

April 27, 2023

Indosol Exports: [ICRA]A3 reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term – Fund-based	10.00	10.00	[ICRA]A3; reaffirmed
Total	10.00	10.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation takes into account the extensive experience of the promoters of Indosol Exports in the pharmaceutical industry and the company's diversified product portfolio and comfortable capital structure. Indosol trades in around 100 pharmaceuticals, active pharmaceutical ingredients (APIs) and chemicals.

The rating is constrained by the firm's modest scale of operations with an operating income (OI) of Rs. 122.3 crore in FY2022, which limits its competitive position. As exports drive most of its revenues, the firm's profitability remains exposed to the fluctuations in foreign exchange rates and variations in the prices of traded chemicals. High competition from the organised and unorganised players in the chemical and pharmaceutical trading industry further limits the pricing flexibility. The rating is also constrained by the inherent risks pertaining to capital withdrawal, as was the case in FY2022 when there was a capital withdrawal of ~Rs. 8 crore by the promoters.

Key rating drivers and their description

Credit strengths

Established track record in pharmaceutical industry - Indosol was incorporated in 2005 and its operations are managed by Mr. Bimal Shah and Mr. Manish Shah, who have an experience of more than three decades in the pharmaceutical industry.

Diversified product portfolio and geographic presence – Indosol Exports trades in around 100 products under pharmaceuticals, APIs and chemicals. Although four chemicals (paracetamol, sulphamethoxazole, amoxicillin trihydrate and ampicillin trihydrate) formed the firm's core products, they contributed only ~28% to the revenues in 9M FY2023 (~38% in FY2022), indicating low product concentration risk. Further, the firm has a diversified geographic presence with exports to countries such as China, Middle Eastern and Africa.

Comfortable capital structure– The total debt on the firm's books was Rs 17.9 crore as on March 31, 2022, and consisted of vehicle loan, unsecured loans from partners, term loan availed for office premise and working capital facilities in the form of pre-shipment and post-shipment facilities. The gearing of the company increased to 1.2x at the end of FY2022 against 1.1x at the end of FY2021 owing to the capital withdrawal undertaken by the promoters. However, adjusting for the unsecured loans infused by partners and related parties, the gearing remained stable at 0.5x in FY2022 and FY2021.

Credit challenges

Modest scale of operations limits competitive position- The firm's scale of operations has remained modest over the years with an operating income of Rs. 129.9 crore in FY2021 and Rs. 122.3 crore in FY2022. This limits the firm's competitive position.

Vulnerability of profitability to adverse fluctuations in chemical prices and foreign exchange rates - Indosol’s margins remain vulnerable to the fluctuations in the prices of traded chemicals. In addition, while the firm sources its traded products from the domestic market, it derives most of its revenues from exports because of which its margins are vulnerable to foreign exchange fluctuations.

Strong competition in industry- The fragmented nature of the industry and low entry barriers continue to intensify the competition in the industry, which limits the firm’s pricing flexibility.

Risks inherent in a partnership concern - Indosol is a partnership firm, and is thus exposed to the inherent risks, such as the possibility of capital withdrawal by the partners and the dissolution of the firm upon the death, retirement or insolvency of the partners. There was capital withdrawal of ~Rs. 8 crore in FY2022 by the partners, which has led to a moderation of the net worth.

Liquidity position: Stretched

The firm’s liquidity is expected to remain stretched in light of the capital withdrawal by the partners in FY2022. The firm has long-term debt repayment obligations of ~Rs. 0.74 crore per annum in FY2024 and FY2025 to be met out of internal cash accruals. There is no major capex plans. Apart from this, firm has unencumbered cash and bank balance of Rs. 0.7 crore (as on March 31, 2022) and unutilised working capital limits.

Rating sensitivities

Positive factors – The rating may be upgraded in case the firm is able to increase its scale of operations and profitability margins on a sustained basis while maintaining healthy liquidity and comfortable capital structure and strengthening the net worth.

Negative factors – A significant capital withdrawal or deterioration of net worth may act as negative triggers. The rating may also be downgraded if there is a deterioration in the scale of operations, profitability margins and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Trading Companies
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Indosol Exports, established in 2004, is a partnership firm led by Mr. Manish Shah and Mr. Bimal Shah. It is engaged in the trading of pharmaceuticals, APIs and chemicals. The firm’s registered office is in Mumbai. The firm procures its traded goods entirely from the domestic markets for exports to the overseas markets across Africa and Asia. These traded products find application in the manufacturing of pharmaceutical formulations for treating major diseases.

Key financial indicators

Indosol Exports Standalone	FY2021	FY2022
Operating income (Rs. crore)	129.9	122.3
PBT (Rs. crore)	9.9	8.0
OPBDIT/OI (%)	8.6%	6.9%
PBT/OI (%)	7.6%	6.5%
Total outside Liabilities/Tangible net worth (times)	2.1	1.6
Total Debt/OPBDIT (times)	1.8	2.1
Interest Coverage (times)	5.1	4.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding	Date & rating on	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					April 27, 2023			
1	Fund-based	Short-Term	10.00	-	[ICRA] A3	-	[ICRA] A3	[ICRA] A3
2	Unallocated	Short-Term	0.00	-	-	-	-	[ICRA] A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short term – Fund based	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-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund-based limits	NA	NA	NA	10.00	[ICRA]A3

Source: Company

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

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