

IOL Chemicals and Pharmaceuticals Limited

July 04, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	140.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	410.00 (Enhanced from 210.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	550.00 (₹ Five Hundred Fifty Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of IOL Chemicals and Pharmaceuticals Limited (IOLCPL) continue to derive strength from experienced promoters and management team and diversified product offering along with well-established position in its key product i.e., Ibuprofen. The ratings also continue to take comfort from integrated manufacturing facilities, strong financial risk profile marked by low debt levels and strong liquidity position. CARE Ratings believes that the competitive advantage of IOLCPL in manufacturing of Ibuprofen is expected to sustain in medium term as the company is the one of the major players who is backward integrated in terms of raw material required for manufacturing of Ibuprofen. The ratings take cognizance of the decline in the profitability margins of the company on account of volatility in the raw material prices coupled with lower volumes of Ibuprofen. While rising input costs are passed on to the customers with a lag, the overall operating margins are expected to be lower than the historical levels, albeit at moderate levels owing to increase in share of pharma segment in the product mix. These rating strengths, however, continue to remain constrained by higher product concentration of its two key products i.e., Ibuprofen and Ethyl Acetate and susceptibility of IOLCPL's operating margins to volatility in the raw material prices.

Rating sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Strong and sustained improvement in the operating performance resulting in growth of more than 15% in total operating income and sustained EBIDTA margin of more than 20%
- Diversification in product portfolio and reducing dependency on its main product viz. Ibuprofen & ethyl acetate.
- Improvement in TDGCA and total debt to PBILDT to below unity

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Significant decline in TOI by more than 20% y-o-y
- Reduction in the PBILDT margins below 12% on a sustained basis impacting its credit profile.
- Any higher than envisaged debt funded capex/acquisition adversely impacting capital structure with overall gearing of more than 0.50x

Detailed description of the key rating drivers

Established Market Position and Diversified Product Offering

Company was incorporated in the year 1986 with the commencement of business in chemical segment. Further in the year 2000, the company started production of Ibuprofen. IOLCP is one of the largest manufacturers of Ibuprofen with significant global share and the company is backward integrated for manufacturing of Ibuprofen. IOL has a market presence across more than 50 countries with sales contribution from exports forming around 25% of the total sales in FY22 (PY: 31%). The company's overseas customers are spread across several countries including Spain, Brazil, Hungary, USA, Indonesia, Bangladesh etc. Moreover, the company is one of the largest manufacturers of Ibuprofen (capacity of 12000 MTPA) and has the second largest manufacturing capacity (12000MTPA) for Iso Butyl Benzene (key raw material for Ibuprofen). In addition to Ibuprofen company manufactures other APIs which include Pantoprazole, Metformin, Clopidogrel, Fenofibrate, UDCA, Lamotrigine and Gabapentin. Company also operates in chemical segment and manufactures chemicals like Ethyl Acetate, Acetyl Chloride and Mono Chloro Acetic Acid. Further, the company has commenced the commercial production of 'Paracetamol' with installed capacity of 1800 MTPA along with backward integration of Para Amino Phenol (PAP) with effect from April 22, 2022. Company is in the process of enhancing the installed capacity for manufacturing of Paracetamol from 1800 MTPA to 3600 MTPA with a capex of about Rs.25 crore, which is expected to be completed by the end of FY23.

Growth in Scale of operations; albeit decline in profitability margins during FY22

Company's TOI grew by ~11% to Rs.2194.48 crore in FY22 over FY21 led by growth in chemical segment. The chemical segment of the company grew by ~48% while pharma segment witnessed a moderation of ~13% in FY22. In pharma segment, major revenue generating product is ibuprofen while in chemical segment, major revenue generating product is ethyl acetate, IBB (Iso Butyl Benzene) and Mono Chloro Acetic Acid. The majority of revenue in chemical segment i.e., 80-85% comes from

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

sale of ethyl acetate alone. The increase in revenue in chemical segment is on account of increase in the sales quantity of Ethyl Acetate coupled with higher sales realization. The profitability margins of the company declined in FY22 largely on account of volatile raw material prices and higher energy cost. Going forward, the prices of raw material are expected to stabilize resulting into stability in margins, and any further decline in margins from FY22 level shall be a key rating monitorable.

Integrated manufacturing facilities

IOL has an integrated manufacturing facility for chemicals and APIs. The chemical manufacturing facilities of the company give the advantage of backward integration for final pharmaceutical products like Ibuprofen. The backward integrated plants add to the strength of the company as major raw materials for Ibuprofen (40% of the total raw material cost) which include Iso Butyl Benzene, Acetyl Chloride and Mono Chloro Acetic Acid are produced by the company in house.

Further, the Company also has a 17 MW co-generation captive power plant which produces steam and power. The same gives IOL the advantage of lower power related expenses. In addition, steam produced from the plant is used in the manufacturing of most of the Key Starting Materials (KSM) of APIs in-house.

Strong Financial Risk Profile

The Company continues to have a strong financial risk profile characterized by healthy networth base of Rs.1390.09 crore in FY22 (Rs.1260.22 crore in FY21) and comfortable overall gearing of 0.23x as on March 31, 2022, vis-à-vis 0.15x as on March 31, 2021. Total Debt/PBILD and Total Debt/GCA stood at 1.22x & 1.56x respectively as on March 31, 2022, vis-à-vis 0.32x & 0.42x respectively as on March 31, 2021. Further, the interest coverage ratio remained above average in FY22.

Key Rating Weaknesses

Concentrated Revenue Stream

IOL derived ~78% of the revenue in FY22 (PY: 80%) from the sale of two products viz. Ibuprofen (30% of the total sales) and Ethyl Acetate (~48% of the total sales) which exposes the company to revenue concentration risk. Ibuprofen contribution to the total revenue declined to 30% in FY22 from 49% in FY21. However, the company has been diversifying its product portfolio by manufacturing new APIs which include Metformin, Clopidogrel, Fenofibrate, Pantoprazole and Paracetamol. Going forward also, the pharma segment is expected to increase with the new products planned.

Raw material availability and price volatility risk

Raw materials consumed remain the major cost driver for IOLCPL. It procures majority of the raw materials from China for the chemical segment while it manufactures inhouse majority of the raw material required for Ibuprofen. Prices of acetic acid which is the primary raw material required for manufacturing of Ethyl Acetate, has been fluctuating over the last one year which makes company expose to the price volatility risk and decrease in prices will impact the margins of the company as the revenue of the company is majorly dependent on two products viz. Ibuprofen and Ethyl Acetate.

Regulatory Risk

The pharmaceutical industry is highly regulated in many other countries and requires various approvals, licenses, registrations and permissions for business activities. Any delay or failure in getting approval for new product launch could adversely affect the business prospect of the company. However, the company's manufacturing facility of Ibuprofen has been approved by USFDA in FY20 and the next audit is usually conducted after 2-3 years. In addition, the company has also received approvals from the pollution control boards to ensure any regulatory violations. Further, no products of IOL are covered under Drug Price Control Order (DPCO).

Liquidity: Strong

The liquidity profile of the company is strong with the average working capital utilization of ~31% for the last 12 months ending May 2022 leaving sufficient buffer in the working capital lines. The company has an operating cycle of 72 days as on March 31, 2022. The company usually have collection period of 50-60 days while it gets 55-60 days as credit period from its suppliers. As on March 31, 2022, the company has healthy free cash and cash equivalents of Rs.300.64 crore, which includes deposits of Rs.185.06 crore having maturity of more than 12 months. Current ratio and quick ratio stood at 2.05x (PY: 3.36x) and 1.25x (PY: 2.35x) respectively as on March 31, 2022. The Company doesn't have any term debt obligation going forward.

Analytical approach: Standalone

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Pharmaceutical](#)

About the company

IOLCPL was incorporated as a public limited company in September 29, 1986 by Mr. Varinder Gupta and Mr. Rajinder Gupta to setup acetic acid manufacturing facility. IOL's manufacturing facility is located at Barnala, Punjab, having total capacity of 1,48,259 Metric Tonne Per Annum (MTPA) as on March 31, 2022. IOLCPL is involved in manufacturing of Chemicals (Ethyl acetate, acetyl chloride, iso-butyl benzene etc.) and Active Pharmaceutical Ingredients (Ibuprofen, metformin, etc.). As on March 31, 2022, the total installed capacity of Ibuprofen is 12000 MTPA.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (Abr.)
Total operating income	1,973.89	2,194.48
PBILDT	598.90	267.83
PAT	444.56	165.66
Overall gearing (times)	0.15	0.23
Interest coverage (times)	102.73	32.31

A: Audited, Abr: Abridged

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

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 along with Rating Outlook
Non-fund-based - ST-BG/LC		-	-	-	410.00	CARE A1+
Fund-based - LT-Working Capital Limits		-	-	-	140.00	CARE A+; Stable

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (07-Jul-20)	1)CARE A-; Stable (02-Jul-19)
2	Non-fund-based - ST-BG/LC	ST	410.00	CARE A1+	-	1)CARE A1+ (06-Jul-21)	1)CARE A1 (07-Jul-20)	1)CARE A2+ (02-Jul-19)
3	Fund-based - LT-Working Capital Limits	LT	140.00	CARE A+; Stable	-	1)CARE A+; Stable (06-Jul-21)	1)CARE A; Stable (07-Jul-20)	1)CARE A-; Stable (02-Jul-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Working Capital Limits	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

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

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