ANUPAM RASAYAN INDIA LTD.

ARILSLDSTX20231129094 Date: November 29, 2023

To, **BSE Limited** Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai -400001, India **SCRIP CODE: 543275**	To, **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 (LODR) Regulations"*).

Pursuant to the provisions of Regulation 30 of the SEBI(LODR) Regulations, we wish to inform the Exchanges that the credit rating agency **India Ratings and Research (Ind-Ra)** vide its letter dated November 29, 2023, has upgraded Anupam Rasayan India Limited's Long-Term Issuer Rating to "IND AA-" from "IND A+". The instrument-wise upgraded ratings are as below:

Instrument Type	Rating/ Outlook
Fund-based working capital limits	IND AA-/Stable
Term loan	IND AA-/Stable
Non-fund-based working capital limits	IND A1+

The Rating Rationale dated November 29, 2023 received by the Company is enclosed. We request you to kindly note the same and take into your records.

The aforesaid information will also be 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
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Ashish Gupta
Company Secretary and Compliance Officer

Encl.: As above

India Ratings Upgrades Anupam Rasayan India to ‘IND AA-’; Outlook Stable

Ind-Ra-Mumbai-29 November 2023: India Ratings and Research (Ind-Ra) has upgraded Anupam Rasayan India Limited’s (ARIL) Long-Term Issuer Rating to ‘IND AA-’ from ‘IND A+’. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating	Rating Action
Fund-based working capital limit	-	-	-	INR2,800 (reduced from INR2,850)	IND AA-/Stable	Upgraded
Term loan	-	-	FY29	INR3,937 (reduced from 4,437)	IND AA-/Stable	Upgraded
Non-fund-based working capital limits	-	-	-	INR320	IND A1+	Upgraded

Analytical Approach: Ind-Ra continues to take a consolidated view of ARIL, its 99% subsidiary Jainam Intermediates Pvt. Ltd. and 25.79% subsidiary Tanfac Industries Limited (Tanfac), due to the strong operating and strategic interlinkages.

The upgrade reflects an improvement in the consolidated net leverage to below 2.0x over the past few quarters, aided by the consistently strong EBITDA margin in the range of 24%-29% and funds raised through a qualified institutional placement (QIP), as well as a decline in the working capital cycle in FY23. While the working capital cycle elongated slightly in 1HFY24, Ind-Ra expects the same to normalise in the near term. The upgrade also factors in ARIL’s track record of successful capex ramp-up over the past few years.

KEY RATING DRIVERS

Strong Growth in Revenue and EBITDA; Margin to Remain Range Bound in Medium Term: The consolidated revenue surged to INR16,019 million in FY23 (FY22: INR10,660 million, FY21: INR8,109 million), primarily driven by incremental volumes from an added capacity, as well as the consolidation of Tanfac into ARIL in FY23. On a standalone basis, ARIL’s revenue increased 19.6% yoy to INR12,841 million in FY23.

The consolidated EBITDA margin fell to 27% in FY23 (FY22: 28%; FY21: 24%) on account of a change in the product mix, as well as a fire-related incident in Unit 6. The company’s contracts with its customers allow for cost pass-through of increases in raw material prices, which has helped ARIL in maintaining steady EBITDA margins of 24%-28% over FY20-FY23 (FY23: 27%, FY22: 28%, FY21: 24%). Ind-Ra expects the EBITDA margin to remain at 24%-26% over the medium term. During 1HFY23, the EBITDA margin stood at 27%. On a standalone basis, ARIL’s EBITDA margin was 28.6% in FY23 (FY22: 28.3%).

Sustained Comfortable Credit Metrics: The consolidated interest coverage (EBITDA / gross interest expense) remained robust, despite deteriorating to 8.0x in FY23 (FY22: 10.4x, FY21: 2.8x), led by a higher interest rate as well as an increase in the average outstanding debt. The interest coverage stood at 5.6x in 1HFY24. However, the consolidated net leverage (net debt/EBITDA) improved substantially to 0.6x in FY23 (FY22: 2.1x), on account of improved scale as well as proceeds of INR4,999 million from the QIP. However, the unutilised portion of the QIP proceeds will be ultimately utilised to fund the ongoing capex. Return on capital employed improved to 13.7% in FY23 (FY22: 10.4%). Ind-Ra expects the interest coverage to remain above 7.5x and net leverage to remain below 2.0x in the medium term. On a standalone basis, ARIL’s interest coverage was 6.9x in FY23 (FY22: 10.4x) and net leverage was 0.8x (2.1x).

New Project Capex to Drive Growth in Revenue and EBITDA: ARIL has been incurring capex to add new products to its portfolio over FY21-FY23. It increased its installed capacity to 27,200 tonnes in FY23 from 12,000 tonnes in FY18 and product offerings to 58 from 25. The company is further expanding capacity, for which it is incurring capex of INR6,700 million; majority of which will be incurred in FY24. However, full revenue from the incremental capex will be realised in FY26-FY27. The capex will primarily be in relation to the letter of intent and the contracts (which includes fluorinated products) worth INR76,690 million signed in the past two years, to be supplied over the next five-to-seven years, and would lead to capacity expansion at the company's Sachin and Jhagadia plants. The management expects the return on capital employed of 20% and an asset turnover of 1.75x on the aforementioned capex. Capex will also be incurred FY25 and FY26, with the aim to support growth beyond FY27.

Moreover, ARIL acquired a 25.79% stake and management control in Tanfac, a specialty fluorides chemicals manufacturer, for around INR1,500 million in FY23. The acquisition is aimed at improving the backward integration of fluorinating agents such as potassium fluoride and hydrogen fluoride, which are the key raw materials in fluorination chemistry, and reduce the company's import dependence on China. Furthermore, with the ready availability of these two agents, ARIL plans to add more fluorination derivatives to its existing product portfolio.

Established Player in Specialty Chemicals Industry with Inherent Customer Stickiness: ARIL is an established player in the chemicals industry in India, engaged in the custom synthesis and manufacturing of specialty chemicals. The company's business verticals include life-sciences-related specialty chemicals (comprising products related to agrochemicals, personal care and pharmaceuticals), and other specialty chemicals (comprising specialty pigments and dyes, and polymer additives). It derives around 70% of the revenue comes from contracted sales. Also, for majority of the products under contract, ARIL is either the sole or the primary supplier to its customers. ARIL's customers have to register their suppliers with various regulatory bodies, which leads to customer stickiness. Moreover, to limit the spread of sensitive and confidential information of the products, only a select number of suppliers are chosen by the customers, which adds to customer stickiness and protects the company from competition.

Adequate Diversification across Business, but Customer Concentration Risk Remains: ARIL had a portfolio of 58 complex products at 2QFYE24 with five new chemicals to be commercialised during the remainder of FY24. These products are sold to customers in India as well as abroad, with exports accounting for around 63% of the FY23 revenue (FY22: 56%, FY21: 58%). As a result, the company enjoys the benefits of adequate product and geographic diversification. In addition, the end-use industries catered to by the company is spread across agrochemicals (including crop protection), personal care, pharmaceuticals, specialty pigments, specialty dyes, and polymer additives. The supplier base also remains well-diversified, with only one of the suppliers accounting for more than 10% of total purchases in FY23. However, while the total number of customers remains healthy at 73 (of which 29 are multinational corporations), the revenue contribution from top 10 customers remained high at 82% in FY23 (FY22: 80%, FY21: 81%), thereby exposing the company to significant customer concentration risk.

Contracts with Cost Pass-through Provide Cash Flow Visibility: ARIL derived around 70% of its revenue in FY23 through two-to-five-year contracts. These contracts allow complete cost pass-through either on a semi-annual or annual basis; according to the management, so far, all of its contracts have been renewed. In addition, for a majority of the products, ARIL is either the sole or the primary supplier to its customer. Consequently, the company enjoys long-term revenue and cashflow visibility, along with relatively stable margins, despite the significant volatility inherent to the industry. The long-term cash flow visibility is further supported by the fact that many of the contracted customers are large and well-reputed multinationals, including Sumitomo Chemical Company Ltd., Syngenta, Dupont, Nissei Corporation, UPL Limited, and Adama Ltd., among others. Long-term visibility of cash flow further helps the company in effectively managing the capex cycle.

Liquidity Indicator - Adequate: At FYE23, the consolidated cash & equivalents stood at INR5,643 million. ARIL's average utilisation of its fund-based facilities was moderate at around 59% for the 12 months ended September 2023. The cash flow from operations turned positive to INR2,345 million in FY23 (FY22: negative INR2,017 million, FY21: negative INR671 million), in line with the improved operating performance as well as only a modest increase in net working capital requirement. Ind-Ra expects the operating cash flows to remain positive over the medium term, supported by the normalisation of inventory levels, and the incremental cash flow contribution from existing facilities as well as the upcoming capacities. The free cash flow has been 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 company has secured INR1,750 million of term loans to fund the ongoing capacity expansion, in addition to the QIP of INR4,999 million already completed in FY23. Total capex outflow for FY24 is estimated to be around

INR5,700 million. The company has a scheduled term loan repayment of INR1,899 million and INR2,214 million FY24 and FY25, respectively. The debt repayment should be funded through internal accruals as well as INR5,500 million proceeds from issue of share warrants and fresh equity over FY24-FY26.

High Working Capital Intensity: ARIL's cash conversion cycle improved to 312 days in FY23 (FY22: 433 days, FY21: 287 days), primarily led by a decline in the inventory holding period to 318 days (446 days, 313 days). The inventory holding period increased substantially in FY22 due to the higher raw material prices as well as an accelerated sourcing of raw materials towards the end of FY22 as a preventive measure against disruptions due to Russia-Ukraine war. The company's inventory days have always been high historically, which is a result of the inventory holding strategy to ensure a consistent supply to customers even during a volatile environment. The working capital intensity has increased to some extent as of 1HFY24, driven by an increase in debtors on account of higher domestic sales and a general slowdown in the industry. While working capital intensity remains high owing to the significant inventory, the high receivable days are balanced out by similarly high payable days of 100-120 over the same period.

Project Completion Risks: Although Ind-Ra believes the successful completion and stabilisation of the planned capex programmes will improve the company's revenue visibility and operating profile, it poses a project risk until completion. Any delays in the commissioning of the new projects could lead to cost overruns and higher interest costs, affecting the credit profile. The management's ability to foresee these challenges and stabilise the new projects on time remains a key monitorable.

Exposure to Forex Risks: A significant portion of the company's revenue is generated through exports, while only a small portion of its purchases are accounted for by imports (FY23: 10.5% of cost of goods sold, FY22: 25.5%). Since there is only a small degree of natural hedge against currency fluctuations, 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 INR35.1 million in FY22 (FY21: INR108.3 million).

RATING SENSITIVITIES

Positive: A growth in scale led by a successful capex ramp-up, rationalisation of the working capital cycle, an improvement in the return on capital employed and 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.

COMPANY PROFILE

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 27,200 metric tonnes at FYE23.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	FY23	FY22
Revenue (INR million)	16,019	10,738
EBITDA (INR million)	4,314	3,048
EBITDA margin (%)	26.9	28.4
Interest coverage (x)	8.0	10.4
Net leverage (x)	0.6	2.1
Source: ARIL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook	
	Rating Type	Rated Limits (million)	Rating	30 August 2022	23 August 2022
Issuer rating	Long-term		IND AA-/Stable	IND A+/Stable	IND A+/Stable
Fund-based-limits	Long-term/Short-term	INR2,850	IND AA-/Stable/IND A1+	IND A+/Stable/IND A1	IND A+/Stable/IND A1
Term loan	Long-term	INR3,937	IND AA-/Stable	IND A+/Stable	IND A+/Stable
Non-fund-based limits	Short-term	INR320	IND A1+	IND A1	IND A1

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Fund-based-limits	Low
Term loan	Low
Non-fund-based limits	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators

Rating Criteria

Corporate Rating Methodology
Evaluating Corporate Governance Criteria
The Ratings Process
Short-term Ratings Criteria for Non-Financial Corporates

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