

IOL Chemicals and Pharmaceuticals Limited

June 30, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|----------------------------|----------------------------------|---------------------|---------------|
| Long Term Bank Facilities | 140.00 | CARE A+; Stable | Reaffirmed |
| Short Term Bank Facilities | 460.00 (Enhanced from 410.00) | CARE A1+ | Reaffirmed |

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of IOL Chemicals and Pharmaceuticals Limited (IOLCPL) continue to derive strength from the long track record of operations of over three decades, experienced promoters and management team and diversified product portfolio along with well established market position in its key product i.e., Ibuprofen. The ratings also continue to take comfort from integrated nature of operations resulting into favourable overall cost structure. CARE Ratings believes that the competitive advantage of IOLCPL in manufacturing of Ibuprofen is expected to sustain in the medium term as the company is one of the major global players who is backward integrated in terms of raw material required for manufacturing of Ibuprofen. The ratings further take cognizance of sustained scale of operations along with slight moderation in the profitability margins on account of volatility in the raw material prices in chemical segment. The ratings further continue to derive comfort from strong financial risk profile characterized by healthy network base, low outstanding debt, continued thrust of the company on the diversification in the API segment and strong liquidity position. These rating strengths, however, continue to remain constrained by higher product concentration of its two key products i.e., Ibuprofen and Ethyl Acetate though same has been reducing y-o-y but still remains high. The ratings are further tempered by susceptibility of operating margin to the volatility in the raw material prices specially in chemical segment.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- 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 i.e., Ibuprofen & Ethyl Acetate to below 65% in the overall revenue.
- Improvement in TD/GCA and TD/PBILDT to below unity.

Negative factors

- Significant decline in TOI by more than 20% y-o-y.
- Reduction in the PBILDT margin below 10% on a sustained basis impacting its credit profile.
- Any debt funded capex/acquisition adversely impacting capital structure with overall gearing of more than 0.50x.

Analytical approach: Standalone

Outlook: Stable

The Stable outlook reflects CARE's opinion that the company will continue to benefit from established market position in its key products, integrated nature of operations and from experienced promoters and management team.

Detailed description of the key rating drivers:

Key strengths

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 29% of the total sales in FY23 (PY: 25%). The company's overseas customers are spread across several countries including Switzerland, Bangladesh, Spain, Indonesia, Hungary, United Kingdom, Egypt, Thailand and UAE among others. 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, Lamotrigine, Gabapentin and paracetamol. Company also operates in chemical segment and manufactures chemicals

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

like Ethyl Acetate, Acetyl Chloride and Mono Chloro Acetic Acid. Company has enhanced the installed capacity of paracetamol to 3600 MTPA from 1800 MTPA in FY23.

Growing scale of operations albeit slight moderation in profitability margins

Total operating income of the company grew marginally to Rs.2224.17 crore in FY23 from Rs.2194.48 crore in FY22 led by growth in API business. The revenue from chemical segment of the company declined by ~19% while pharma segment witnessed an increase of ~26% in FY23. In pharma segment, major revenue generating product is ibuprofen and metformin while in chemical segment, major revenue generating product is ethyl acetate and IBB (Iso Butyl Benzene). The profitability margins of the company witnessed slight moderation in FY23. The PBILDT and PAT Margin of the company moderated to 10.53% & 6.29% respectively in FY23 from 12.20% & 7.55% in FY22. Ibuprofen prices have remained in the similar range i.e., into the range of \$10- 11/Kg, however prices of acetic acid have remained highly volatile and in turn prices of ethyl acetate has also seen volatile trend. Further, the margins of the company were also impacted on account of high input cost both in Chemical and API segment. Rice husk and coal are used for cogeneration of steam and power. Overall, on yearly basis, power and fuel cost increased by ~69% to Rs.131.98 crore in FY23 from Rs.78.18 crore in FY22.

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 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.

Healthy financial risk profile

The company continues to have a healthy financial risk profile characterized by strong networth base of Rs.1505.90 crore and comfortable overall gearing of 0.18x as on March 31, 2023. Total Debt/PBILDT and Total Debt/GCA stood at 1.15x & 1.42x respectively as on March 31, 2023, vis-à-vis 1.22x & 1.56x respectively as on March 31, 2022. The financial risk profile of the company is expected to remain strong over the medium term as entire capex planned over the next 3 years is projected to be funded from internal accruals.

Key weaknesses

Concentrated revenue stream

IOL derived ~74% (PY: 78%) of the total revenue in FY23 from the sale of two products viz. Ibuprofen (35% of the total sales) and Ethyl Acetate (~39% of the total sales) which exposes the company to revenue concentration risk though the same has been reducing y-o-y on account of continuous introduction of new products in API business. The company has been diversifying its product portfolio in the last 2-3 years by manufacturing new APIs which include Metformin, Clopidogrel, Fenofibrate, Pantoprazole and Paracetamol etc. among others. Going forward, pharma segment is expected to be the major revenue contributor.

Raw material and price volatility risk

Raw materials consumed remain the major cost driver for IOL. It procures majority of the raw material from China in chemical segment. The prices of the same are volatile in nature and prices have fluctuated in the past. Prices of Ethyl acetate and raw material required for the same which is acetic acid has shown a volatile trend over last few years which exposes the company to the price volatility risk and any volatility in the prices may impact the margins of the company as Ethyl Acetate is one of the major contributors in company's overall revenue. Further in the API business, company procures majority of the raw material from the domestic market, the prices of the same and input cost has also been volatile over the last year. Though company passes on the rise in prices of raw materials to the customers but with a lag since for instance in the chemical business, once the company places the order for the raw material, it takes two months before that raw material gets used in its facility.

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 ~65% for the last 12 months ending May 2023 leaving sufficient buffer in the working capital lines. The company has an operating cycle of 83 days as on March 31, 2023. The company usually have collection period of 50-60 days while it gets 55-60 days as credit period from its suppliers. As on May 31, 2023, the company had healthy free cash and cash equivalents of Rs.212.35 crore. Current ratio stood at 2.01x (PY: 2.05x) as on March 31, 2023. Further, the company has no term debt obligation and going forward entire capex planned over the medium term is projected to be funded from internal accruals.

Environment, social, and governance (ESG) risks

| Risk factors | Compliance and action by the company |
|----------------------|---|
| Environmental | <ol style="list-style-type: none"> 1. Company has been focusing on to minimize the adverse impact on environment, health, and safety by upgrading technology, optimum utilization of resources and minimizing effluent/waste generation. 2. Company has been complying with the applicable statutory and legal requirements and providing safe working environment/workplace by imparting training to all employees. 3. Company has initiated the usage of biofuels in its captive co-generation plant (17MW capacity) to reduce its carbon footprint. |
| Social | <ol style="list-style-type: none"> 1. Company has constructed and renovated schools and provided technical equipment for smart education. 2. Company did plantation in villages for restoration to environment. 3. Company provided primary healthcare including sanitation and community development by providing computers to schools. |
| Governance | <ol style="list-style-type: none"> 1. The company has put in place a sound and well-structured corporate governance framework to operate more efficiently and to ensure that the best interests of its stakeholders are always upheld. Its Board and its committees together with a strong executive leadership helps it to maintain the highest standards of transparency, accountability, awareness in its operations. |

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 and industry

Industry classification

| Macro Economic Indicator | Sector | Industry | Basic Industry |
|--------------------------|------------|---------------------------------|-----------------|
| Healthcare | Healthcare | Pharmaceuticals & Biotechnology | Pharmaceuticals |

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 1,47,962 Metric Tonne Per Annum (MTPA) as on March 31, 2023. IOLCPL is involved in manufacturing of Chemicals (Ethyl acetate, acetyl chloride, iso-butyl benzene etc.) and Active Pharmaceutical Ingredients (Ibuprofen, metformin, paracetamol etc.). As on March 31, 2023, the total installed capacity of Ibuprofen is 12000 MTPA.

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) |
|----------------------------|--------------------|--------------------|
| Total operating income | 2,194.48 | 2,224.17 |
| PBILDT | 267.83 | 234.17 |
| PAT | 165.66 | 139.98 |
| Overall gearing (times) | 0.23 | 0.18 |
| Interest coverage (times) | 32.31 | 14.22 |

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|--|------|-------------------------------|-----------------|----------------------------|-----------------------------|---|
| Fund-based - LT-Working Capital Limits | | - | - | - | 140.00 | CARE A+; Stable |
| Non-fund-based - ST-BG/LC | | - | - | - | 460.00 | 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 2023-2024 | 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 |
| 1 | Term Loan-Long Term | LT | - | - | - | - | - | 1)Withdrawn (07-Jul-20) |
| 2 | Non-fund-based - ST-BG/LC | ST | 460.00 | CARE A1+ | - | 1)CARE A1+ (04-Jul-22) | 1)CARE A1+ (06-Jul-21) | 1)CARE A1 (07-Jul-20) |
| 3 | Fund-based - LT-Working Capital Limits | LT | 140.00 | CARE A+; Stable | - | 1)CARE A+; Stable (04-Jul-22) | 1)CARE A+; Stable (06-Jul-21) | 1)CARE A; Stable (07-Jul-20) |

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Note on the 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.

Contact us

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About us:

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