

IOL Chemicals and Pharmaceuticals Limited

July 02, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long-term Bank Facilities	368.54	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Short-term Bank Facilities	170.00	CARE A2+ (A Two Plus)	Revised from CARE A2 (A Two)
Total	538.54 (Rs. Five Hundred Thirty Eight Crore and Fifty-Four lakhs 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 improvement in gearing and strengthening of debt service metrics. The ratings continue to derive comfort from the experience of the promoters and the management team, integrated manufacturing facilities and well-established market position in key product (Ibuprofen) manufactured by it.. The ratings however, remain constrained by raw material availability and price volatility risk, and product concentration in revenue profile.

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

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in operational performance

During FY19, the company registered a significant growth of 68.37% in total operating income to Rs.1685.33 cr (PY: Rs.1000.96 cr), driven by increase in sales volumes 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.

IOL's profitability margins improved significantly as reflected by increase in PBILDT margin by 1230 bps to 24.41% (PY: 12.11%). Further, the PAT margin increased to 14.03% during FY19 (PY: 2.76%) on account of lower interest costs.

Improvement in financial risk profile:

The overall gearing of the company improved to 0.82x as on March 31, 2019 vis-à-vis 2.09x as on March 31, 2018 on account of accretion of profits to net worth coupled with repayment of debt. Consequently, the debt to equity ratio also improved to 0.46x as on March 31, 2019 as compared to 1.11x as on March 31, 2018.

The total debt to GCA also improved to 0.96 years during FY19 vis-à-vis 7.28 years during FY18 owing to reduced amount of debt along with increase in the scale of operations with improved profitability margins.

Further, the interest coverage ratio improved to 8.01x during FY19 (PY: 1.89x), due to higher total income and the subsequent increase in PBILDT. The capital structure of the company is expected to improve in the near term owing to the prepayment of term loans and 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 38% of the total sales in FY19 (PY: 36%). The company's overseas customers are spread across several countries including Brazil, Hungary, USA, Indonesia, Bangladesh etc.

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

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). In addition, IOL manufactures other chemicals which include Ethyl Acetate, Acetyl Chloride and Mono Chloro Acetic Acid, and other APIs which include Metformin, Clopidogrel and Fenofibrate.

Integrated manufacturing facilities:

IOL has an integrated manufacturing facility for chemicals and APIs. The chemical manufacturing facilities of the company give 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.

Key Rating Weaknesses

Concentrated revenue stream

IOL derives more than 90% of the revenue from the sale of two products viz. Ibuprofen (59.73% of the total sales) and Ethyl Acetate (30.90% 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 Metformin, Clopidogrel and Fenofibrate (4.03% of total sales in FY19).

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 the next audit from USFDA is due in FY20. In addition, the company has also received approvals from the pollution control boards indicating compliance with regulatory norms.

Adequate liquidity position

IOL's liquidity position is adequate as reflected by the current ratio of 1.90x as on March 31, 2019 (PY: 1.23x). The company's operating cycle improved to 54 days as on March 31, 2019 (PY: 80 days) on account of reduction in inventory days from 96 days as on March 31, 2018 to 56 days as on March 31, 2019 due to the changes implemented in the production facilities for the debottlenecking of the manufacturing processes which led to a reduction in the work-in-progress inventory. Further, the average fund based limit utilization stood at 53.33% for trailing 12 months ending May 2019 as compared to 79.08% for trailing 12 months ending October 2018. The improvement in limit utilization is on the back of increasing cash accruals which are being used both for capex and funding of working capital. Liquidity is also aided by free cash and bank balance of Rs. 27.88 cr as on May 31, 2019. Repayment of scheduled term debt over the next 12 months stands at Rs.19.97 cr.

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 1,22,448 Metric Tonne Per Annum (MTPA) as on March 31, 2019. 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 2019, the total installed capacity of Ibuprofen is 12000MTPA.

Brief Financials (Rs. crore)	FY18 (A)	FY19(A)
Total operating income	1002.86	1687.58
PBILDT	121.43	411.90
PAT	27.70	236.70
Overall gearing (times)	2.09	0.82
Interest coverage (times)	1.89	8.01

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

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	188.54	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	170.00	CARE A2+
Fund-based - LT-Working Capital Limits	-	-	-	180.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	188.54	CARE A-; Stable	-	1)CARE BBB+; Stable (31-Dec-18)	1)CARE BBB-; Stable (15-Mar-18)	1)CARE BB; Stable (06-Feb-17)
2.	Non-fund-based - ST-BG/LC	ST	170.00	CARE A2+	-	1)CARE A2 (31-Dec-18)	1)CARE A3 (15-Mar-18)	1)CARE A4 (06-Feb-17)
3.	Fund-based - LT-Working Capital Limits	LT	180.00	CARE A-; Stable	-	1)CARE BBB+; Stable (31-Dec-18)	1)CARE BBB-; Stable (15-Mar-18)	1)CARE BB; Stable (06-Feb-17)

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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