

IOL Chemicals and Pharmaceuticals Limited

December 31, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	429.33	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Short term Bank Facilities	150.00	CARE A2 (A Two)	Revised from CARE A3 (A Three)
Total Facilities	579.33 (Rs. Five hundred seventy nine crore and thirty three lakh only)		

Details of instruments/facilities in Annexure-1

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 significant 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 reduction in gearing and strengthening of debt service metrics. The rating continues to derive comfort from the experience of the promoters and the management team, integrated manufacturing facilities and well-established market position in key product manufactured by it.. The ratings however, remain constrained by raw material availability and price volatility risk, working capital intensive nature of the operations and significant product concentration in revenue profile.

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

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in operational performance: The total income of IOL grew to Rs. 986.32 crore during FY18 (refers to the period April 1 to March 31) (PY: Rs. 713.75 crore) driven by increase in sales quantity and higher sales realizations. Its net profit margin also increased to 2.81% in FY18 (PY: 0.65%). The company has shown further improvement during H1FY19 (refers to the period April 1 to September 30) and reported a total operating income of Rs. 794.10 crore as against Rs. 453.13 crore in H1FY18 on account of expansion in manufacturing capacity of Ibuprofen amid supply constraints and PAT margin of 6.65%. (PY: 1.64%).

Improvement in financial risk profile: The overall gearing of the company improved to 2.09x as on March 31, 2018 (PY: 2.49x) and 1.53x as on September 30, 2018 on account of accretion of profits to net worth and scheduled repayments of term loans. The total debt to GCA also improved to 9.08x as on March 31, 2018 (PY: 15.18x) and 2.87x as on September 30, 2018 owing to high cash accruals backed by increase in profit margins. Also, the interest coverage ratio improved to 1.96x during FY18 (PY: 1.53x) and to 4.18x during H1FY19 (H1FY18: 1.71x) owing to higher total income and resultant increase in PBILDT.

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) who is having substantial experience with 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 strong market presence in the chemical and pharmaceuticals industry and its overseas customers are spread across more than 50 countries including Brazil, China, Hungary, Russia, USA etc. IOL's product portfolio is broadly divided into two categories viz., chemicals and APIs. Diversified product portfolio helps the company to capitalize various opportunities present in the market and in-house production of various raw-material gives cost competitive advantage over its competitors.

Integrated manufacturing facilities: IOL has an integrated manufacturing facility for chemicals and APIs. The chemical manufacturing facilities of the company also act as backward integration for final pharmaceutical products (like Ibuprofen). The existing manufacturing facilities of the company act as a platform for manufacturing APIs with capability to manufacture most of the key starting materials in-house. It also has a 17 MW co-generation captive power plant.

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

Adequate liquidity position: IOL's liquidity position is adequate as reflected by the current ratio of 1.20x as on March 31, 2018 (PY: 1.22x). The average fund based limit utilization stood moderate at around 79% for trailing 12 months ending October 2018.

Key Rating Weaknesses

Concentrated revenue stream: The major revenue of the company is derived from the sales of Ibuprofen and ethyl acetate which exposes it to revenue concentration risk. However, the company is trying to mitigate the same by launching of new products in the drugs segment which includes metformin, fenofibrate, clopidogrel bisulphate.

Raw material availability and price volatility risk: Company is susceptible to key raw material prices i.e., alcohol and relies upon the market for its supply which may impact the operations of the company.

Working capital intensive nature of operations: The operations of the company are working capital intensive due to high inventory holding as some of the products viz. Iso Butyl Benzene, Acetyl Chloride and Mono Chloro Acetic Acid manufactured by it are captively consumed for manufacture of other products viz. Ibuprofen, resulting in relatively higher inventory period for finished goods. However, the inventory has been reduced sharply during the FY18 as compared to FY17 in value terms and number of days with increase in sales volume which resulted in shortening of working capital cycle during FY18.

Analytical approach: Standalone

Applicable Criteria:

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

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

[Rating Methodology-Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

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

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, rated CARE AA-; Stable/ CARE A1+) to setup acetic acid manufacturing facility. IOL's manufacturing facility is located at Barnala, Punjab, having total capacity of 1,18,600 Metric Tonne Per Annum (MTPA) as on March 31, 2018. IOL is involved in manufacturing of Chemicals (Ethyl acetate, acetyl chloride, iso-butyl benzene etc.) and Active Pharmaceutical Ingredients (Ibuprofen, metformin, etc.).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	713.75	986.32
PBILDT	103.52	126.33
PAT	4.67	27.70
Overall gearing (times)	2.49	2.09
Interest coverage (times)	1.53	1.96

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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	249.33	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	150.00	CARE A2
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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	249.33	CARE BBB+; Stable	-	1)CARE BBB-; Stable (15-Mar-18)	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 A2	-	1)CARE A3 (15-Mar-18)	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 BBB-; Stable (15-Mar-18)	1)CARE BB; Stable (06-Feb-17)	1)CARE BB- (18-Mar-16) 2)CARE BB- (28-Apr-15)

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