Ami Organics Limited

December 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	125.00 (Enhanced from 115.00)	CARE A+; Stable / CARE A1+	Upgraded from CARE A; Stable / CARE A1
Long-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to bank facilities of Ami Organics Limited (AOL) factors in significant growth in its scale of operations in FY24 (refers to April 01 to March 31) and H1FY25 (refers to April 01 to September 30) while maintaining comfortable profitability margins leading to healthy cash accruals. Additionally, the company raised the fund through qualified institutional placement (QIP) and preferential allotment, part of which were utilised to pre-pay the entire long-term debt resulting in substantial improvement in company's credit risk profile marked by comfortable solvency position and strong liquidity.

Ratings continue to derive strength from extensive experience of its promoters in the pharmaceuticals and speciality chemicals industry, its diversified product portfolio built through organic and inorganic routes. Ratings also factor in the company's widespread geographical presence with a diversified customer base and the stable demand outlook.

However, ratings are constrained on account of its moderate scale of operations and implementation and saleability risks associated with the ongoing projects. Ratings are also constrained by the sizeable working capital requirements, the risk related to the volatile raw material prices and foreign exchange rates, and the presence in a competitive industry with inherent regulatory risks.

The rating assigned to the long-term bank facilities has been withdrawn based on the bank's no dues certificate shared by the company.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Volume-backed growth in scale of operations to above ₹2,000 crore with healthy profit before lease rental, interest, depreciation and tax (PBILDT) margin and return on capital employed (ROCE) of above 20% on a sustained basis.
- Maintaining comfortable capital structure and strong liquidity on a sustained basis.

Negative factors

- Total debt/PBILDT beyond 2x on a sustained basis.
- Any change in prevailing pollution control/ environmental norms and/or regulatory non-compliances thereby significantly impacting its business and profitability.

Analytical approach: Consolidated

The consolidated financials of AOL comprise AOL (Standalone), a joint venture (JV), and its subsidiaries for the analysis. For list of entities getting consolidated into AOL, refer **Annexure-6**.

Outlook: Stable

The 'stable' outlook on the long-term rating reflects strong business risk profile supported by R&D capabilities, reputed and diversified customer base, and diversified product portfolio. CARE Ratings Limited (CARE Ratings) expects the entity to maintain its comfortable financial risk profile, supported by healthy cash accruals, and low reliance on the debt.

Detailed description of key rating drivers:

Key strengths

Healthy growth in total operating income while maintaining healthy profitability margins

AOL demonstrated consistent growth in total operating income (TOI) with a healthy compounded annual growth rate (CAGR) of ~25% in the last five years ended FY24. The growth was driven by organic and inorganic routes. TOI grew by ~17% y-o-y to ₹721.66 crore in FY24 supported by ~10% growth in pharmaceutical intermediates and ~52% in speciality chemical segment.

In FY24, revenue growth in pharmaceutical intermediates segment was supported by increase in sales volume in the existing molecules and addition of new molecules along with expansion in the customer base. Additionally, the acquisition of Baba Fine Chemicals (BFC) led to product expansion and supported the growth of speciality chemical segment.

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

AOL has exhibited a trend of healthy profitability, marked by a PBILDT margin of 18.39% in FY24 (FY23: 20.28%) and profit after tax (PAT) margin of 11.20% (excluding impact of impairment of investment) (FY23: 13.46%). Despite integration process post-acquisition of BFC, change in sales mix and pricing pressure, PBILDT margin moderated marginally by 189 bps y-o-y. AOL reported healthy gross cash accruals (GCA) of ₹100.70 crore in FY24 (FY23: ₹98.14 crore). The overall return indicators moderated in recent years due to huge capex which will generate benefits in next 3-4 years which, however, remained adequate.

Continuing its growth momentum, AOL reported TOI of Rs.423.40 crore (H1FY24: Rs.326.07 crore) with PBILDT and PAT margin of 18.53% (H1FY24: 18.04%) and 12.34% (H1FY24: 11.34%) respectively in H1FY25.

CARE Ratings expects AOL to sustain its growth momentum supported by strong focus on chronic segment under its pharmaceutical intermediate segment along with addition of new products and market expansion in the speciality chemical segment. Profitability marked by PBILDT margin is envisaged to ~20% with economies of scale and focus on high-margin products.

Comfortable debt protection metrics
Tangible net worth (TNW) base of AOL augmented substantially from ₹593.96 crore as on March 31, 2023, to ₹1,211.76 crore as on September 30, 2024, supported by fund raising of ~₹400 crore through QIP (net ₹388.43 crore), ~₹100 crore through preferential allotment (₹99.10 crore) along with accretion of healthy profits. Major part of the QIP proceed were utilised towards re-payment as well as pre-payment of the debt which has resulted in comfortable overall gearing of 0.01x as on September 30, 2024, compared to 0.32x as on March 31, 2024. The same also resulted in the comfortable debt protection metrics marked by PBILDT Interest coverage and total debt to gross cash accruals (TDGCA) of 15.91x and 0.05x, respectively, in H1FY25.

Strong product portfolio with diversification through organic and inorganic routes
Company has an established market position in the advanced pharmaceutical intermediates and specialty chemical business, supported by a strong product portfolio with no product forming over 10-15% of the total sales.

AOL's advanced pharma intermediates segment contributes ~79% to the company's net sales in FY24 (FY23: 84%). Under this segment, ~50% of the revenue was from generic business, ~40% from innovator business, and ~10% from CDMO. CDMO business has ramped up in H1FY25 and is likely to scale further going forward.

AOL is gradually strengthening its foothold in the speciality chemicals business, which formed ~21% of its net sales in FY24 (FY23: 16%). Under this segment, it has wide product portfolio including fine and performance chemicals, semiconductor chemicals, and battery chemicals. It includes specialty chemicals and other fine chemicals having applications in preservatives, personal care, pharmaceuticals and resin industries, among others, high-value custom speciality chemical products for usage in semiconductor industry (under BFC).

AOL has four manufacturing facilities (including facility of Baba Fine Chemicals), three in Gujarat and one in Uttar Pradesh. Its Sachin (located at Surat) facility has received approval from Pharmaceutical and Medical Device Agency (PMDA), Japan, with no major observations in inspection and the receipt of establishment inspection report (EIR) twice from the United States Food and Drug Administration (USFDA), indicating stringent quality norms followed by the entity.

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. Its R&D expenses remained ~1-2% of its net sales in the last three years ended FY24. Company has the ability to manufacture intermediates from the 'N minus 12' to the 'N minus 1' level (where N is the final active pharmaceutical ingredient).

Widespread geographical presence and diversified customer base
AOL benefits from its geographically diversified clientele spread across Europe, China, Japan, Israel, UK, Italy, Finland, Latin America, the US among others. Exports contributed ~56% to its net sales in FY24 (FY23: 56%). AOL has a reputed clientele base, with revenue from the top 10 customers forming ~57% of its sales for FY24 (FY23: 58%). A few of its customers have been associated with AOL for the past decade. This apart, in FY23, AOL also entered a definitive agreement with Fermion for being the supplier for intermediates used in Darolutamide (an anti-cancerous drug) for a long-term basis. The sales to Fermion commenced in Q4FY24.

CARE Ratings believes that the company's ability 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 and to add new clients in an industry having high entry barriers.

Extensive experience of promoters

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

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.

Key weaknesses

Moderate scale of operations

AOL holds a high market share in some of the key molecules that are supplied to innovators and 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 project

AOL is undertaking capex of ~₹310 crore (capacity expansion), ~₹177 crore (related diversification, i.e. electrolyte additives) and renewable power capacity addition in next two years ended FY26.
Of the capacity expansion capex, ₹230 crore was completed in FY24, and balance would be completed latest by Q4FY25. The unit has received environmental clearance and is expected to have ~3x capacity compared to the current size. Considering the significant increase in capacity, there exists saleability risk, which however, is mitigated to some extent, as part of this new facility (~33%) has already started operations while balance facility is expected to commence operation in Q4FY25.

AOL is undertaking capex of ~₹177 crore for setting up electrolyte additives manufacturing facility. The project is currently at nascent stage and expected to be completed by H1FY26. A couple of these additives have already been approved by the customers which may reduce the saleability risk upon commercialisation. This on-going capex has moderated the return indicator of AOL marked by ROCE of 14.80% in FY24 compared to 20.72% in FY23, as they are yet to materially scale-up. Hence, time-bound completion and realisation of envisaged benefit remains crucial for the growth prospects of the AOL.

Sizeable working capital requirements

Due its wide portfolio, AOL needs to maintain sufficient inventory of the raw material and finished products. The average debtor days remained at 110 days, whereas the average creditor days was 93 in FY24. Operating cycle stood at 104 days in FY24. Thus, AOL's operations are working capital intensive with gross current assets of 222 days in FY24. 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 ~70% of its total cost of sales. This exposes the company to sharp raw material price volatility. 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. While the company is a net exporter, adverse forex fluctuation can also impact its profitability. For FY24, AOL reported a foreign exchange gain of ₹4.18 crore (FY23: ₹2.13 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 regulators across the globe and the customer requirements. Good manufacturing practice (GMP) must be followed for quality control. The pharmaceuticals industry is highly regulated and requires 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 compared to no debt repayment obligations as it pre-paid all of its term debt (except vehicle loan) as on September 30, 2024. Its liquidity is underpinned by the free cash and bank balance of ₹279.52 crore as on September 30, 2024 (includes fixed deposit balance for intended use of ₹191.01 crore).
The liquidity is also supported by the availability of sanctioned fund-based working capital limits, utilisation of which was low at ~40% for the last 12 months ended November 30, 2024. AOL reported a healthy cash flow from operation (CFO) of ₹125.17 crore in FY24. The current ratio and quick ratio remained comfortable at 1.74x and 1.19x, respectively, as on March 31, 2024, compared to 2.89x and 2.15x, respectively, as on March 31, 2023.

Environmental, Social and Governance Risk assessment:

Risk factors	Compliance and action by the company
Environmental	Sachin, Surat plant, has zero liquid discharge (Since 2015) by treating effluent in soil biotechnology, multi effect evaporator, reverse osmosis, and treated water reusing in utility and treated water reused in utility to reduce overall fresh water withdrawal. While in Jhagadia plant, its wastewater treated in an Effluent Treatment plant and discharge in NCTL common drain after achieving prescribed Limit. AOL has fully digitised QC lab, with temperature-controlled facility (separate for the raw material and finished goods). AOL has strong emphasis on the occupational health and safety aspects and follows the best industry practices. AOL is one of the few companies in India which has started using environment friendly flow chemistry. It is installing 21 MW of solar power plant. AOL was accredited Gold Medal by EcoVadis within three years of initial audit by EcoVadis, through focus on green chemistry and green initiatives.
Social	AOL has implemented CSR policy & under which it takes initiatives in promotion and education of healthcare, eradication of poverty hunger and conservation of natural resources among others. It regularly plans training and awareness programmes for the employees and workers.
Governance	The Company has required committees and policies in place, which include succession policy for board & senior management, business ethics policy, a code of conduct, a whistle blower policy, among others. The Company's Board of Directors comprises eight directors, of which four are independent directors. AOL has two women directors on the Board. AOL reported no safety related incidents in FY24.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Pharmaceuticals
Financial Ratios – Non financial Sector
Withdrawal Policy
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic 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 manufacturing advanced pharmaceutical intermediates and speciality chemicals. Under its pharmaceutical intermediates segment, it manufactures molecules that are under clinical trial, or which have been launched in the patented and 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 in September 2021, and its shares were listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) on September 14, 2021.

Brief Financials (₹ crore)-Consolidated	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	618.87	721.66	423.40
PBILDT	125.49	132.68	78.44
PAT	83.29	48.71	52.26
Overall gearing (times)	0.01	0.32	0.01
Interest coverage (times)	52.02	22.34	15.91

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based/non-fund-based LT/ST	-	-	-	-	125.00	CARE A+; Stable / CARE A1+
Term Loan-Long Term	-	-	-	May 2030*	0.00	Withdrawn

**Fully paid as on September 30, 2024*

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based/Non-fund-based-LT/ST	LT/ST	125.00	CARE A+; Stable / CARE A1+	-	1)CARE A; Stable / CARE A1 (23-Nov-23)	-	-
2	Term Loan-Long Term	LT	-	-	-	1)CARE A; Stable (23-Nov-23)	-	-

LT: Long term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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-5: Lender details

To view lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Ami Organics Electrolytes Private Limited	100%	Subsidiary
2	Baba Advance Materials Limited	100%	Subsidiary
3	Baba Fine Chemicals	55%	Subsidiary
4	Ami Onco-Theranostics LLC	50%	Joint Venture

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

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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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