

February 09, 2023

## Aether Alloys LLP: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term Loans	-	80.00	[ICRA]BB- (Stable); reaffirmed
Long-term/Short-term Unallocated Limits	105.00	25.00	[ICRA]BB- (Stable)/[ICRA]A4; reaffirmed
<b>Total</b>	<b>105.00</b>	<b>105.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of Aether Alloys LLP's (AALLP) ratings factors in the experience of its key officials in the business of ferro alloy, and its proximity to raw material sources. The ratings also derive comfort from the low power tariffs in Arunachal Pradesh, which is likely to positively impact the entity's cost competitiveness as it operates in a power intensive industry. ICRA notes that the entity is eligible for various fiscal incentives under the Arunachal Pradesh State Industrial and Investment Policy, 2020, which would support its profitability, post commencement of operations.

The ratings are, however, constrained by AALLP's exposure to project related risks, including commissioning the project within the budgeted cost and time, stabilising the plant, and achieving desired process parameters and cost efficiencies. Nevertheless, ICRA notes that a substantial part of civil and structural work has been completed and major machinery required for the project have been procured. ICRA also positively factors in the capital infusion by the promoters worth around Rs. 61 crore (~88% of the proposed contribution by the promoters) and tie-up of term loans to the tune of Rs. 80 crore (~Rs. 45 crore drawn till January 31, 2023). The ratings are also constrained by the risks emanating from the firm's status as a limited liability partnership firm (LLP), including the risk of capital withdrawal by the partners. Also, significant debt servicing obligations in the medium-to-long term are likely to keep the entity's cash flows under pressure. Further, the ratings are constrained due to AALLP's exposure to the inherent cyclicity of the consuming steel industry.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that the entity would benefit from the experience of its key executives in the industry and low power tariffs in Arunachal Pradesh.

### Key rating drivers and their description

#### Credit strengths

**Experience of key executives in the business of ferro alloy** – The firm's day-to-day activities will be overseen by Mr. Niraj Sharma and Mr. Karan Sharma, who have prior experience in the ferro alloy business.

**Proximity to raw materials and low power tariff in Arunachal Pradesh would support cost competitiveness** – AALLP will enjoy location-specific advantage as the major portion of the raw materials required would be sourced from North East India, where its plant is located, leading to lower landed costs. Additionally, lower power tariff in Arunachal Pradesh (AP) is likely to make AALLP cost competitive against its peers in other locations given the power intensive nature of the industry.

**Eligibility to receive fiscal incentives** – AALLP is entitled to various fiscal incentives under the Arunachal Pradesh State Industrial and Investment Policy, 2020, which would support its profitability, post commencement of operations.

### Credit challenges

**Exposure to project related risks, including risks associated with stabilisation of the plants as per expected operating parameters, post commissioning of the project** – The commissioning of the project has been postponed to May 2023 from January 2023, primarily due to delays in the receipt of machinery. In the interim period, the entity would remain exposed to project-related risks including the risk of commissioning the project within the budgeted cost and time, stabilising the plant and achieving desired process parameters and cost efficiencies. However, ICRA notes that a substantial part of civil and structural works has been completed and most of the machinery have been procured. The remaining machinery and electrical equipment are expected to be received shortly.

**Risks emanating from the entity’s legal status as a limited liability partnership firm** – ICRA notes that AALLP is a limited liability partnership firm and any significant withdrawal of capital by the partners may adversely impact the firm’s net worth and liquidity position.

**Cyclical nature of the ferro-alloy industry with complete dependence on steel sector** – Ferro alloys are primarily used in the manufacturing of steel. Therefore, AALLP will be exposed to the inherent cyclicity of the steel industry, which can lead to volatility in realisations and profitability.

**Significant debt servicing obligations in the medium-to-long term** – The entity will have significant debt servicing obligations in the medium-to-long term, which are likely to keep its cash flow under pressure.

### Liquidity position: Stretched

The liquidity of the firm is likely to remain stretched. Any further delay in commissioning of the project may adversely impact the overall business risk profile of the entity as it has significant debt servicing obligations in the medium-to-long term. However, infusion of capital (~88% of the total requirement) by the promoters and debt tie-up provide some comfort.

### Rating sensitivities

**Positive factors** – ICRA may upgrade AALLP’s ratings if the entity is able to commission the project as per the revised schedule and within the budgeted costs and run the operations profitably.

**Negative factors** – Pressure on AALLP’s ratings could arise if there is a further delay in the commissioning of the project and/or a delay in achieving the expected operating parameters post commissioning of the project, adversely impacting the business risk profile of the entity.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	NA.
Consolidation/Standalone	The ratings are based on the standalone financial statements of AALLP.

### About the firm

Established in 2017, AALLP is in the process of setting up a ferro silicon manufacturing plant in Niglok, Arunachal Pradesh, with an installed annual capacity of 15,500 MT. The operations are scheduled to commence in May 2023.

### Key financial indicators (Audited)

	FY2021	FY2022
Operating income (Rs. crore)	-	-
PAT (Rs. crore)	- 0.0	- 0.0
OPBDIT/OI	0.0%	0.0%
PAT/OI	0.0%	0.0%
Total outside liabilities/Tangible net worth (times)	0.3	0.4
Total debt/OPBDIT (times)	- 745.2	-1,906.4
Interest coverage (times)	-	-

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of Rating History for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				February 09, 2023	Dec 01, 2021	--	--
1	Unallocated Limits	25.00	--	[ICRA]BB- (Stable)/ [ICRA]A4	[ICRA]BB- (Stable)/ [ICRA]A4	--	--
2	Term Loan	80.00	41.86	[ICRA]BB- (Stable)	--	--	--

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Unallocated Limits	NA
Term Loans	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
--	Term Loan	Apr 2022	NA	Sep 2031	80.00	[ICRA]BB- (Stable)
--	Unallocated Limits	NA	NA	NA	25.00	[ICRA]BB- (Stable)/ [ICRA]A4

Source: AALLP

**Annexure II: List of entities considered for consolidated analysis – Not Applicable**

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