

India Glycols Limited

December 12, 2022

Ratings

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|------------------------------|------------------------------------------------------------------------------------------|-----------------------------------------------------------|-----------------|
| Long-term bank facilities | 1,259.92 (Enhanced from 500.00) | CARE A; Stable (Single A; Outlook: Stable) | Assigned |
| Short-term bank facilities | 850.00 | CARE A1 (A One) | Assigned |
| Total bank facilities | 2,109.92 (₹ Two thousand one hundred nine crore and ninety-two lakh only) | | |

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of India Glycols Limited (IGL) factors in its diversified revenue profile which continues to provide alternate revenue streams. Furthermore, the rating also draws comfort from IGL's experienced promoters and management team and long track record of operations, established market position in the potable alcohol and Mono Ethylene Glycol (MEG) segment along with moderate financial risk profile. The ratings also derive comfort from IGL's foray into grain-based ethanol segment which is expected to drive growth and shall aid in margin improvement for the company by being a substitute for the feedstock requirement instead of imported ethanol. This shall also aid IGL in reducing its dependence on non-fund-based limits which currently is high and improve its overall debt position and coverage indicators going forward.

These rating strengths are, however, partially offset by its improved but high debt position and susceptibility of profitability to foreign currency fluctuation risk and cyclicity in raw material prices.

Rating sensitivities

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

- Ability of the company to increase its scale of operations by more than 15-20% from its current levels on a sustained basis along with improvement in its PBILDT margins to 12% or more on sustained basis.
- Total debt/PBILDT below 3x on a sustained basis.

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

- Any further envisaged debt or debt-funded capex resulting in increase in total debt to PBILDT above 3.5x beyond FY23 end.
- Deterioration in interest coverage indicators below 3.5x on sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Diversified revenue streams mitigating the impact of volatility in any one segment:

IGL primarily has three operating segments: Bio-based Specialities and Performance Chemicals Segment (BSPC) comprises Glycols, Specialty Chemicals, Natural Gum & other related goods etc. Potable Spirits Segment (PS) comprises manufacture and sale of Ethyl Alcohol (Potable). Ennature Biopharma (EB) comprises manufacture and sale of Nutraceutical Products. Each of the segment contributed 31%, 67% and 2% to the gross revenue respectively in FY22 & 70%, 24% and 5% to the net revenue respectively. Bio-MEG sales accounted around 54% of the company's total MEG sales in FY22 (PY: 45%). Furthermore, until Q1FY22, IGL was also selling bio-ethylene oxide derivatives (bio-EOD) which contributed around ₹668 crore to TOI & ₹ 89 crore to PBILDT of the total TOI & PBILDT of the company in FY21.

However, in June 2021 (FY22), the company divested 51% of its stake through the issuance of subscription share in its previously wholly-owned subsidiary Clariant IGL Specialty Chemicals Private Limited (CISCPT) to Switzerland-based Clariant International Limited (Clariant), which resulted in CISCPT becoming a joint venture (JV) in the ratio of 51:49 (51% held by Clariant and 49% by IGL). As per the JV agreement, IGL has transferred its bio-ethylene oxide derivatives (bio-EOD) business,

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

to CISCPT and Clariant has infused ₹650 crore in CISCPT as a consideration for the same. Out of the total consideration received, CISCPT has paid ₹455 to IGL upfront and the balance is held in the CISCPT as an 10% interest-bearing shareholders loan, which will be repayable to IGL within three years. Going forward, IGL will continue to supply the key raw material which is ethylene oxide (EO) to the JV.

Established market position in potable spirits segment:

IGL has two distilleries (Kashipur- Uttarakhand and Gorakhpur-Uttar Pradesh) with a total distillery capacity of 770 KLPD (290 KLPD is grain-based and 460 KLPD is molasses based) for the production of ethyl alcohol, out of which, 80,000 KLPD is for potable alcohol. The company has the license for operations and sale of branded Country Liquor (CL) in the States of Uttar Pradesh and Uttarakhand. In Uttar Pradesh IGL's "Bunty Babli" brand is the highest selling brand in the country liquor segment. IGL continues to hold the commanding position as the largest supplier of CL in UP with a significantly high market share .

IGL is a registered supplier to the Indian Defense forces through CSD & Para Military Forces with the flagship brand "Beach House XXX Premium Rum". The company now also plans to introduce premium new Whisky and Vodka brands, thus further strengthening the company's brand portfolio in CSD & Para Military market.

The Uttar Pradesh government's policy of reservation of 18% molasses for liquor manufacturing provides raw material security for IGL's liquor business but increasing reliance on the liquor segment exposes IGL to regulatory risks arising from change in policies, particularly in UP, which accounts for a major portion of the company's liquor revenue.

Foray into Ethanol Segment to aid margin improvement:

IGL has forayed into grain-based ethanol by installing two grain-based distilleries of 180 kilo litres per day and 110 kilo litres per day in Kashipur (Uttarakhand) and Gorakhpur (Uttar Pradesh) at a cost of ₹304 crore (₹171 crore & ₹133 crore respectively). The project is funded by term loan of ₹223 crore and balance through internal accruals. Captive consumption of this ethanol will result in reduced reliance of ethanol imports and also lower reliance on LCs which shall positively impact the overall cost of production and aid in margin improvement. Consequently, IGL can also provide the ethanol for blending purposes as there is robust demand potential for the ethanol produced by IGL with the government's target to achieve 20% ethanol blending by 2025.

Both the projects are completed, and production has started from mid-September 2022 and the capacities are presently 85-90% utilised as informed by the management. The ramp-up of production and its impact on the total operating income & profitability of the company is expected to be seen from H2FY23 and this shall be a key monitorable going forward.

Moderate financial risk profile:

The total operating income (TOI) of IGL witnessed a growth of 24% to reach ₹2,856.13 crore in FY22 as against ₹ 2,300.15 crore in FY21 driven by significant revenue growth across all segments. The BSPC segment witnessed a growth of 32% in its TOI in FY22 and the segmental margin also improved to 6% in FY22 from 4% in FY21. Bio-MEG sales accounted around 54% of the company's total MEG sales in FY22 (PY: 45%).

However, the profitability was impacted due to increase in prices of raw materials. The potable spirits segmental margin moderated significantly due to sharp escalation in ethanol cost & material cost and inability of the company to increase the selling price as it is controlled by the government. The margin from this segment has reduced to 13% in FY22 as against 24% in the previous years and further to 12% in H1FY23. The company level PBILDT margin stood at 8.51% in FY22 as against 10.92% in FY21.

Furthermore, IGL has registered 3% growth in its TOI in H1FY23 to ₹1,490.25 crore vis-à-vis H1FY22 of ₹1440.52 crore. The PBILDT margin improved marginally to 9.58% in H1FY23 as against 9.08% in H1FY22.

Experienced promoters and long track record of operations: Shri US Bhartia is the Chairman and Managing Director of IGL. Bhartia has a graduate degree in commerce, with honors, from Kolkata University. Under Bhartia's dynamic leadership, IGL pioneered the manufacturing of BioMEG, BioEO and derivatives from renewable agro feedstock, with a low carbon footprint. He is assisted with a dynamic team of well-qualified and experienced professionals.

Bhartia has two daughters – Ms. Pooja and Ms. Pragya. Pragya is also an ED on IGL's Board and is likely to succeed Bhartia.

IGL is a professionally-run company, and its current CEO is Shri Rupark Saraswat, who is a Chemical Engineer from IIT-BHU, Varanasi.

Key rating weaknesses

High debt levels, improvement in debt metrics expected by FY23-end:

The proceeds received from the divestment of Bio-EOD division was entirely utilised to reduce bank borrowings of ₹455 crore (TL-₹166.50 crore; CC: ₹135 crore & NFB: ₹153.50 crore). Thus, the overall gearing (including acceptances & EPBG) improved as on March 31, 2022 and stood at 1.04x as against 1.83x as on March 31, 2021. The total debt outstanding (including LC acceptances & EPBG) which then reduced to ₹1,847.59 crore as on March 31, 2022 (PY: 2,130.72) increased to ₹1942.95 crore

as on November 30, 2022 (including ₹186 crore as EPBG & ₹696.92 crore as LC acceptances) on account of drawdown of additional debt for its grain-based distillation projects and increase in LC acceptances. Other debt coverage indicators like total net debt to PBILDT (including LCs and Advances from customers) though improved still continue to remain high at 7.17x as on March 31, 2022. The company also draws unsecured loans from body corporates. These are interest earning similar to the outstanding interest rate of the banks. Apart from the aforementioned capex of distillery which will be completed in FY23 and the maintenance and de-bottlenecking capex, the management does not estimate any major capex. With the completion of distillery project and the same being captively used, the reliance of IGL on non-fund-based limits should gradually come down and reduce the debt levels going forward.

Furthermore, IGL has sold its 42.31% stake in KIFTPL with a total purchase consideration of ₹66 crore. These funds are likely to be received by December'22 and would be utilised to reduce the debt as per management.

Also, for the sale of EO business division to Clariant, ₹191 crore was receivable from Clariant over a period of three years, the company has received ₹20 crore in June 2022 and additional ₹40-50 crore is expected to be received by March 2023 which will also be utilised for debt reduction. Thus, the debt levels are expected to reduce by end of FY23 and the reduction of the same would be the key rating monitorable.

Highly regulated liquor industry:

The liquor industry is highly regulated in India, with each state controlling the production, sales, and duty structure, independently. As a result, there are difficulties in the transfer of production from one state to another along with the huge burden of duties and taxes. The states control the licenses for production, distributorship, and retailing as well. Furthermore, there is also the risk of the introduction of prohibition laws in states, with negative connotations associated with the liquor industry in India.

Foreign exchange fluctuation risk:

For the production of MEG, IGL imports alcohol primarily from USA & Brazil. As per the company management, their imports are to the tune of ₹1,100-1,500 crore out of which around ₹100 crore is for chemical and catalyst while the rest are for alcohol. All the imports are LC-backed, hence, high NFB requirements are there. The imports stood at ₹1,476.54 crore in FY22 as against ₹1,173.86 crore in FY21. As IGL also exports, some portion of forex is naturally hedged and for the balance the company enters into forward contracts. In FY22, IGL reported a forex loss of ₹19.07 crore in FY22 as against ₹17.86 crore in FY21.

Furthermore, with IGL's foray into grain-based ethanol production, its dependence on import of alcohol is projected to reduce in the future years, thus, reducing its utilisation of its non-fund-based limits.

Cyclicality in raw material prices:

The profitability of the company is impacted with the cyclicality in the raw material prices which have increased significantly in FY22 & H1FY23. The PBILDT margins have reduced from 10.92% in FY21 to 8.51% in FY22 and 9.58% in H1FY23. IGL's chemical segment profitability remains susceptible to volatility in the spread between MEG and IGL's raw material ethyl alcohol, since the two may not move in tandem. Furthermore, margins from PS segment also moderated in FY22 due to sharp escalation in ethanol cost & material cost and inability of the company to increase the selling price as it is controlled by the government. The power & fuel expenses have increased to 13% of the total cost of sales in FY22 vis-à-vis 10% in FY21. This is mainly on account of increase in coal prices. Going forward, the prices of the raw materials and its impact on the profitability of the company will remain the key rating monitorable. In FY23, CARE Ratings Limited (CARE Ratings) expects, IGL's margin to remain rangebound and expects to improve further with the commencement of grain distilleries.

Liquidity: Adequate

The liquidity profile of the company remains adequate with stable cash accruals from diversified revenue streams. The cash accruals as envisaged are in the range of ₹230 crore as of FY23-end, against which the repayment obligations are around ₹198.35 crore in FY23 (₹64.47 crore in H2FY23). The average CC utilisation stood at 89% for the 12-month period ended October 2022. The operating cycle is comfortable at 30 days in FY22 which increased to 52 days in H1FY23. The unencumbered cash & bank balance stood at ₹4.92crore as on September 30, 2022.

Furthermore, IGL has sold its 42.31% stake in KIFTPL with a total purchase consideration of ₹66 crore. These funds are likely to be received by December'22 and would be utilised to reduce the debt as per the management. Also, for the sale of EO business division to Clariant, ₹191 crore was receivable from Clariant over a period of three years, the company has received ₹20 crore in June 2022 and additional ₹40-50 crore is expected to be received by March 2023 which will also be utilised for debt reduction, thus, aiding the liquidity of IGL.

Analytical approach- Consolidated.

The entities considered in consolidation are mentioned in Annexure-6 below.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company

IGL manufactures green technology-based bulk, specialty and performance chemicals and natural gums, spirits, industrial gases, sugar and nutraceuticals. IGL operates under three broad segments: Bio-based specialties & Performance Chemicals (BSPC), Potable Spirits (PS) and Ennature Biopharma (EB). Each of these segments contributed 68%, 25% and 7% respectively to the net revenue of the company.

| Brief Financials (₹ crore) | March 31, 2021 (A) | March 31, 2022 (A) | H1FY23 (UA) |
|----------------------------|--------------------|--------------------|-------------|
| Total operating income | 2300.15 | 2856.13 | 1490.25 |
| PBILDT | 251.24 | 243.13 | 142.80 |
| PAT | 109.20 | 329.58 | 51.17 |
| Overall gearing (times) | 1.83 | 1.04 | 1.09 |
| Interest coverage (times) | 3.01 | 4.48 | 3.08 |

A: Audited; Prov.: Provisional

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 | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|--------------------------------|----------------------------|-----------------------------|-------------------------------------------|
| Fund-based - LT-Bank guarantee | - | 186.06 | CARE A; Stable |
| Fund-based - LT-Cash credit | - | 350.00 | CARE A; Stable |
| Fund-based - LT-Term loan | 31/03/2027 | 723.86 | CARE A; Stable |
| Non-fund-based - ST-BG/LC | - | 850.00 | CARE A1 |

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 | Fund-based - LT-Term loan | LT | 723.86 | CARE A; Stable | | | | |
| 2 | Fund-based - LT-Cash credit | LT | 350.00 | CARE A; Stable | | | | |
| 3 | Non-fund-based - ST-BG/LC | ST | 850.00 | CARE A1 | | | | |
| 4 | Fund-based - LT-Bank guarantee | LT | 186.06 | CARE A; Stable | | | | |

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA
Annexure-4: Complexity level of various instruments rated for this company

| Sr. No. | Name of Instrument | Complexity Level |
|---------|--------------------------------|------------------|
| 1 | Fund-based - LT-Bank guarantee | Simple |
| 2 | Fund-based - LT-Cash credit | Simple |
| 3 | Fund-based - LT-Term loan | Simple |
| 4 | 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](#)

Annexure-6: Entities considered in consolidation

| Name of Entity | Relationship | Country of Incorporation | % of holding |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------------------|--------------|
| Shakumbari Sugar & Allied Industries Limited (SSAIL) | Wholly-owned subsidiary company | India | 51.03% |
| IGL Chem International PTE. LTD | Wholly-owned subsidiary company | Singapore | 100% |
| IGL Chem International USA LLC (IGLCHEM US) | Wholly-owned subsidiary company | USA | 100% |
| IGL Finance Limited (IGLFL) | Wholly-owned subsidiary company | India | 100% |
| IGL Chemicals and Services Private Limited | Wholly-owned subsidiary company | India | 54.52% |
| Ennature Bio Pharma Private Limited | Wholly-owned subsidiary company | India | 100% |
| Kashipur Infrastructure and Freight Terminal Private Limited (KIFTPL) | Joint Venture | India | 42.31% |
| Clariant IGL Specialty Chemicals Private Limited (Erstwhile IGL Green Chemicals Private Limited) (w.e.f. 30th June, 2021 from the time of allotment of equity shares to JV Partner) | Joint Venture | India | 49.00% |

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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About us:

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