

December 20, 2021 ^(Revised)

Innovassynth Technologies (I) Limited: Ratings upgraded to [ICRA]BBB+/[ICRA]A2 and outlook revised to Stable.

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based limit- Term loan	8.00	4.64	[ICRA]BBB+; upgraded from [ICRA]BBB and outlook revised to Stable from Positive
Long-term fund-based limit- Export Credit	-	15.00	[ICRA]BBB+; upgraded from [ICRA]BBB and outlook revised to Stable from Positive
Long-term fund-based limit-Cash Credit	15.00	(15.00)	[ICRA]BBB+; upgraded from [ICRA]BBB and outlook revised to Stable from Positive
Short-term non-fund-based limit-Letter of Credit	15.00	12.50	[ICRA]A2; upgraded from [ICRA]A3+
Short-term – Interchangeable Limit-Bank Guarantee	(2.00)	(12.50)	[ICRA]A2; upgraded from [ICRA]A3+
Total	38.00	32.14	

*Instrument details in Annexure

Rationale

The rating action factors in Innovassynth Technologies (I) Limited's (ITIL) revenue growth and improvement in profit margins in H1 FY2022, which is expected to largely sustain over the medium term. This has been driven by steady demand for the company's products, change in the product mix with increased contribution from higher value products and increased operational synergies. Moreover, steady accretion to reserves and no major increase in the company's debt levels in the last two fiscals has led to strengthening of its capital structure and coverage metrics. ITIL plans to incur debt-funded capex in FY2023; however, the same is not likely to materially impact its capital structure or coverage metrics. Additionally, the ratings continue to draw comfort from the extensive experience of ITIL's promoters in the Contract Research & Manufacturing Services (CRAMS) business, along with its strong research and development (R&D) infrastructure. ICRA also notes the company's reputed client base, which includes several players from the chemical, petrochemical, and pharmaceutical industry.

The ratings are, however, are constrained by the company's high customer concentration risk with substantial contribution of sales from one of its major customers, even though the concentration has moderated to some extent in the last two years (~57% in FY2021 and ~32% in H1FY2022, from ~67% in FY2020). The ratings also consider the company's position as a moderate player in a highly competitive contract research industry with large and established players. ITIL's operations also remain susceptible to adverse fluctuations in raw material prices and foreign exchange rates, although raw material price exposure is primarily limited to the revenues coming from its other than major customers.

The Stable outlook on the long-term rating of [ICRA]BBB+ reflects ICRA's opinion that ITIL will continue to benefit from the experience of the promoters in the CRAMS industry along with the company's efforts to diversify its business with other customers.

Key rating drivers and their description

Credit strengths

Extensive and established track record of promoters in CRAMS industry; strong R&D infrastructure – ITIL has been involved in CRAMS business for over two decades (previously under Indian Organic Chemicals Ltd.) and has established relationships with its key customers and suppliers. It is promoted by the Rajan Raheja Group, a diversified business group with interests across real estate, software, construction, etc. The company has a strong R&D infrastructure, and an experienced and qualified workforce at its plant in Khopoli (Maharashtra).

Reputed customer base with significant repeat business – The company has a reputed customer base of players in the speciality chemicals and pharmaceuticals business. ITIL has entered into a contract with one its major customers, to whom it supplies a speciality chemical, that gets annually renewed until terminated by either party by giving a notice of three months. However, the company has been supplying to this customer for a decade and this contract is expected to remain in place for a long-term.

Comfortable financial profile characterised by increasing scale of operations and healthy profitability, which has led to comfortable capital structure and healthy debt coverage indicators – Despite the adverse impact of the first wave of the pandemic in Q1 FY2021, ITIL reported healthy recovery in subsequent quarters, reporting an operating income (OI) of Rs.131.1 crore in FY2021. Maintaining the growth momentum, the company has reported an OI of Rs. 108.4 crore in H1 FY2022 and is expected to report steady growth over the medium term. The profitability of the company remained healthy in the range of 15-17% during the last three years, owing to healthy business relations with customers and the high value-added nature of its products/services. The operating profit margin (OPM) was at 15.4% in FY2021, impacted by the decline in scale of operations, which resulted in under absorption of fixed costs. There was also an increase in employee expenses. The profitability remained along similar lines in H1 FY2022 due to higher sales from the other than major customers' segment. Due to improved profitability and reduction in total debt the capital structure remained comfortable, with the gearing of 0.1 time as on March 31, 2021. The coverage indicators witnessed healthy improvement and remained comfortable as reflected by an interest coverage ratio of 16.7 times and Total Debt/OPBDITA of 0.3 time in FY2021. The NCA/Total Debt stayed healthy at 252% in FY2021. Despite the proposed debt-funded capex in FY2023, the coverage ratios are expected to remain comfortable in the near to medium term.

Credit challenges

Dependence on one of its major customers for revenue generation, though revenues from the other customers have recently witnessed growth – ITIL's customer concentration risk is high with its one of its major customers consistently accounting for most of the total sales. Even though the revenue contribution from this customer has decreased over years, it continues to remain on the higher side. ICRA notes that the company has constantly undertaken efforts to diversify its product line and customer base in recent years, which reflects in improved sales of nucleosides and bulk speciality chemicals that form part of the non-major customer segment.

Moderate scale of operations in a competitive contract research industry with large and established players exerting pricing pressures – With revenues of Rs. 131.1 crore in FY2021, ITIL's scale of operations can be classified as a mid-sized player and it faces stiff competition from other pharmaceutical and chemical manufacturing companies in the domestic as well as export markets. The intense competition exerts pricing pressures and limits its bargaining power to an extent. However, ICRA notes that the company plans to modernise its plant as well as increase its existing capacity, which will support its growth plans in the medium term.

Profitability exposed to volatility in raw material prices and foreign exchange rates – The key raw materials for the company consists of speciality chemicals like Resorcinol, Cyanuric Chloride and Aluminium Chloride, which are mainly petroleum derivatives and, hence, their prices are exposed to variations in crude oil prices in international markets. However, sales from its major customer (which constituted 40-50% of its total sales in recent years) are covered under a price escalation clause, thus the price volatility is only limited to the remaining portion of its sales. The company imports 40-60% of its raw material requirements and exports ~95% of its total sales, thus exposing its profitability to forex risks to the extent not covered by a natural hedge.

Liquidity position: Adequate

The company's liquidity position is **adequate**, supported by steady cash accrual generation, cushion available in the form of undrawn working capital limits of around Rs. 10 crore and free cash and bank balances of ~Rs. 18.0 crore as on September 30, 2021. Average utilisation of fund based bank limits has remained low at 15% for the 15-month period ended October 2021. ITIL plans to incur capex of around Rs. 50 crore in FY2023 towards capacity expansion, backward integration and modifications to existing facility. This capex is proposed to be funded by a term loan of ~Rs. 35 crore and the remaining from internal accruals. The company has debt repayments of around Rs. 3.9 crore in FY2022 and its cash accruals are expected to be sufficient to meet the repayment obligations.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if there is a sustained improvement in ITIL's operating income, profitability and debt protection metrics and strengthening of its liquidity profile. Increased level of business diversification will also be key for a rating upgrade.

Negative factors – Negative pressure would arise if there is significant decline in revenue or profitability or adverse changes in contract terms with its top customer resulting in cash flow pressures, or if stretch in working capital cycle or higher than anticipated debt-funded capex weakens its liquidity and debt coverage indicators. Specific metrics that could lead to a rating downgrade is Total debt/OPBDITA of more than 2.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group Support	NA
Consolidation/Standalone	Standalone

About the company

Incorporated in December 2001, ITIL is involved in custom synthesis, contract manufacturing and contract research services for pharmaceuticals, agro-chemicals, perfumes and fragrance industries, as well as the fine and speciality chemicals industry. It is a part of the Rajan Raheja Group, with Globus Stores Private Limited being the holding company as on March 31, 2021. The company's manufacturing and integrated R&D facility is at Khopoli (Maharashtra).

Key financial indicators

ITIL Standalone	FY2020	FY2021	H1FY2022
	Audited	Audited	Provisional
Operating Income (Rs. crore)	150.3	131.1	108.4
PAT (Rs. crore)	14.0	11.0	16.8
OPBDITA/OI (%)	16.2%	15.4%	23.1%
PAT/OI (%)	9.3%	8.4%	15.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.8	0.8
Total Debt/OPBDITA (times)	0.4	0.3	0.3
Interest Coverage (times)	18.6	16.7	58.6

PAT: Profit After Tax; OPBDITA: Operating Profit Before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instruments	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					December-20-2021	March-10-2021	September-17-2019	December-11-2018	
1	Term loan	Long-term	4.64	4.64	[ICRA]BBB+(Stable)	[ICRA]BBB(Positive)	[ICRA]BBB(Stable)	[ICRA]BBB-(Stable)	
2	Export Credit(EC)	Long-term	15.00	-	[ICRA]BBB+(Stable)	[ICRA]BBB(Positive)	[ICRA]BBB(Stable)	[ICRA]BBB-(Stable)	
3	Cash Credit*	Long-term	(15.00)	-	[ICRA]BBB+(Stable)	[ICRA]BBB(Positive)	[ICRA]BBB(Stable)	[ICRA]BBB-(Stable)	
4	Letter of Credit(LC)	Short-term	12.50	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	
5	Bank Guarantee**	Short-term	(12.50)	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	

*Sub-limit of EC

**Sub-limit of LC

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund based - Term loan	Simple
Long-term Fund based – Export Credit	Simple
Long-term Fund based –Cash credit	Simple
Short-term non-fund-based- Letter of Credit	Very Simple
Short-term non-fund-based-Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's

credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

Bank/ ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Axis Bank	Term loan	FY2016	8.5%	FY2022	4.64	[ICRA]BBB+(Stable)
Axis Bank	Export Credit(EC)	-	-	-	15.00	[ICRA]BBB+(Stable)
Axis Bank	Cash Credit*	-	-	-	(15.00)	[ICRA]BBB+(Stable)
Axis Bank	Letter of Credit(LC)	-	-	-	12.50	[ICRA]A2
Axis Bank	Bank Guarantee**	-	-	-	(12.50)	[ICRA]A2

*Sub-limit of EC

**Sub-limit of LC

Source: Innovassynth Technologies (I) Limited

Annexure-2: List of entities considered for consolidated analysis – Not applicable
Corrigendum

Some changes in the content of the rating rationale were made as per the company's request.

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