India Glycols Limited

September 18, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,477.94 (Enhanced from 959.92)	CARE A-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	450.00 (Enhanced from 350.00)	CARE A-; Stable / CARE A2+	Revised from CARE A-; Stable*
Short Term Bank Facilities	846.98 (Reduced from 850.00)	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

*The term 'revised' here points to short term rating being assigned to the bank facilities of Rs.450 crore. The long term rating has been reaffirmed.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed its ratings on bank facilities of India Glycols Limited (IGL). Ratings continue to take comfort from company's diversified revenue streams, which mitigate volatility impact in one segment and healthy market position in bio-based glycols, potable spirit (PS), and nutraceutical segment, leading to large scale of operations. The company has also significantly scaled up its biofuel business over the recent couple of fiscals as well.

These rating strengths are partially tempered by its improving yet moderate operating profitability which is vulnerable to volatility in input costs and company's moderately leveraged capital structure and average debt coverage metrics. The company's capital expenditure program is largely completed and is expected to focus on generating significant cashflows from the same and strengthen its coverage ratio, particularly, net debt (including LC acceptances) to PBILDT below 4.5x by FY25 end. PS business is highly regulated by government.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in debt coverage metric, particularly, net debt to profit before interest, lease rentals, depreciation, and taxation (PBILDT) (including LC acceptances) below 3.5x on a sustainable basis.
- Significant liquidity buffer building up from cash and cash equivalents, or moderate unutilised bank limits, which will be sustained.

Negative factors

- Detrimental impact on one of the business segments, leading to reducing diversification of business risk profile.
- Incremental debt programme or deteriorating profitability, leading to continued net debt to PBILDT above 4.50x by FY25-end.

Analytical approach: Consolidated.

For analysing IGL, consolidated financials have been considered due to common management. The entities consolidated are mentioned in Annexure-6.

Outlook: Stable

The 'Stable' outlook is driven by company's healthy market position in its business segments, mainly, bio-based glycols and PS segment and expectation of sustainability in improved operating margins.

Detailed description of key rating drivers:

Key strengths

Diversified revenue streams mitigating significant volatility in revenues and earnings

IGL primarily operates in four segments: Bio-based Specialities and Performance Chemicals Segment (BSPC) comprises glycols, specialty chemicals, natural gum, and other related goods. PS segment comprises manufacturing and selling ethyl alcohol (Potable). Ennature Biopharma (EB) comprises manufacturing and selling nutraceutical products. The company also started biofuel business in the recent past, which is scaling up significantly. Overall, the BSPC segment contributed 49% (60%) of its revenue in FY24 (FY23), biofuels contributed 16% (5%), while PS and EB contributed 29% (28%) and 6% (7%) of its revenue. Against this, contribution towards profit before interest and tax (PBIT) in BSPC, biofuels, PS, and EB segments was 41%, 10%, 51%, and 12%, respectively, in FY24. About 14% of EBIT was un-allocable towards a particular segment in FY24.

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

The diversified revenue streams protect against significant volatility in business performance from sharp downturn in a single segment.

Large scale of operations supported by healthy market position in its area of operations
IGL is the largest manufacturer of bio-based glycols in India and globally. Within the PS segment, it holds a commanding position in the country liquor segment in Uttar Pradesh and Uttarakhand. The company has healthy market position in whiskey, vodka, and rum categories through its key alcohol brands. IGL is also the global leader in Thiocolchicoside API sales, a highly potent muscle relaxant. The company's healthy market position across product verticals leads to its large scale of operations. The company's total operating income (TOI) was ₹3,294 crore (₹2,641 crore) in FY24 (FY23), rising by 25% year-on-year (y-o-y). Improvement is largely driven by significant scaling up of its recently established distillery facilities which is being used to supply ethanol to oil marketing companies (OMCs) in India. Revenue pressure persists in the BSPC segment, where revenue from glycol-based products witnessed pressure from share of decline in substitute product prices, lower demand in Chinese and South-East Asian markets, and the management decision to restrict supply to domestic markets due to subdued pricing. Demand for bio-based glycols continue to remain subdued in FY25. Revenue from biofuels increased from ₹9 crore in FY22 to ₹126 crore in FY23 and ₹512 crore in FY24. The company is also witnessing growth in PS segment, with net sales rising to ₹947 crore in FY24 from ₹754 crore in FY23. Revenue from Biofuel is expected to rise up to ₹1,000 crore in FY25 with ₹239 crore booked in Q1FY25 itself. This, along with ramping-up of operations of new specialities unit is expected to provide further impetus for revenue growth in FY25 and going forward as well.

Key weaknesses

Moderate operating profitability, vulnerable to input costs volatility
From FY20-FY24, the company's operating margins (PBILDT margin) were 8.5-12.22% which is moderate. The company's PBIT margin was 8% (8%) in BSPC segment, 17% (13%) in PS segment, 6% in Biofuel, and 19% (25%) in EB segment in FY24 (FY23). Operating margins improved in FY24 supported by price hikes in country liquor by Uttar Pradesh government and Uttarakhand government in country liquor prices. CARE Ratings observes, operating margins are currently expected to be sustained. However, the impact of NSU unit on operating profitability will be key monitorable, which is currently ramping-up.

IGL's BSPC segment profitability remains susceptible to volatility in the spread between glycol products and IGL's raw material ethyl alcohol, since they may not move in tandem. Margins from PS segment also moderated in FY22 due to sharp escalation in ethanol and material cost, and the company's inability to increase selling price as it is controlled by the government. Inversely, the current margin improvement in the PS segment is largely from hike in country liquor prices by the government. The biofuel segment is exposed to volatility in agro-commodities which is the basic raw material for ethanol and price determination by OMCs for ethanol, especially during inflationary challenges in economy.

Moderately leveraged capital structure and average debt coverage metrics
IGL has a moderately leveraged capital structure and average debt coverage metrics. Overall gearing (including LC acceptances) stood at 0.98x (0.89x) as on March 31, 2024 (2023), while net debt to PBILDT was 4.91x (5.90x) in FY24 (FY23). Due to improving profitability margin in FY24, the net debt to PBILDT improved, however, continued to remain higher than envisaged earlier. Apart from the significant addition of grain-based distillery capacities, establishment of new specialities unit (to manufacture speciality chemicals) and large working capital requirements, the company's debt position remained higher-than-envisaged due to new term loans being availed. The company is raising term loan of ₹500 crore to reduce its annual term loan repayment by replacing the existing term loan with new term loan with longer tenors; reducing its reliance on letter of credit and park some cash for operational/liquidity purpose. The reduction in the current portion of term loan may also allow the company to improve its current ratio and hence enhance fund-based working capital limit.
As apprised by the management of IGL, CARE Ratings understands that the capital expenditure (capex) cycle has largely ended in IGL with no major capex being planned over the medium term. The focus is expected to be on consolidating businesses' performance with current capacities, increase its cashflow from operations and subsequently strengthen its debt coverage metrics.

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 and the huge burden of duties and taxes. The states also control the licenses for production, distributorship, and retailing. Additionally, there is the risk of the introduction of prohibition laws in states, with negative connotations associated with the liquor industry in India.

Liquidity: Adequate

IGL has scheduled repayment obligations of around ₹255 crore in FY25, against which gross cash accruals (GCA) is expected at around ₹330-350 crore. The company has modest free cash and cash equivalents of ₹27 crore as on March 31, 2024, and ₹2.6 crore as on June 30, 2024. The company has working capital limits, which are highly utilised at around 90% over 12-months through June 2024, with instances of 99%-100% utilisation. The company has below unity current ratio and moderately leveraged capital structure, which limits headroom for raising additional debt without adversely impacting credit profile. The company has deferred sale consideration receivable from Clariant IGL Specialty Chemicals Private Limited of ₹71 crore as on March 31, 2024, which is expected to be received in FY25.

Environmental, social and governance risk assessment:
Environmental Risk: IGL through its bio-based glycols provides sustainable solutions for customers to identify, evaluate and select right materials and choose high-performance materials that advance their environmental and business goals. The company produces bio-based glycols against crude-based glycols prevalent at a larger scale due cheaper price. Its foray into ethanol for biofuels partly reduces greenhouse gas emissions. Hence, risk from environmental impact of operations is limited.

Social Risk: The company has been undertaking programmes under its corporate social responsibility (CSR) activities in areas of sanitation and safer drinking water, health care, and promoting education, among others and has spent on corporate social responsibility in line with statutory requirement. However, social risk arises largely out of its liquor business, which is highly regulated due to its harmful impact on human health.

Governance Risk: The company has complied with statutory conditions of corporate governance as required.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Chemicals	Chemicals & Petrochemicals	Commodity Chemicals

IGL manufactures green technology-based bulk, specialty, and performance chemicals and natural gums, spirits, industrial gases, sugar, and nutraceuticals. It operates under three broad segments: Bio-based specialities & Performance Chemicals (BSPC), Biofuels, PS, and EB. These segments contributed 49%, 16%, 29% and 6% respectively to the company's net revenue.

Brief Financials (₹ crore) - Consolidated	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	2,641	3,294	971
PBILDT	286	402	128
PAT	141	173	60
Overall gearing (times)	0.89	0.98	-
Interest coverage (times)	2.86	3.26	3.58

A: Audited UA: Unaudited; 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

Detailed explanation of 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 and Rating Outlook
Fund-based - LT-Bank Guarantee		-	-	-	72.63	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	Sept 2031	1405.31	CARE A-; Stable
Fund-based - LT/ ST-Working Capital Limits		-	-	-	450.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-BG/LC		-	-	-	846.98	CARE A2+

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	Fund-based - LT-Term Loan	LT	1405.31	CARE A-; Stable	-	1)CARE A-; Stable (05-Mar-24)	1)CARE A; Stable (12-Dec-22)	-
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST	450.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable (05-Mar-24)	1)CARE A; Stable (12-Dec-22)	-
3	Non-fund-based - ST-BG/LC	ST	846.98	CARE A2+	-	1)CARE A2+ (05-Mar-24)	1)CARE A1 (12-Dec-22)	-
4	Fund-based - LT-Bank Guarantee	LT	72.63	CARE A-; Stable	-	1)CARE A-; Stable (05-Mar-24)	1)CARE A; Stable (12-Dec-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/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-Bank Guarantee	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-Working Capital Limits	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1.	IGL Chem International PTE. LTD	Full	Wholly owned subsidiary
2.	IGL Chem International USA LLC (IGLCHEM US)	Full	
3.	IGL Finance Limited (IGLFL)	Full	
4.	IGL Chemicals and Services Private Limited	Full	
5.	Ennature Bio Pharma Private Limited	Full	
6.	Clariant IGL Specialty Chemicals Private Limited (Erstwhile IGL Green Chemicals Private Limited) (on 30th June, 2021 from the time of allotment of equity shares to JV Partner)	Moderate	Joint Venture with 49% stake*

*Out of 49%, 3.63% is held by IGL Chemicals and Services Private Limited, a wholly owned subsidiary.

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 for clarifications.

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About us:

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