September 17, 2019 (Revised)

Innovassynth Technologies (I) Limited: Ratings upgraded to [ICRA]BBB(Stable)/[ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund based – Cash Credit	15.00	15.00	[ICRA]BBB (Stable); Upgraded from [ICRA]BBB-(Stable)
Long-term: Fund based – Term Loans	8.00	8.00	[ICRA]BBB (Stable); Upgraded from [ICRA]BBB-(Stable)
Short-term: Non-fund based limits	15.00	15.00	[ICRA]A3+; Upgraded from [ICRA]A3
Short-term: Non-fund based limits^	(2.00)	(2.00)	[ICRA]A3+; Upgraded from [ICRA]A3
Total	**38.00**	**38.00**	

**Instrument Details are provided in Annexure-1*

^ sub-limit under cash credit facility

Rationale

The rating upgrade takes into account the improved financial profile of Innovassynth Technologies (I) Limited (ITIL / the company) as reflected by its healthy revenue growth of 74% in FY2019, its comfortable capital structure with gearing of below 1 time, healthy and improved debt coverage metrics and its adequate liquidity position with free cash and sizeable undrawn working capital limits. The rating continues to factor in the extensive experience and the established track record of ITIL's promoters spanning over two decades in the CRAMS[1] business, along with the company's strong research and development (R&D) infrastructure, and its reputed customer base.

The rating, however, continues to remain constrained by high customer concentration risk with significant portion of revenues coming from one of its major customers. ICRA notes the susceptibility of operations to adverse fluctuations in raw material prices and foreign exchange, although foreign exchange exposure is limited to the sales coming from other than its major customers. The ratings also take into account the company's position as a mid-size player in a highly competitive contract research industry with large and established players.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that ITIL will continue to benefit from the extensive experience of its promoters in the CRAMS industry.

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 Ghia family and the Rajan Raheja Group, a

[1] *CRAMS: Contract Research and Manufacturing Services*

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 – ITIL's customer base comprises reputed players in the speciality chemicals and pharmaceuticals business. It has a long-term contract with its one of its major customers, which is valid till 2023, for manufacturing a speciality chemical used for manufacturing ultra-violet paints.

Improved financial position as reflected by healthy revenue growth, comfortable capital structure and healthy debt coverage indicators in FY2019 – ITIL undertook a major capacity expansion from 550 MTPA to 800 MTPA in March 2018, which led to healthy YoY revenue growth of ~74% to Rs. 150.93 crore in FY2019 as against Rs. 86.58 crore in FY2018. Healthy cash accruals and repayment of term loans led to a comfortable capital structure with gearing below 1 time, while the debt coverage indicators also remained healthy and improved over previous fiscal with interest coverage of 10.17 times (P.Y. – 5.00 times), NCA/Debt of 97% (P.Y. – 17%) and Total Debt/OPBDITA of 0.83 time (P.Y. – 4.68 times) as on March 31, 2019.

Adequate liquidity position with free cash and low limits utilisation – ITIL had free cash and liquid investments of Rs. 3.37 crore as on March 31, 2019. The liquidity position of the company is further supported by healthy cushion available in the form of undrawn working capital limits as evidenced from ~19% average monthly utilisation of fund-based working capital limits over the period April 2018 to June 2019.

Credit challenges

Heavy dependence on one of its major customers for revenue generation – ITIL's customer concentration risk is high with one of its major customers consistently accounting for over 70% of revenues over last five years (79% in FY2019). In terms of geographic concentration, Switzerland is the key export market for the company, constituting over 79% of its sales in FY2019, followed by USA (8%). The company has a dedicated manufacturing facility for one of its major customers with an installed capacity of 800 MT (enhanced from 550 MT in March 2018) for manufacturing speciality chemicals where it gets significant repeat business.

Profitability exposed to volatility in raw material prices and foreign exchange rates – The key raw material for the company are speciality chemicals like Resorcinol, Cyanuric Chloride, Aluminium Chloride etc, which are mainly petroleum derivatives and, hence, their prices are exposed to variations in crude oil prices in the international markets However, sales from one its major customers (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% of its raw material requirements and exports ~96% of its total sales, thus exposing its profitability to forex risks to the extent not covered by natural hedge.

Mid-sized player in a highly competitive contract research industry with large and established players exerting pricing pressures – ITIL is a mid-sized player and faces stiff competition from other pharmaceutical companies in the domestic as well as export markets, which exerts pricing pressures and limits its bargaining power to an extent.

Liquidity Position: Adequate

ITIL had external long-term loans of Rs. 14.09 crore on its books as on March 31, 2019. Further, it plans to avail a term loan of Rs. 10.0 crore in FY2020 towards capex funding. Thus, it has estimated repayment obligations of Rs. 11.08 crore in FY2020, Rs. 3.91 crore in FY2021 and Rs. 4.64 crore in FY2022, which are comfortable given the adequate cash accruals of the company. The liquidity position remains adequate with cash balance of Rs. 6.65 crore (encumbered Rs. 3.28 crore) as on March 31, 2019 and significant cushion in the form of undrawn working capital limits. The utilization of the fund based working capital limits remained low with average utilization of 19% during the period April 2018 to June 2019, supporting liquidity.

Rating Sensitivities

Positive triggers - ICRA could upgrade ITIL's rating if the company's dependence on its top most customer reduces to below 60% on a sustained basis. Other factors that may lead to upgrade include improvement in scale of operations and sustenance of profitability margins.

Negative triggers - Negative pressure on ITIL's rating could arise if significant decline in revenues or adverse changes in contract terms with its top customer result in cash flow pressures. Other factors that may lead to downgrade include weakening of profitability margins or any large unanticipated debt funded capex.

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	Rating is based on standalone financial statements of the issuer.

About the company

Incorporated in December 2001, ITIL began operations as the chemicals division of the erstwhile, Indian Organic Chemicals Ltd., a company engaged in manufacturing polyester fibre, polymers, custom synthesis and contract manufacturing, among others. Later, the chemicals division was divested to form ITIL. ITIL is promoted by the Ghia family and the Rajan Raheja Group, and is engaged 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. The company's manufacturing and integrated R&D facility is at Khopoli (Maharashtra).

ITIL reported a Profit After Tax (PAT) of Rs. 9.04 crore on an operating income of Rs. 150.93 crore in FY2019 as compared to a PAT of Rs. 3.68 crore on an operating income of Rs. 86.58 crore in FY2018.

Key financial indicators (audited)

	FY2017	FY2018	FY2019
Operating Income (Rs. crore)	101.57	86.58	150.93
PAT (Rs. crore)	1.75	3.68	9.04
OPBDIT/ OI (%)	17.65%	11.20%	15.10%
RoCE (%)	11.57%	10.80%	18.81%
Total Outside Liabilities/Tangible Net Worth (times)	1.24	1.71	1.28
Total Debt/ OPBDIT (times)	1.28	4.68	0.83
Interest Coverage (times)	8.22	5.00	10.17
DSCR	2.57	1.33	1.25

Status of non-cooperation with previous CRA: CARE Ratings has issued an Issuer Not Cooperating press release for ITIL on July 15, 2019 following its efforts to seek information from ITIL to monitor the ratings, since ITIL did not provide the requisite information. CARE's rating continues to be denoted as 'CARE BB/CARE A4; ISSUER NOT COOPERATING.'

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017	
					17-Sep-2019	11-Dec-2018	09-Oct-2017	23-Aug-2016	20-Jul-2016
1	Term Loan	Long term	8.00	14.09^	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	-
2	Cash Credit	Long term	15.00	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
3	Letter of Credit	Short term	15.00	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A4+	-
4	Letter of Credit*	Short term	(2.00)	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A4+	[ICRA]A4+

Amount in Rs. crore
** sub-limit of cash credit facility*
^ as on March 31, 2019 (includes all term loan facilities availed by ITIL)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2016	-	FY2023	8.00	[ICRA]BBB (Stable)
NA	Cash Credit	-	-	-	15.00	[ICRA]BBB (Stable)
NA	Letter of Credit	-	-	-	15.00	[ICRA]A3+
NA	Letter of Credit*	-	-	-	(2.00)	[ICRA]A3+

** sub-limit of cash credit facility*

Source: ITIL

Annexure-2: List of entities considered for consolidated analysis: NA

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.

For more information, visit www.icra.in

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