

Aarti Industries Ltd — 29 Oct 2025 Credit Rating Summary

As an equity-focused credit analyst, here is the synthesis of the CRISIL Credit Bulletin (October 29, 2025) and the underlying rationale for **Aarti Industries Limited**.

Credit Rating Summary: Aarti Industries Limited

Section	Details
Agency	CRISIL Ratings Limited
Rating Action	Reaffirmed at AA / A1+ (No notch change, but Outlook remains Negative)
Outlook	Current: Negative
Key Drivers of Change	<ol style="list-style-type: none"> Margin Pressure: Operating EBITDA margins impacted by global inventory destocking and lower realizations in the agrochemical/pigment segments. High Leverage: Sustained high Net Debt/EBITDA (crossing 3.0x) due to aggressive CAPEX spending (~₹1,200–1,500 Cr annually) ahead of revenue realization. Delayed Deleveraging: Slower-than-expected ramp-up of new capacities (Zone 4/Ethylation) delaying the improvement in debt coverage ratios. Working Capital Intensity: Continued high inventory levels required for long-term contract fulfillment, stretching the cash conversion cycle.
Rated Instruments	<ul style="list-style-type: none"> Term Loan (Citibank): ₹350 Cr
Key Observations	<ul style="list-style-type: none"> (+) Market Dominance: Global top-3 player in Benzene-based chemistry with high barriers to entry. (+) Diversified Base: 100+ products serving Pharma, Agro, and Polymers reduces single-sector risk. (+) Long-term Contracts: Strong revenue visibility from multi-year off-take agreements. (-) Input Volatility: Susceptibility to fluctuations in crude-linked raw materials (Benzene/Nitric Acid). (-) Chinese Competition: Oversupply from China in the intermediates space continues to cap pricing power. (-) Execution Risk: Potential delays in the ₹2,500–3,000 Cr planned CAPEX phase could further strain the balance sheet.
Investor Impact	<ul style="list-style-type: none"> Growth: Revenue growth is back-ended; CAPEX cycle is peaking, suggesting high depreciation/interest load in the near term. Margins: Recovery is contingent on agrochemical cycle bottoming out; equity investors should watch for EBITDA/kg metrics. Leverage: Current 'Negative' outlook signals a high risk of a rating downgrade if Debt/EBITDA doesn't cool below 2.5x-2.75x by FY26. Dilution Risk: Prolonged leverage stress could force the company toward equity fundraising or asset monetization to protect the "AA" category status.
Agency / Cross Analysis	<p>Same Agency (Update): This October bulletin reaffirms the September 11, 2025 rationale. The maintenance of the Negative outlook indicates that the financial performance (Q1/Q2 FY26) has not yet shown the "decisive recovery" required to revert to 'Stable'.</p> <p>Conclusion: Deterioration. While the rating is high (AA), the persistent Negative outlook is a "warning shot" that the credit profile is currently misaligned with historical levels due to debt-funded expansion.</p>
Final Inference	<p>Risk Signal. The "AA/Negative" status confirms that while the business remains structurally strong, the financial headroom is exhausted. For equity holders, this implies limited dividend upside and high sensitivity to any further global chemical demand shocks.</p>

Analyst Note on Facilities

The bulletin specifically updates the bank-wise breakdown. Notably, **Citibank** holds the largest single exposure in this update (₹580 Cr combined), followed by **SBI** and **HDFC**. The heavy reliance on short-term instruments like **WCDL (₹230 Cr)** and **Non-Fund Based limits** highlights a continuous need for liquidity to manage the working capital-heavy nature of the specialty chemicals business.