

IOL Chemicals and Pharmaceuticals Limited

March 15, 2018

Ratings

| Facilities | Amount (Rs. crore) | Ratings ¹ | Rating Action |
|----------------------------|--|---|---|
| Long-term Bank Facilities | 447.43 | CARE BBB-; Stable (Triple B Minus; Outlook: Stable) | Revised from CARE BB; Stable (Double B; Outlook: Stable) |
| Short-term Bank Facilities | 150.00 (enhanced from 136.99) | CARE A3 (A Three) | Revised from CARE A4 (A Four) |
| Total Facilities | 597.43 (Rupees Five hundred Ninety Seven crore and Forty Three lakh only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of IOL Chemicals and Pharmaceuticals Limited (IOL) takes into account improvement in the company's operational performance marked by growth in total income and cash accruals backed by healthy capacity utilization levels and resultant improvement in debt coverage indicators. The ratings continue to derive comfort from the extensive experience of the promoters, long track of operations, well-established market position, diversified product portfolio and integrated manufacturing facilities leading to cost advantages. However, the ratings are constrained by high gearing, working capital intensive nature of the operations and ongoing capex resulting in modest liquidity position.

Going forward, the ability of the company to report growth in total operating income, sustain its profitability margins, effectively manage its working capital cycle and reduce the debt levels shall remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in operational performance

Total operating income (TOI) grew by 23.29% y-o-y in FY17 (refers to the period from April 1 to March 31) to Rs.713.75 crore, driven by increase in sales volumes and average realization of Ibuprofen and higher capacity utilization for chemicals division. Further, during 9MFY18 (refers to the period from April 1 to Dec 31) IOL has reported a TOI of Rs.714.46crore (PY: Rs.566.66 crore), backed by expansion in manufacturing capacity of Ibuprofen coupled with higher capacity utilization under chemicals segment. As a result, PBILDT and PAT has also registered significant growth during FY17, although there is some moderation in PBILDT margin during 9MFY18 in view of IOL's focus on higher sales volumes.

Extensive experience of the promoters and long track record of operations

Key promoter - Mr. Varinder Gupta has more than three decades of experience including the experience with IOL and other group companies. The company has a long track record of operations of nearly 32 years, which coupled with promoters' extensive experience helps in better understanding of the business cycle and develop established relationships with the customers and suppliers.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Well established market position and diversified product portfolio

IOL has a market presence across more than 50 countries with the sales contribution from the exports forming around 30% of the total sales in FY17 (PY:26%). Its product portfolio includes chemicals like Ethyl acetate, and Iso Butyl Benzene and API's (mainly life style drugs like Ibuprofen). Diversified product portfolio helps the company to capitalize various opportunities present in the market and reduces the dependence on a single product.

Integrated manufacturing facilities leading to cost benefits

IOL has an integrated manufacturing facility for chemicals and APIs. The backward integrated plants adds to the strength of IOL as major raw materials for Ibuprofen like Iso Butyl Benzene, Acetyl Chloride and Mono Chloro Acetic Acid are produced by the company in house, leading to cost advantage over its competitors.

Key Rating Weaknesses

Working capital intensive nature of operations and modest liquidity position

IOL's operations are working capital intensive as reflected by working capital cycle of 119 days on March 31, 2017 (PY: 125 days), driven by inventory and debtors of 150 days and 47 days, respectively. Inventory holding is high as the company has an integrated manufacturing plant. Further, the company is in the process of increasing its capacity in API segment thereby resulting in lower free cash flows and modest liquidation position as reflected by average fund based limit utilization standing high at 90.59% for trailing 12 months ending January 2018.

Leveraged capital structure

The overall gearing remained high at 2.49x as on March 31, 2017 (PY: 2.61x), driven by sizeable term loans availed for capex in the past and large working capital borrowings. Interest coverage ratio improved to 1.53x during FY17 (PY: 0.86x) and 1.83x in 9MFY18 (PY: 1.51x), owing to higher TOI and resultant increase in PBILDT. Total debt to gross cash accruals (GCA) also improved but remained high at 15.54x as on March 31, 2017 (PY: 35.26x).

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for manufacturing companies](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

About the company

IOL Chemicals and Pharmaceuticals Ltd (IOL) 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. It's manufacturing facility is located at Barnala, Punjab, having total capacity of 114600 Metric Tonne Per Annum (MTPA) as on March 31, 2017. IOL is involved in manufacturing of Chemicals (~43.71% of total sales in FY17) and Active Pharmaceutical Ingredients (~53.74% of total sales in FY17) which primarily includes Ibuprofen.

| Brief Financials (Rs. crore) | FY16 (A) | FY17 (A) |
|-------------------------------------|-----------------|-----------------|
| Total operating income | 579.03 | 713.75 |
| PBILDT | 52.71 | 103.13 |
| PAT | -40.03 | 4.23 |
| Overall gearing (times) | 2.61 | 2.49 |
| Interest coverage (times) | 0.86 | 1.53 |

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|--|------------------|-------------|---------------|-------------------------------|---|
| Term Loan-Long Term | - | - | March 2024 | 267.43 | CARE BBB-; Stable |
| Non-fund-based - ST-BG/LC | - | - | - | 150.00 | CARE A3 |
| Fund-based - LT-Working Capital Limits | - | - | - | 180.00 | CARE BBB-; Stable |

Annexure-2: Rating History of last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---------|--|-----------------|--------------------------------|-------------------|---|---|--|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 | Date(s) & Rating(s) assigned in 2014-2015 |
| 1. | Term Loan-Long Term | LT | 267.43 | CARE BBB-; Stable | - | 1)CARE BB; Stable (06-Feb-17) | 1)CARE BB-(18-Mar-16) 2)CARE BB-(28-Apr-15) | - |
| 2. | Non-fund-based - ST-BG/LC | ST | 150.00 | CARE A3 | - | 1)CARE A4 (06-Feb-17) | 1)CARE A4 (18-Mar-16) 2)CARE A4 (28-Apr-15) | - |
| 3. | Fund-based - LT-Working Capital Limits | LT | 180.00 | CARE BBB-; Stable | - | 1)CARE BB; Stable (06-Feb-17) | 1)CARE BB-(18-Mar-16) 2)CARE BB-(28-Apr-15) | - |

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