

IOL Chemicals and Pharmaceuticals Limited

February 6, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	448.51 (enhanced from Rs.429.18 crore)	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BB- (Double B Minus)
Short-term Bank Facilities	136.99 (revised from Rs.125.48 crore)	CARE A4 (A Four)	Reaffirmed
Total	585.50 (Rupees Five Hundred Eighty Five crore and Fifty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The revision in the ratings of bank facilities of IOL Chemicals and Pharmaceuticals Limited (IOL) takes into account the improved profitability of the company over the FY16 (refers to the period April 1 to March 31) and H1FY17 on account of increased capacity utilization and improved efficiencies. The ratings also derive comfort from the experience of the promoters and the management team, well-established business position and diversified product portfolio. The ratings however, remain constrained by highly leveraged capital structure, moderate liquidity and debt coverage indicators and working capital intensive nature of the operations.

Going forward, the ability of the company to further improve its profitability, capital structure and liquidity profile would be the key rating sensitivities.

Detailed description of the key rating drivers

IOL is promoted by Mr Varinder Gupta with more than three decades of experience in the industry and is supported by a highly experienced and technically qualified team of professional in management of operations. The management has built integrated manufacturing facility for chemicals and APIs which 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. The company's products find usage in diverse industries viz. Paints, Adhesives, Packaging and Printing etc.

IOL has built strong market presence in the chemical and pharmaceuticals industry being one of the large manufacturers of Ethyl Acetate and Ibuprofen. IOL has a market presence across more than 50 countries with the sales contribution from the exports forming around 26% of the total sales in FY16 (P.Y. 22%). IOL also received the USFDA approval in July 2015 for its Ibuprofen manufacturing facilities which will enable the company to establish its footprint in USA. In April 2015, the Company was also awarded with CEP certification for its product Metformin Hydrochloride by European Directorate for the Quality of Medicines and HealthCare (EDQM) for a period of five years.

During FY16 and H1FY17, IOL has seen improvement in operational efficiency on account of increase in scale of operations, higher capacity utilization, streamlining of operations, modifications in the processes and successful competition of the debottlenecking of the Ibuprofen plant in November, 2015. Further the company was able to increase its sales realisation while there has been reduction in cost of its major raw materials viz. Acetic Acid, Toluene, Propylene Gas, Iso-Propyl Alcohol (crude derivatives) and alcohol. All these factors have resulted in improvement of PBILD Margins from 3.26% in FY15 to 9.10% in FY16 and 15.28% during H1FY17. Total debt to gross cash accruals which were negative as on March 31, 2015 and March 31, 2016, due to negative cash accruals during the respective periods has also consequently improved to 16.67x as on September 30, 2016.

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

Also, 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. IOL had an operating cycle of 126 days during FY16 (P.Y. 134 days). The overall liquidity position of the company has, however, improved due to enhanced working capital limits available with the company since July 2016.

However, given the capital intensive nature of operations, the overall gearing tends to remain high. The overall gearing increased from 2.25x as on March 31, 2015, to 3.06x as on March 31, 2016, due to reduction in Net Worth during FY16 owing to net losses, increase in Funded Interest Term Loan, term loan availed for the execution of the debottlenecking project and availability of the working capital limits upon restructuring of loans. This was despite the equity infusion of Rs.17.96 crore (balance 75% of the total amount of Rs.23.94 crore) received towards share warrants issued in FY15 on account of. IOL's overall gearing ratio stood at 3.08x as on September 30, 2016.

Analytical Approach– Standalone financials of IOL

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

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

[Sector Methodology - Pharmaceuticals](#)

Company Background

IOL Chemicals and Pharmaceuticals Limited (IOL) was incorporated as a public limited company in 1986 by Mr Varinder Gupta and Mr Rajinder Gupta to setup an acetic acid manufacturing facility. IOL commenced commercial production in 1991 with manufacturing of acetic acid.

Presently, IOL is involved in the manufacturing of chemicals (approximately 50% of total sales in FY16) wherein the company manufactures specialty chemicals like Ethyl Acetate, Acetyl Chloride and Iso Butyl Benzene and Active Pharmaceutical Ingredients (approximately 50% of the total sales in FY16) which includes Ibuprofen and other APIs. In July 2015, the company has obtained the US FDA approval to launch API business in US Market. The chemicals produced by the company are used in various industries like agro-chemical, pharmaceutical, food processing and paints etc.

IOL's manufacturing facility is located at Barnala, Punjab, having capacity of producing 87,000 Metric Tonne Per Annum (MTPA) of Ethyl Acetate and 6,200 MTPA of Ibuprofen. Besides, this the company also has capacities for production of chemicals viz. 30,000 MTPA of Acetic Anhydride, 9,000 MTPA of Iso Butyl Benzene, 7,200 MTPA of Mono Chloro Acetic Acid, 5,200 MTPA of Acetyl Chloride which are used in manufacturing of Ibuprofen. Thus, the plant is fully backward integrated for Ibuprofen. The company also has a multipurpose plant (MPP) which can be applied for the production of various pharma products like Ibuprofen, Fenofibrate, Clopidogrel, Lamotrigine, Metformin, etc. depending on the requirement. The company's bank facilities were restructured during FY15 with cut-off date of September 1, 2014.

During FY16, IOL registered a net loss of Rs.40.03 crore on a total operating income of Rs.579.03 crore as against a net loss of Rs.66.65 crore on a total operating income of Rs.385.87 crore during FY15. During H1FY17 (refers to the period April 1 to September 30), the company has reported PAT of Rs.1.71 crore on a total operating income of Rs.334.88 crore.

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.

Analyst Contact

Name: Ms Ankita Sehgal

Tel: 011-45333226

Mobile: +9958700336

Email: ankita.sehgal@careratings.com

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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	-	-	31-03-2024	288.51	CARE BB; Stable
Non-fund-based - ST-BG/LC	-	-	-	136.99	CARE A4
Fund-based - LT-Working Capital Limits	-	-	-	160.00	CARE BB; Stable

Annexure-2**Rating History (Last three years)**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Chronology of Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) and Rating(s) assigned in 2016-2017	Date(s) and Rating(s) assigned in 2015-2016	Date(s) and Rating(s) assigned in 2014-2015	Date(s) and Rating(s) assigned in 2013-2014
1.	Term Loan-Long-term	LT	288.51	CARE BB; Stable	-	1)CARE BB-(18-Mar-16) 2)CARE BB-(28-Apr-15)	-	1)CARE BB-(14-Aug-13)
2.	Non-fund-based - ST-BG/LC	ST	136.99	CARE A4	-	1)CARE A4 (18-Mar-16) 2)CARE A4 (28-Apr-15)	-	1)CARE A4 (14-Aug-13)
3.	Fund-based - LT-Working Capital Limits	LT	160.00	CARE BB; Stable	-	1)CARE BB-(18-Mar-16) 2)CARE BB-(28-Apr-15)	-	1)CARE BB-(14-Aug-13)

CONTACT**Head Office Mumbai****Mr. AmodKhanorkar**

Mobile: + 91 9819084000

E-mail: amod.khanorkar@careratings.com**Mr. Saikat Roy**

Mobile: + 9198209 98779

E-mail: saikat.roy@careratings.com**CREDIT ANALYSIS & RESEARCH LIMITED**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. MehulPandya**

32, Titanium, Prahaladnagar Corporate Road,

Satellite, Ahmedabad - 380 015

Cell: +91-98242 56265

Tel: +91-79-4026 5656

E-mail: mehul.pandya@careratings.com**BENGALURU****Mr. Deepak Prajapati**

Unit No. 1101-1102, 11th Floor, Prestige Meridian II,

No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91-9099028864

Tel: +91-80-4115 0445, 4165 4529

E-mail: deepak.prajapati@careratings.com**CHANDIGARH****Mr. SajanGoyal**

SCF No. 54-55,

First Floor, Phase 11,

Sector 65, Mohali - 160062

Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: sajan.goyal@careratings.com**CHENNAI****Mr. V Pradeep Kumar**

Unit No. O-509/C, Spencer Plaza, 5th Floor,

No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**

T-3, 3rd Floor, Manchester Square

Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**HYDERABAD****Mr. Ramesh Bob**

401, Ashoka Scintilla, 3-6-502, Himayat Nagar,

Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**JAIPUR****Mr. Nikhil Soni**

304, Pashupati Akshat Heights, Plot No. D-91,

Madho Singh Road, Near Collectorate Circle,

Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**KOLKATA****Ms. Priti Agarwal**

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)

10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**NEW DELHI****Ms. Swati Agrawal**

13th Floor, E-1 Block, Videocon Tower,

Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**PUNE****Mr.Pratim Banerjee**

9th Floor, Pride KumarSenate,

Plot No. 970, Bhamburda, Senapati Bapat Road,

Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

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