Aarti Surfactants Limited

June 27, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	208.87 (Enhanced from 150.00)	CARE A-; Stable	Reaffirmed
Long-term instruments	18.50	CARE BBB+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities and instrument of Aarti Surfactants Limited (ASL) continue to derive strength from its established market position with reputed clientele, promoters' extensive experience, and satisfactory capital structure. However, these rating strengths are partially offset due to susceptibility of its operating profitability to volatility in raw material prices, intense competition from domestic and international players, sizeable capex plans towards capacity expansion. Ratings also factor in subdued operating performance in FY25 marked by moderation in profit before interest, lease rentals, depreciation and taxation (PBILDT) margin notwithstanding growth in scale of operations. Subdued profitability margin impacted debt protection metrics of the company in FY25.

CARE Ratings Limited (CareEdge Ratings) takes cognisance of ASL's PBILDT margin being less than 7% as well as its Total Debt/PBILDT deteriorating beyond 2.5x in FY25. However, moderation in operating profitability in FY25 is expected to be one off due to sharp increase in raw material prices impacting 9MFY25 performance of the company. Its performance started improving with normalisation of raw material prices as well as price hike taken by the company leading to PBILDT margin of 9.77% in Q4FY25 and expectation of its PBILDT margin remaining higher than 7% coupled with its Total Debt/PBILDT improving to below 2.5x for FY26.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained growth in scale of operations to above ₹800 crore while maintaining healthy working capital cycle translating into comfortable liquidity buffer.
- Improvement in Profit before interest, lease rentals, depreciation and taxation (PBILDT) margins to above 12% driven by new product launches on a sustained basis.

Negative factors

- Lower-than-expected growth in sales volume with PBILDT margin below 7% impacting cash accruals.
- Higher-than-anticipated debt-funded capex or investment in group entities impacting the capital structure and/or liquidity profile.
- Total debt to PBILDT deteriorating above 2.5x on a sustained basis.

Analytical approach: Standalone

CareEdge Ratings has considered standalone financials for arriving at ASL's ratings. The company has one subsidiary, Aarti HPC Limited, which holds a land parcel at Pithampur and does not have any meaningful operations as on March 31, 2025.

Outlook: Stable

CareEdge Ratings believes that ASL shall benefit from its established market position with reputed clientele and vast experience of promoters supporting growth in scale of operations and improvement in profitability margin, while financial risk profile is expected to remain comfortable despite sizeable capex plans.

Detailed description of key rating drivers:

Key strengths

Established market position with reputed clientele

ASL is one of the largest surfactant manufacturers in the country and enjoys a healthy market position in the domestic market with reputed clientele including multinationals and domestic customers in fast moving consumer goods (FMCG) sector. The company has an installed capacity of 113,000 MT at Pithampur (Madhya Pradesh) and Silvassa (Dadra and Nagar Haveli), for manufacturing surfactants and speciality chemicals, which finds application as an intermediate in home and personal care industry. It is a preferred supplier for Hindustan Unilever Limited, Procter & Gamble Home Products Pvt. Ltd., Colgate Palmolive (India)

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

Limited, Dabur India Limited, among others. The company also exports its products to the US, Europe and Southeast Asian countries. Contribution of export sales has remained in the range of 18-30% in the past few years.

Long and established track record of promoters

ASL continues to benefit from promoters' rich experience in the chemicals/pharmaceutical sector through Aarti Group. The company was formed through the demerger of the home and personal care division of Aarti Industries Limited (AIL; incorporated in 1984), leading Indian manufacturer of speciality chemicals with a global footprint. AIL possesses a diverse portfolio of basic chemicals, agrochemicals, speciality chemicals, and intermediates, which are extensively used in manufacturing pharmaceuticals, agri-products, polymers, additives, pigments, and dyes. ASL is managed under the guidance of Chandrakant Vallabhaji Gogri, the founder and the current Chairman Emeritus of AIL. The promoter group has a shareholding of 49.92% in ASL as on March 31, 2025.

Satisfactory capital structure; debt coverage metrics witnessed a moderation

ASL's overall gearing stood satisfactory at 0.47x as on March 31, 2025 (FY24: 0.45x), while total outside liabilities to tangible net worth (TOL/TNW) stood at 0.96x (FY24: 0.85x). Debt coverage indicators witnessed a moderation considering decline in the profitability. PBILDT interest coverage stood at 3.00x for FY25 (FY24: 4.41x), while total debt/PBILDT and total debt to gross cash accruals (TD/GCA) stood at 3.18x (FY24: 1.60x) and 3.23x (FY24: 2.39x), respectively. The company is undertaking debt-funded capex with an additional debt of ~₹60 crore. Debt protection metrics, considering the capex, is expected to witness an improvement backed by increase in scale of operations and expectations of improvement in profitability margin while capital structure is expected to remain comfortable. Total/debt is expected to stay below 2.5x in FY26. Lower-than-expected profit margin or higher-than-expected debt impacting debt protection metrics on a sustained basis shall remain key monitorable going forward.

Liquidity: Adequate

The company has scheduled repayment of ₹21 crore, ₹28 crore, and ₹4 crore in FY26, FY27, and FY28, respectively, and with scaling up of its operations, cash accruals are expected to be sufficient to meet these obligations. As on March 31, 2025, overall gearing stood comfortable at 0.47x. The utilisation of its fund-based working capital limits stood at ~51% in the past 12 months ended April 30, 2025, providing healthy cushion to the liquidity.

Key weaknesses

Decline in operating profit margin in FY25

ASL's operating performance was marked by substantial moderation in operating profit margin in FY25 even though scale of operations witnessed a healthy increase. Total operating income (TOI) grew by 11% year-on-year (yoy) to ₹652 crore in FY25 supported by 7% yoy increase in sales volumes and 3% yoy increase in overall realisation. However, PBILDT margin declined to 5.3% in FY25 from 10.5% in FY24 (FY23: 7.8%) on the back of sharp increase in raw material prices while increase in finished prices lagged in comparison. Raw material cost accounted for 82.8% of the revenue in FY25 against 77.3% in FY24 (FY23: 80.2%). Notwithstanding large decline in PBILDT, net profit and cash accruals were supported by lower interest expenses and higher non-operating income in the form state government grant (₹7.5 crore) towards VAT & GST incentive pertaining to past years and extraordinary income (₹4.2 crore) towards insurance proceeds related to loss of assets due to the fire incident in Silvassa in March 2022.

Overall performance is expected to witness an improvement in FY26 with sustained growth in volumes backed by addition of new clients and new product development coupled with growth in realisations. As indicated by management, the company has implemented increases in product prices, which is expected to result in improvement in the PBILDT margin going forward. Lower-than-expected PBILDT margin shall remain key rating monitorable.

Risks associated with large-size capex plan

ASL is undertaking a sizeable capex of ~₹85 crore spread over the next two years primarily towards capacity expansion of products across both its manufacturing facilities in Pithampur and Silvassa. The capex shall be funded with the debt of ~₹60 crore and the same has been tied up. As on date, the company has availed ₹2 crore of the said debt. The major capacity is being undertaken in Pithampur, which is expected to be completed in a period of 24 months, while the capex in Silvassa is expected to be completed within a period of 12 months. The company's ability to timely execute the capex without significant cost overruns and its translation into increased revenue and profitability remains crucial going forward.

Operating profitability susceptible to volatility in raw material prices

ASL's raw materials include Lauryl Alcohol (LA), Fatty Acids (HCFA), and Alpha Olefin (AO) that form a major portion of its costs. These raw material prices are linked to palm prices and are volatile in nature. Any volatility in raw material prices in the absence of increase in the product prices can have an impact on ASL's profitability. For instance, in FY22 and FY25, the profitability margin witnessed a contraction on the back of sharp increase in raw material prices coupled with inability to pass on the price increase immediately.

Intense competition from domestic and international players
The speciality chemicals industry is highly competitive. ASL's primary competitors 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.

Customer concentration risk
ASL's revenue remains heavily concentrated, with ~92% of total revenue in FY25 being derived from its top five customers. This exposes the company to risk arising out of the customer concentration. However, this risk is partially offset by its long-standing relationships and the high entry barriers associated with becoming a supplier to such clients.

Environment, social, and governance (ESG) risks

Risk factors	Compliance and action by the company
Environmental	ASL has set the target of achieving carbon neutrality by 2030. To achieve this, the company is focusing on increased use of solar and wind energy, improved energy efficiency across its operations, tracking its greenhouse gas emissions and investing in green technologies and efficient manufacturing processes. The company is also managing chemical waste from its facilities by properly disposing the hazardous waste through authorised vendors.
Social	As on March 31, 2025, the company has ~350 permanent employees with an additional ~200 contract-based labour working at its facilities. It has undertaken initiatives to promote a safe working environment, including regular training programmes. Through its CSR activities, ASL has engaged with local communities through programmes aimed at improving social welfare, education, healthcare, and environmental sustainability.
Governance	The Board of Directors of the company comprises six directors, including two independent directors, of which one is a woman director. The board oversees risk management, ethical business practices, and ESG initiatives.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Chemicals	Chemicals & petrochemicals	Commodity chemicals

ASL was formed upon demerger of home and personal care division of Aarti Industries Limited. ASL is engaged in manufacturing ionic and non-ionic surfactants and specialty products serving home and personal care (HPC) industry. Its product portfolio includes surfactants, mild surfactants, rheology modifiers, pearlising agents, UV filters, soap bases, and conditioning agents. Apart from India, it also exports its products to the US, Europe, and Southeast Asian countries with exports accounting for 18% of the sales in FY25. Its manufacturing units are at Pithampur in Madhya Pradesh and Silvassa in Dadra & Nagar Haveli.

Brief Financials (₹ crore)	FY24 (A)	FY25 (Abridged)
Total operating income	588.75	651.63
PBILDT	61.90	34.68
PAT	22.27	14.99
Overall gearing (times)	0.45	0.47
Interest coverage (times)	4.41	3.00

A: Audited; Note: 'these are latest available financial results'
Financials are reclassified per CareEdge Ratings' standards

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 - LT-Cash Credit		-	-	-	70.00	CARE A-; Stable
Fund-based - LT-Cash Credit		-	-	-	55.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	FY31	83.87	CARE A-; Stable
Preference Shares-Redeemable	INE09EO01013	August 20, 2019	0.00#	August 19, 2026	18.50	CARE BBB+; Stable

It carries 4% premium which is cumulative in nature and payable at the time of redemption.

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 2025-2026	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
1	Fund-based - LT-Term Loan	LT	83.87	CARE A-; Stable	-	1)CARE A-; Stable (28-Jun-24)	1)CARE BBB+; Stable (07-Aug-23)	1)CARE BBB+; Stable (24-Aug-22)
2	Preference Shares-Redeemable	LT	18.50	CARE BBB+; Stable	-	1)CARE BBB+; Stable (28-Jun-24)	1)CARE BBB; Stable (07-Aug-23)	1)CARE BBB; Stable (24-Aug-22) 2)CARE BBB; Stable (15-Apr-22)
3	Fund-based - LT-Cash Credit	LT	70.00	CARE A-; Stable	-	1)CARE A-; Stable (28-Jun-24)	1)CARE BBB+; Stable (07-Aug-23)	1)CARE BBB+; Stable (24-Aug-22)
4	Fund-based - LT-Cash Credit	LT	55.00	CARE A-; Stable	-	1)CARE A-; Stable (28-Jun-24)	1)CARE BBB+; Stable (07-Aug-23)	1)CARE BBB+; Stable (24-Aug-22)

LT: Long 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 - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Preference Shares-Redeemable	Highly Complex

Annexure-5: Lender details

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

Note on complexity levels of rated instruments: CareEdge 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:

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