independent directors, of which two are women directors) who are well-qualified with vast industry experience. The top management is ably supported by a qualified professional team in the functioning of the company.

Stable industry outlook

The Indian pharmaceuticals industry has witnessed a CAGR of approximately 8% from FY17 to FY23, resulting in a market size of approximately US$ 50 billion. As per CARE Ratings, the foreseeable future presents a promising outlook for the industry in the exports market, characterised by increasing demand within both, regulated and emerging pharmaceutical markets. Furthermore, the impending expiration of patents on certain drugs presents an opportunity for substantial export growth, anticipated to be around 8% during FY24 and FY25. CARE Ratings anticipates that the Indian pharmaceuticals industry will reap benefits in the medium term from contract manufacturing for global pharmaceutical players and the supply of bulk drugs for branded generics in regulated markets. Moreover, the growth prospects will be bolstered by patent expirations in regulated markets, which pave the way for entry in the generic drug market, thus driving the API and intermediates demand.

The speciality chemical segment is also expected to grow steadily, supported by the growing domestic as well as export demand.

Key weaknesses

Moderate scale of operations

AOL holds a high market share in some of the key molecules that are supplied to innovators as well as generic players in the pharmaceuticals industry across the globe. However, it continues to operate on a moderate scale with a presence in the pharmaceuticals and speciality chemicals industry, which has multiple segments with varied end-usage applications.

Implementation and saleability risk associated with the ongoing brownfield capacity expansion project
AOL is currently undertaking a capacity expansion project of around ₹190 crore for its advanced pharma intermediates segment. The unit has received environmental clearance and is expected to have around 4x reactors as compared to the current size. The project is expected to commence production during Q4FY24.

Considering the type of the project and experience of the management in project execution, CARE Ragins expects lower implementation risk. However, the completion of the project in a time-bound and cost-effective manner and the generation of the envisaged returns will remain crucial from the credit perspective. Considering the significant increase in capacity, there exists saleability risk, which however, is mitigated to some extent, as part of this new facility being developed is also for the long-term contract with Fermion.

Sizeable working capital requirements
Due its wide portfolio, AOL needs to maintain sufficient inventory of the raw material as well as finished products. The average debtor days remained at 116 days, whereas the average creditor days was 95 during FY23. The operating cycle stood at 110 days during FY23. Thus, AOL's operations are working capital-intensive with gross current assets of 235 days during FY23. However, CARE Ratings notes that a large part of the working capital requirements is funded through internal accruals, with low reliance on external working capital limits.

Risk related to volatile raw material prices and foreign exchange rates
Raw material cost remains the major cost component for the company, forming around 70% of its total cost of sales. This exposes the company to any sharp volatility in raw material prices. In export sales, AOL witnesses price revision on a quarterly basis considering the prices of the key starting material (KSM) and forex rates, while the domestic sale is on a spot basis. This mitigates the price volatility risk to a certain extent.

Furthermore, while the company is a net exporter, any adverse forex fluctuation can also impact its profitability. For FY23, AOL reported a foreign exchange gain of ₹2.13 crore (FY22: ₹0.13 crore).

Inherent regulatory risk and competitive nature of industry
AOL is exposed to regulatory risk, since the players in the pharmaceuticals industry need to manufacture products that meet the set quality standards of various regulators across the globe as well as the customer requirements. Good manufacturing practice (GMP) must be followed for quality control. Furthermore, the pharmaceuticals industry is highly regulated and requires various approvals, licenses, registrations, and permissions for business activities. Also, companies require continuous adherence to defined pollution control norms as mandated by the respective pollution control bodies for seamless operations. Any non-adherence can lead to a significant impact on the business and financial performances.

Liquidity: Strong
AOL had strong liquidity, marked by healthy cash accruals as compared with low debt repayment obligations of around ₹6 crore during FY24 and ₹25-27 crore during FY25. Its liquidity is underpinned by the free cash and bank balance of ₹58.67 crore as on March 31, 2023, which along with its healthy cash accruals, are adequate to meet its ongoing capex as well as debt repayment requirements. The liquidity is also supported by the availability of sanctioned fund-based utilisation of the working capital limits, which remains low at around 9% for the last 12 months ended August 31, 2023. AOL has increased its working capital limits from ₹40 crore as on August 31, 2023 to ₹115 crore as on September 30, 2023, which will provide additional cushion. AOL reported a healthy cash flow from operation (CFO) of ₹65.53 crore during FY23 as compared with a negative ₹11.93 crore during FY22. The current ratio and quick ratio remained comfortable at 2.81x and 2.08x, respectively, as on March 31, 2023, as compared with 3.28x and 2.41x, respectively, as on March 31, 2022.

Environment, social, and governance (ESG) risks

Risk factors	Compliance and action by the company
Environmental	AOL's Sachin (Surat) unit is a zero liquid discharge (ZLD) unit (since 2015). In its Jhagadia plant, effluent is treated in its own effluent treatment plant with a multi-effect evaporator and is then discharged in a common GIDC effluent discharge line. AOL has a fully digitised QC lab with a temperature-controlled facility (separate for raw materials and finished goods). AOL has strong emphasis on the occupational health and safety aspects and follows the best industry practices. It is also installing a 5-MW solar power plant.
Social	AOL has implemented the corporate social responsibilities (CSR) policy, under which it undertakes various initiatives in the promotion and education of healthcare, eradication of poverty, hunger, and conservation of natural resources, among others. It regularly plans training and awareness programmes for employees and workers.
Governance	The company has required committees and policies in place, which include the succession policy for the board and senior management, business ethics policy, a code of conduct, a whistleblower policy, etc. The company's board of directors comprises eight directors, of which four are independent directors including two women directors.

Applicable criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Pharmaceutical
Policy on Withdrawal of Ratings

About the company and industry
Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

Incorporated in 2004 as a partnership firm, AOL (CIN: L24100GJPLC051093) is promoted by Nareshkumar Patel and Chetankumar Vaghasia. Its constitution was changed to private limited in 2007 and later to public limited in 2018.

AOL is engaged in the manufacturing of advanced pharmaceutical intermediates and speciality chemicals. Under its advances pharmaceutical intermediates segment, it manufactures molecules that are under clinical trial, or which have been launched in the patented as well as generic market. It also manufactures speciality chemicals having end-usage in cosmetics, food and personal care, dye and polymer industries, among others.

AOL launched its IPO during September 2021, and its shares were listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) w.e.f. September 14, 2021.

Brief Financials (₹ crore)-Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	520.27	618.87	326.07
PBILDT	105.31	125.49	58.82
PAT	71.95	83.29	5.22
Overall gearing (times)	0.00	0.01	0.16
Interest coverage (times)	16.44	52.02	44.23

A: Audited UA: Unaudited; 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-4

Complexity level of various instruments rated: Annexure-5

Lender details: Annexure-6

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/Non-fund-based-LT/ST	-	-	-	-	115.00	CARE A; Stable / CARE A1
Term Loan-Long Term	-	-	-	May 2030	135.00	CARE A; 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/Non-fund-based-LT/ST	LT/ST*	115.00	CARE A; Stable / CARE A1	-	-	-	-
2	Term Loan-Long Term	LT	135.00	CARE A; Stable	-	-	-	-

*Long term/Short term.

Annexure-3: List of subsidiaries of AOL consolidated

Sr. No.	Name of the Entity	Percentage holding by AOL as on March 31, 2023
1.	Ami Organics Electrolytes Private Limited	100%
2.	Ami Onco-Theranostics LLC	50%

Annexure-4: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-5: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	Simple
2	Term Loan-Long Term	Simple

Annexure-6: 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.

Contact us

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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