March 28, 2023 (Revised)

Innovassynth Technologies (I) Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based limit –Term Loan	4.64	4.64	[ICRA]BBB+(Stable); reaffirmed
Long-term fund-based limit – Export Credit	15.00	15.00	[ICRA]BBB+(Stable); reaffirmed
Long-term fund-based limit – Cash Credit	(15.00)	(15.00)	[ICRA]BBB+(Stable); reaffirmed
Short-term non-fund based limit – Letter of Credit	12.50	12.50	[ICRA]A2; reaffirmed
Short-term Interchangeable Limit – Bank Guarantee	(12.50)	(12.50)	[ICRA]A2; reaffirmed
Total	**32.14**	**32.14**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings of Innovassynth Technologies (I) Limited (ITIL) factors in the company's established operational track record in the Contract Research & Manufacturing Services (CRAMS) industry, its strong research and development (R&D) infrastructure and its reputed client base, which includes several players from the chemical and pharmaceutical industry. ITIL also continues to benefit from the strong financial flexibility by virtue of being a part of the Rajan Raheja Group, a well-diversified business group. Further, the company's capital structure and debt coverage indicators have remained comfortable on the back of low debt levels and steady accruals in recent years.

The ratings, however, remain constrained by the high competitive intensity of the industry and ITIL's moderate scale of operations, resulting in limited economies of scale. Moreover, ICRA has also noted the expected moderation in ITIL's financial performance in FY2023, as marked by muted revenue growth and contraction in operating margins (OPM) and accrual generation that was partly attributable to the one-time expenses. Nonetheless, going forward, the company's performance is expected to improve on the back of expected customer and product diversification. Also, ITIL's profitability remains exposed to volatility in raw material prices and foreign exchange (forex) rates.

The Stable outlook on ITIL's long-term rating reflects ICRA's expectations that despite the moderation in accrual generation over the near term, ITIL will maintain an adequate financial profile supported by a comfortable capital structure, an adequate liquidity position and strong financial flexibility.

Key rating drivers and their description

Credit strengths

Established operational track record in the industry; strong R&D infrastructure— Incorporated in 2001, ITIL has an extensive operational track record in the CRAMS industry. Over the years, the company has established relationships with its key customers and suppliers. Also, it has a strong R&D infrastructure, and an experienced and qualified workforce at its plant in Maharashtra.

Strong promoter group enhances financial flexibility – ITIL is part of the Rajan Raheja Group of companies, a well-diversified business group with interests across batteries, software, cement, etc. The strong promoter group enhances the company's financial flexibility. Further, ITIL also benefits from the extensive experience of the promoters in the speciality chemical business.

Reputed customer base – Operating in the CRAMS industry for over two decades, the company has established strong relationships with its clientele that includes reputed players in the speciality chemicals and pharmaceuticals business. One of the major customers of ITIL continues to account for more than 50% of its total revenues, to whom it supplies a speciality chemical. ITIL's customer base includes companies such as Thermo Fisher Scientific, Pharmicell Co. Limited and Sanofi-Aventis Deutschland GmbH, among others.

Comfortable capital structure and debt coverage indicators – ITIL's capital structure and coverage metrics have continued to remain comfortable, with the gearing at 0.2 time as on March 31, 2022, given that there has not been any material increase in its debt levels in recent years. While the gearing is expected to remain comfortable, the coverage metrics are expected to moderate due to contraction in OPM in FY2023. However, expected improvement in operating margin is likely to result in strengthening of debt coverage metrics in FY2024.

Credit challenges

Moderation in financial performance expected in FY2023 –. After posting healthy growth in FY2022, ITIL is likely to report muted growth in FY2023 primarily because of lower revenues from its customers (other than its major customer). Moreover, while gross margins have largely remained stable, one-time expenses/fees paid to a leading consultancy firm as part of ITIL's strategic initiative to widen its customer base, and higher employee expenses on the back of addition to its employee base to support business growth and R&D activity, have led to contraction in operating margins in FY2023. This is expected to result in considerably lower cash accruals for the fiscal. Nonetheless, going forward, the company's performance is expected to improve on the back of expected customer and product diversification.

Moderate scale of operations in competitive CRAMS sector with large and established players exerting pricing pressures – With a top line of ~Rs. 200-220 crore in FY2022 and FY2023, the company continues to be a moderate sized player in the industry. ITIL faces stiff competition from other pharmaceutical and chemical manufacturing companies in the domestic as well as export markets, which exerts pricing pressures and limits its bargaining power to an extent. However, the company benefits to an extent from its established relationships with its key customers.

Exposed to customer concentration risk –. In recent years, ITIL has derived 50-60% of its revenues from its one of its major customers, exposing it to high customer concentration risk. However, the company has been making efforts to enhance its customer base by expanding its product base and market presence.

Profitability exposed to volatility in raw material prices and forex rates – The key raw materials for the company consists of speciality chemicals and key starting materials (KSMs) which are mainly petroleum derivatives and, hence, their prices are exposed to variations in crude oil prices in international markets. The company imports more than half of its raw material requirement. However, sales from one 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. Further, the company is working towards producing certain KSMs in-house, which is likely to lower its dependence on imports to some extent.

Liquidity position: Adequate

ITIL's liquidity profile is expected to remain adequate despite significantly lower expected profit for FY2023, supported by the cash balances of ~Rs. 1.0 crore and sufficient buffer in the form of undrawn line of credit. The company has fund-based limits of Rs. 30 crore, whose utilisation was ~53% for the 12 months ended February 2023. Further, the company does not have any term loan repayment liability or significant debt-funded capex, which supports its liquidity position.

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, along with 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 a 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 include Total debt (including lease liabilities)/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	Not Applicable
Consolidation/Standalone	Standalone

About the company

Innovassynth Technologies (India) Limited was formed on 4th December 2001 and acquired the chemical division of Indian Organics Chemicals Limited. ITIL provides custom research and manufacturing with research & development (R&D) support programs from lead generation to clinical supplies. The company is engaged in developing, scaling up and manufacturing specialty chemicals and pharmaceutical intermediates. Its key focus business areas are customs synthesis, contract research & manufacturing specialty chemicals, toll manufacturing of chemicals and similar businesses.

Key financial indicators (audited)

ITIL Standalone	FY2021	FY2022
Operating income	131.0	203.1
PAT	12.3	21.9
OPBDIT/OI	16.8%	17.1%
PAT/OI	9.4%	10.8%
Total outside liabilities/Tangible net worth (times)	0.6	0.8
Total debt/OPBDIT (times)	0.3	0.6
Interest coverage (times)	18.2	37.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

Status of non-cooperation with previous CRA: ITIL did not provide the requisite information needed to conduct its surveillance rating process and did not pay the surveillance fees for the rating exercise as agreed to in its Rating Agreement to CARE Ratings Ltd. It was therefore classified as 'Issuer not-cooperating' and based on the best available information with the credit rating agency, the rating continues to remain at '**CARE BB-/A4 (Issuer Not Cooperating)** for Rs. 39.99 crore bank facilities of ITIL on November 29, 2022.

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 28, 2023	Dec 20, 2021	Mar 10, 2021	Sep 17, 2019
1	**Term loans**	Long term	4.64	*	**[ICRA]BBB+(Stable)**	[ICRA]BBB+(Stable)	[ICRA]BBB(Positive)	[ICRA]BBB(Stable)
2	**Export Credit (EC)**	Long term	15.00		**[ICRA]BBB+(Stable)**	[ICRA]BBB+(Stable)	[ICRA]BBB(Positive)	[ICRA]BBB(Stable)
3	**Cash Credit****	Long term	(15.00)		**[ICRA]BBB+(Stable)**	[ICRA]BBB+(Stable)	[ICRA]BBB(Positive)	[ICRA]BBB(Stable)
4	**Letter of Credit (LC)**	short term	12.50		**[ICRA]A2**	[ICRA]A2	[ICRA]A3+	[ICRA]A3+
5	**Bank Guarantee^**	short term	(12.50)		**[ICRA]A2**	[ICRA]A2	[ICRA]A3+	[ICRA]A3+

** NIL outstanding, **Sub-limit of EC, ^Sub-limit of LC*

Complexity level of the rated instruments

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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2016	8.5%	FY2022	4.64	[ICRA]BBB+(Stable)
NA	Export Credit(EC)	NA	NA	NA	15.00	[ICRA]BBB+(Stable)
NA	Cash Credit*	NA	NA	NA	(15.00)	[ICRA]BBB+(Stable)
NA	Letter of Credit(LC)	NA	NA	NA	12.50	[ICRA]A2
NA	Bank Guarantee**	NA	NA	NA	(12.50)	[ICRA]A2

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: 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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ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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