

## IOL Chemicals and Pharmaceuticals Limited

June 28, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	140.00	CARE A+; Stable	Reaffirmed
Short-term bank facilities	460.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of IOL Chemicals and Pharmaceuticals Limited (IOLCPL) continue to derive strength from experienced promoters and management team, long track record of operations of over three decades and diversified product portfolio and well-established market position in its key product, Ibuprofen. Ratings also continue to take comfort from integrated operations, resulting into favourable overall cost structure. CARE Ratings believes that 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, is backward integrated in terms of raw material required for manufacturing of Ibuprofen. Ratings further take cognisance of marginal moderation in scale of operations in FY24 (refers to April 01 to March 31) largely considering volatility in finished goods prices in pharma and chemical segment, however, profitability witnessed improvement. Ratings further continue to derive comfort from strong financial risk profile characterised by healthy net worth base, low outstanding debt, continued thrust of the company on diversification in API segment and strong liquidity position. However, rating strengths continue to remain constrained by higher product concentration of two key products, Ibuprofen and Ethyl Acetate, though it has been reducing y-o-y but still remains high. Ratings are further tempered by operating margin susceptible to raw material price volatility, especially in chemical segment.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Strongly improving operating performance, resulting in growth of more than 15% in total operating income and sustained EBITDA margin of more than 20%, on a sustained.
- Diversifying product portfolio and reducing dependency on its main product Ibuprofen and ethyl acetate to below 65% in the overall revenue.
- Improving total debt to gross cash accruals (TD/GCA) and TD to profit before interest, lease rentals, depreciation, and taxation (TD/PBILDT) to below unity.

#### Negative factors

- Significantly declining, total operating income (TOI) by more than 20% y-o-y.
- Reducing PBILDT margin below 10% on a sustained basis, impacting its credit profile.
- Debt funded capex/acquisition adversely, impacting capital structure with overall gearing of more than 0.5x.

### Analytical approach: Standalone

#### Outlook: Stable

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

### Detailed description of key rating drivers:

#### Key strengths

##### Established market position and diversified product offering

The company was incorporated, 1986 with the commencement of business in chemical segment. In 2000, the company started production of Ibuprofen. IOLCPL is one of the largest manufacturers of Ibuprofen with significant global share and the company is backward integrated for manufacturing Ibuprofen. IOLCPL has a market presence across more than 50 countries with sales contribution from exports forming around 28% of total sales in FY24 (PY: 29%). The company's overseas customers are spread across Switzerland, Bangladesh, Spain, Indonesia, Hungary, United Kingdom, Nepal, China, Turkey and Japan, among others. 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, the company

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

manufactures other APIs, which include Pantoprazole, Metformin, Clopidogrel, Fenofibrate, Lamotrigine, Gabapentin and Paracetamol. The company also operates in the chemical segment and manufactures chemicals such as Ethyl Acetate, Acetyl Chloride and Mono Chloro Acetic Acid. In FY24, the company commenced production of 'Acetic Anhydride', primarily for captive consumption in manufacturing Acetyl Chloride, Mono Chloro Acetic Acid, and Paracetamol with installed capacity of 25,000 MTPA.

### **Improvement in profitability margins despite slight moderation in revenue in FY24**

The company's TOI moderated marginally by ~3.5% from ₹2,224.17 crore in FY23 to ₹2,145.87 crore in FY24, mainly considering decline in selling prices. Sales volume of Ibuprofen and other APIs increased in FY24, which slightly negated the impact of decline in selling prices on TOI.

Revenue from chemical segment declined by ~9%, while the pharma segment was stable with a marginal increase of ~0.3% in FY24. In the pharma segment, major revenue generating products are Ibuprofen, Metformin and Paracetamol, while in chemical segment, major revenue generating product is Ethyl Acetate, IBB (Iso Butyl Benzene) and Acetic Anhydride. The company's profitability margins improved in FY24. The PBILDT and profit after taxes (PAT) margins improved to 11.40% and 6.31% respectively in FY24 from 10.53% and 6.29% in FY23 considering lower prices of raw material.

### **Integrated manufacturing facilities**

IOLCPL has an integrated manufacturing facility for chemicals and APIs. The chemical manufacturing facilities give the advantage of backward integration for final pharmaceutical products such as Ibuprofen. Backward integrated plants add to the company's strength, as major raw materials for Ibuprofen, which include Iso Butyl Benzene, Acetyl Chloride and Mono Chloro Acetic Acid are produced in house. The company also has a 17 MW co-generation captive power plant, which produces steam and power. This gives IOLCPL the advantage of lower power-related expenses. In addition, steam produced from the plant is used in manufacturing 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 net worth base of ₹1598.72 crore and comfortable overall gearing of 0.23x as on March 31, 2024. TD/PBILDT and TD/GCA stood at 1.52x and 1.79x respectively as on March 31, 2024, against 1.15x and 1.42x respectively as on March 31, 2023. The financial risk profile of the company is expected to remain healthy in the medium term as entire capex planned in the next three years is projected to be funded from internal accruals.

### **Key weaknesses**

#### **Concentrated revenue stream**

IOLCPL derived ~72% (PY: 74%) of the total revenue in FY24 from the sale of two products Ibuprofen (36% of the total sales) and Ethyl Acetate (~36% of the total sales) which exposes the company to revenue concentration risk though the same has been reducing y-o-y considering 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, among others. Going forward, pharma segment is expected to be the major revenue contributor.

#### **Raw material and price volatility risk**

Raw materials consumed remain a major cost driver for IOLCPL. It procures majority raw material from China in the chemical segment. These prices are volatile and have fluctuated in the past. Prices of Ethyl acetate and raw material required, which is acetic acid, has shown a volatile trend in last few years, which exposes the company to price volatility risk and volatility in prices may impact margins as Ethyl Acetate is one of the major contributors in its overall revenue. In the API business, the company procures majority raw material from the domestic market, prices and input cost of which, has been volatile in the last year. Though company passes on rise in raw material price to 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 for it to get used in its facility.

### **Regulatory Risk**

The pharmaceutical industry is highly regulated in many countries and requires approvals, licenses, registrations and permissions for business activities. Delays or failures in getting approval for new product launch could adversely affect the company's business prospects. However, the company's manufacturing facility of Ibuprofen has been approved by the USFDA in FY20. The company has also received approvals from pollution control boards to ensure regulatory requirements. No products of IOLCPL are covered under Drug Price Control Order (DPCO).

### **Liquidity: Strong**

The company's liquidity profile is strong with average fund based working capital utilisation of ~33% for 12-months ending April 2024, leaving sufficient buffer in working capital lines. The company had an operating cycle of 82 days as on March 31, 2024. The collection period is in the range of ~80 days, while average creditor period comes at around ~70 days as on March 31, 2024.

The company had healthy free cash and cash equivalents of ₹141.11 crore, which includes unencumbered deposits of ₹29.10 crore having maturity of more than 12 months and deposits of ₹104.48 crore having remaining maturity of less than 12 months in the same period. Current ratio stood at 2.05x (PY: 2.01x) as on March 31, 2024. The company has no term debt obligation going forward.

### Environment, social, and governance (ESG) risks

Risk factors	Compliance and action by the company
<b>Environmental</b>	<ol style="list-style-type: none"> <li>1. The company has been focusing to minimise adverse impact on environment, health, and safety by upgrading technology, optimum utilisation of resources and minimising effluent/waste generation.</li> <li>2. The company has been complying with applicable statutory and legal requirements and providing safe working environment/workplace by imparting training to all employees.</li> <li>3. The company has initiated using biofuels in its captive co-generation plant (17MW capacity) to reduce its carbon footprint.</li> <li>4. The Company has installed a Continuous Air Quality Monitoring System (CAQMS) to monitor real time concentration of all key pollutants in ambient air.</li> <li>5. Implementation of various emission reduction initiatives have resulted in reduction of Scope-01 Green House Gas (GHG) emissions by 4.58% during the FY 2022-23.</li> </ol>
<b>Social</b>	<ol style="list-style-type: none"> <li>1. The Company is committed towards making a difference in the lives of communities surrounding its operations through various CSR efforts.</li> <li>2. The company has constructed and renovated schools and provided technical equipment for smart education.</li> <li>3. The company did plantation in villages for restoring the environment.</li> <li>4. The company provided primary healthcare including sanitation and community development by providing computers to schools.</li> </ol>
<b>Governance</b>	<ol style="list-style-type: none"> <li>1. The company has put in place a sound and well-structured corporate governance framework to operate more efficiently and ensure that best interests of its stakeholders are always upheld. Its Board and its committees, together with a strong executive leadership, helps it maintain highest standards of transparency, accountability, awareness in its operations.</li> </ol>

### Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Pharmaceuticals](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

### 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 on September 29, 1986 by Varinder Gupta and Rajinder Gupta to setup acetic acid manufacturing facility. IOLCPL's manufacturing facility is at Barnala, Punjab, having total capacity of 1,72,962 Metric Tonne Per Annum (MTPA) as on March 31, 2024. IOLCPL is involved in manufacturing Chemicals (Ethyl acetate, acetyl chloride, iso-butyl benzene etc.) and Active Pharmaceutical Ingredients (Ibuprofen, metformin, paracetamol etc.). As on March 31, 2024, the total installed capacity of Ibuprofen was 12000 MTPA.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	2,224.17	2,145.87
PBILDT	234.17	244.64
PAT	139.98	135.42
Overall gearing (times)	0.18	0.23
Interest coverage (times)	14.22	15.20

A: Audited; Note: these are latest available financial results

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

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 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 2024-2025	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
1	Non-fund-based - ST-BG/LC	ST	460.00	CARE A1+	-	1)CARE A1+ (30-Jun-23)	1)CARE A1+ (04-Jul-22)	1)CARE A1+ (06-Jul-21)
2	Fund-based - LT-Working Capital Limits	LT	140.00	CARE A+; Stable	-	1)CARE A+; Stable (30-Jun-23)	1)CARE A+; Stable (04-Jul-22)	1)CARE A+; Stable (06-Jul-21)

LT: Long term; ST: Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of 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 lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

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### About us:

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