IOL Chemicals and Pharmaceuticals Limited

July 07, 2020

Ratings

Facility/Instrument	Amount (Rs. crore)*	Rating[1]	Remarks
Long-term Bank Facilities	140.00	**CARE A; Stable (Single A; Outlook: Stable)**	**Ratings revised from CARE A-; Stable (Single A Minus; Outlook: Stable)**
Short-term Bank Facilities	210.00	**CARE A1 (A One)**	**Ratings revised from CARE A2+ (Single A Two Plus)**
Total facilities	**350.00 (Rupees Three Hundred and Fifty Crore only)**		
Long-term Bank Facilities – Term Loan	-	-	**Withdrawn***

Details of instruments/facilities in Annexure-1

** CARE has withdrawn the rating assigned to the long term loan facility of IOL Chemicals and Pharmaceuticals Ltd. as the company has repaid term loan in full and there is no outstanding under the said loan as on date.*

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of IOL Chemicals and Pharmaceuticals Limited (IOL) takes into account the improvement in the operational performance of the company reflected by growth in total income and expansion in margins resulting in healthy growth in cash accruals. The revision in ratings also factors in improvement in financial risk profile marked by improvement in gearing and strengthening of debt service metrics. The ratings continue to derive comfort the experience of its promoters and the management team, integrated manufacturing facilities and well-established market position in key product (Ibuprofen) manufactured by the company. The ratings however, remain constrained by raw material availability and price volatility risk, and product concentration in its revenue profile.

Going forward, the ability of the company to report improvement in operational performance and diversify the revenue stream would be key rating sensitivities.

Key Rating Sensitivity:

Positive Sensitivity:

- Strong and sustained improvement in the operating performance resulting in growth in total operating income and EBIDTA margin.
- Diversification in product portfolio and reducing dependency on its main product viz. Ibuprofen

Negative Sensitivity:

- Reduction in demand and prices of the company's main product Ibuprofen will remain the monitorable factor.
- Regulatory risk arising due to nature of industry.
- Any debt funded capex adversely impacting capital structure

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in operational performance

During FY20, the company registered a growth of around 12% in total operating income to Rs.1909.41 cr (PY: Rs.1695.05 cr), driven by increase in sales volumes from 83,545 MTPA in FY19 to 1,12,640 MTPA in FY20 and higher sales realization. The same was due to expansion in the manufacturing facility amid supply constraints leading to increased demand of its two major products viz. Ibuprofen (API) and Ethyl Acetate. The two major products that contribute ~82% to the total sales are Ibuprofen and Ethyl Acetate.

Improvement in financial risk profile

IOL's profitability margins improved significantly as reflected by increase in PBILDT margin from 24.74% in FY19 to 30.84% in FY20. Further, the PAT margin increased to 18.92% during FY20 (PY: 13.96%) on account of lower interest costs.

The overall gearing of the company improved to 0.30x as on March 31, 2020 vis-à-vis 0.85x as on March 31, 2019 on account of accretion of profits to net worth coupled with pre-payment of its long term debt. Further, the debt to equity ratio also stood at zero (0) as compared to 0.46x as on March 31, 2019 as the company has prepaid its all long term debt.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

The total debt to GCA also improved to 0.14 years during FY20 as compared to 0.96 years during FY19 owing to reduced amount of debt along with increase in the scale of operations with improved profitability margins.
Further, the interest coverage ratio improved significantly to 28.13x during FY20 as compared to 8.01x during FY19, due to higher total income which subsequently increased the PBILDT and also due to lower interest cost n account of reduction of its long term debt. The capital structure of the company is expected to remain strong with continued generation of healthy profits.

Experienced promoters and management team
The promoter Mr. Varinder Gupta has more than three decades of experience and is ably supported by Mr. Vijay Garg (Joint Managing Director) with substantial experience in IOL and other related industries. The management team is also supported by a highly experienced and technically qualified team of professionals at various designations.

Well established business position
IOL has a market presence across more than 50 countries with sales contribution from exports forming around 34% of the total sales in FY20 (PY: 38%). The company's overseas customers are spread across several countries including Spain, Brazil, Hungary, USA, Indonesia, Bangladesh etc.
Moreover, the company is one of the largest manufacturer of Ibuprofen (capacity of 12000 MTPA) and has the second largest manufacturing capacity (12000MTPA) for Iso Butyl Benzene (key raw material for Ibuprofen). Ibuprofen has been one of the key product of the company which as contributed to the company's revenue by more than 50% over the period of few years. IOL's total capacity of Ibuprofen is 12000 ton as on May 31, 2020 which is 28.57% of the global demand of the API in terms of capacity. In addition, IOL manufactures other chemicals which include Ethyl Acetate, Acetyl Chloride and Mono Chloro Acetic Acid, and other APIs which include Pantoprazole, Metformin, Clopidogrel and Fenofibrate.

Integrated manufacturing facilities:
IOL has an integrated manufacturing facility for chemicals and APIs. The chemical manufacturing facilities of the company gives 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 (45% of the total raw material cost) which include Iso Butyl Benzene, Acetyl Chloride and Mono Chloro Acetic Acid are produced in-house by the company.
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.

Adequate Liquidity
The company has adequate liquidity marked by strong accruals against zero repayment obligations as the company has fully repaid its long term debt and has liquid investments to the tune of Rs.162.54 crore as on May 31, 2020.The company plans to incur a capex of Rs.100 crore each year from FY21 to FY23 from internal accruals with no raising of debt. The company further has unutilized bank lines which are adequate to meet its incremental working capital needs over the next one year. The average fund based utilization for trailing 12 months May 2020 stood at around 12%.

Key Rating Weaknesses
Concentrated revenue stream
IOL derives more than 80% of the revenue from the sale of two products viz. Ibuprofen (55% of the total sales) and Ethyl Acetate (27% of the total sales) which exposes the company to revenue concentration risk. However from FY18 onwards, the company has been diversifying its product portfolio by manufacturing new APIs which include Panoprazole, Metformin, Clopidogrel and Fenofibrate.

Raw material availability and price volatility risk
Raw materials consumed remain the major cost driver for IOL. It procures majority of the raw materials from domestic market (70%). The prices of the same are volatile in nature and prices have fluctuated in the past. However, the company has been successful in passing on the rise in prices of raw materials to the customers without affecting the margins.

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 July 2015 and review was conducted in October 2019 wherein there were no observations. In addition, the company has also received approvals from the pollution control boards indicating compliance with regulatory norms.

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]
[Liquidity Analysis of Non-financial sector entities]
[Pharmaceutical]

About the Company
IOL was incorporated as a public limited company in September 29, 1986 by Mr. Varinder Gupta and Mr. Rajinder Gupta (promoter of Trident Limited) to setup acetic acid manufacturing facility. IOL's manufacturing facility is located at Barnala, Punjab, having total capacity of 1,27,820 Metric Tonne Per Annum (MTPA) as on March 31, 2020. IOL is involved in manufacturing of Chemicals (Ethyl acetate, acetyl chloride, iso-butyl benzene etc.) and Active Pharmaceutical Ingredients (Ibuprofen, metformin, etc.). As on May 31 2020, the total installed capacity of Ibuprofen is 12000MTPA.

Brief Financials (Rs. crore)	FY19(A)	FY20 (A)
Total operating income	1695.05	1909.41
PBILDT	419.39	588.83
PAT	236.70	361.29
Overall gearing (times)	0.85	0.30
Interest coverage (times)	8.16	28.13

A: Audited

Status of non-cooperation with previous CRA: NA

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	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	210.00	CARE A1
Fund-based - LT-Working Capital Limits	-	-	-	140.00	CARE A; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	-	-	-	1)CARE A-; Stable (02-Jul-19)	1)CARE BBB+; Stable (31-Dec-18)	1)CARE BBB-; Stable (15-Mar-18)
2.	Non-fund-based - ST-BG/LC	ST	210.00	CARE A1	-	1)CARE A2+ (02-Jul-19)	1)CARE A2 (31-Dec-18)	1)CARE A3 (15-Mar-18)
3.	Fund-based - LT-Working Capital Limits	LT	140.00	CARE A; Stable	-	1)CARE A-; Stable (02-Jul-19)	1)CARE BBB+; Stable (31-Dec-18)	1)CARE BBB-; Stable (15-Mar-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

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.*

Contact us

Media Contact
Name: Mradul Mishra
Contact no: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact 1
Name: Gaurav Dixit
Contact no: +91-11 - 4533 3235
Email ID: gaurav.dixit@careratings.com

Analyst Contact 2
Name: Ravleen Sethi
Contact no: +91-11 - 4533 3251
Email ID: ravleen.sethi@careratings.com

Business Development Contact
Name: Swati Agrawal
Contact no: +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

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