

January 25, 2023

IRM Private Limited (erstwhile IRM Limited): Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	15.94	30.00	[ICRA]BBB-(Stable); Reaffirmed
Long-term – Fund-based – Cash Credit	35.00	8.50	[ICRA]BBB-(Stable); Reaffirmed
Long-term/Short-term – Non-fund Based – Bank Guarantee	10.00	7.50	[ICRA]BBB-(Stable)/[ICRA]A3; Reaffirmed
Unallocated Limit	3.47	0.00	-
Total	64.41	46.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings of IRM Private Limited (IRMPL) continues to take into account the operational and financial support it derives from Cadila Pharmaceuticals Limited (CPL) as part of the Cadila Group, with the entity reporting ~35-40% of its business from CPL in FY2022 and 9M FY2023. The rating also favourably factors in the growth in revenue during FY2022, driven by its aviation charter business and expected turnaround in operations of its subsidiary, IRM Enterprise Private Limited (IRMEPL) in the current fiscal, which is expected to support the coverage numbers at a consolidated level in the near term. The ratings also factor in the diversified business operations and reputed customer base.

The ratings, however, are constrained by the pressure on IRMPL's profitability in the current fiscal on account of losses in the forex division and rise in costs in the aviation business, which were not passed on to the end customers. To curtail losses, going forward, the company has discontinued the forex division from December 2022; hence, the benefit of the same on margins should reflect fully from next fiscal. The ratings also continue to be constrained by the moderate financial risk profile characterised by moderate scale of operations and average profitability levels. The ratings also take into account the fragmented and highly competitive tea and travel businesses; the exposure of profitability to agro-climatic changes in the tea business, which keeps the margins under check. The operations of air transport are also exposed to regulatory changes as well as external shocks. The ability of the company to profitably scale up its air transport service operations, under which it is in the process to lease a bigger aircraft in the near term, will remain a key monitorable from the credit perspective. Sustenance of profitability under its subsidiary in IRMEPL, where the entity has seen sharp turnaround in margins, driven by better demand and curtailing of its trading business, will also be a key area to watch out for from the rating perspective.

The Stable outlook on IRM's rating reflects ICRA's opinion that the company will continue to benefit from the financial and operational support it derives from CPL and its diversified business lines, which insulates it from slowdown from any specific business segment.

Key rating drivers and their description

Credit strengths

Operational and financial support as part of the Cadila Pharmaceuticals Group – IRM belongs to the Cadila Pharmaceutical Group whose flagship company is Cadila Pharmaceuticals Limited (CPL), a reputed player in the Indian pharmaceutical market. IRM draws around 35-40% of its revenue from CPL, apart from benefits in terms of operational and financial support. ICRA also notes that CPL is in the midst of a large debt-funded capex programme to augment its capacity as well as strengthen its R&D capability. While these investments will be synergetic to the business once commencement of the

new capacities begin, ICRA will continue to monitor the impact on its credit profile in terms of timely completion as well as commensurate returns, given its debt funded nature.

Growth in revenue in FY2022 and turnaround in operations at subsidiary level expected in the current fiscal – The company's revenue at a consolidated level witnessed YoY growth of 36% in FY2022 to ~Rs. 266 crore from ~Rs. 196 crore in FY2021. The growth in revenue was driven by increase in revenue from the air-transport business to ~Rs. 89 crore in FY2022 from ~Rs.16 crore in FY2021. Also, the company reported revenue of ~Rs. 218 crore in 9M FY2023, which is backed by the turnaround in operations of IRM's wholly-owned subsidiary, IRMEPL, on account of increase in demand for its products.

Diverse business segments and reputed customer profile – IRM operates in diverse businesses such as tea production, travel management, facility management services, rental of immovable properties and charter flights. It has recently discontinued the foreign exchange money changing (FEMC) services wherein it was incurring losses. IRMEPL is involved in other businesses, namely agro, veterinary and pharma machinery. This diversification leads to low dependence on a single business and to an extent shields it from adverse cyclical movement in a particular segment.

Credit challenges

Pressure on profitability in the current fiscal at standalone level – The profitability of the company is expected to remain under pressure in the current fiscal as there is a rise in operating costs in air transport service. Also, the company has been incurring losses in its forex business, which it has discontinued from December 2022, wherein the entity will also entail one-time costs related to closure of operations in terms of payroll and other costs, which is expected to pull down the margins at a standalone level.

Moderate financial risk profile and revenue remain vulnerable to air transport segment – The company's financial profile remains moderate, with moderate scale of operations, average operating margin. Further, the revenue is vulnerable to the air transport business as it derives ~35% of its revenue from it. The manpower costs for the entity increased sharply in FY2022, due to costs related to shoring up manpower for leasing larger aircraft, which is expected to be delivered in the current fiscal. The ability of the company to scale up its aviation business through adequately leveraging its newer aircraft will remain critical from the credit perspective.

Operations have low entry barriers and, hence, face inherent competition – IRMPL operates various businesses, which are characterised by low entry barriers and are, therefore, subject to intense competition. Besides, the small size of business segments might put an additional pressure on the company's margins in times of slowdown in the industry.

Vulnerability of profitability to fluctuations in raw material prices and regulatory changes – The tea business of the company remains exposed to agro-climatic risks; and likewise, the operations of the air transport segment remain exposed to regulatory changes.

Liquidity position: Adequate

The company's liquidity position remains adequate as it is expected to generate cash accruals, which will be adequate to cover the repayments in the near to medium term. The average utilisation of working capital limit stood at ~45% in the last 12-month period of January–December 2022. Moreover, it had free cash and bank balance of Rs. 5.67 crore as on December 31, 2022. The company will also receive financial support from Cadila Pharmaceuticals Limited as and when required.

Rating sensitivities

Positive factors – ICRA could upgrade IRM's rating if improvement in outlook for key business segments translates to increase in consolidated scale and profitability and, consequently, cash accruals and overall liquidity profile on a consistent basis. Also, any improvement in the credit profile of CPL can also be considered favourably.

Negative factors – Downward pressure on the rating could emerge if any weakening in the support from Cadila Pharmaceuticals Limited or deterioration in credit profile of CPL or higher-than-anticipated decline in revenues and profitability impacts the liquidity and coverage indicators.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology ICRA's Methodology on bulk tea industry Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	Group support: Cadila Pharmaceuticals Limited. The ratings assigned to IRM factors in the likelihood of its group company extending financial support because of the close business linkages between them.
Consolidation/Standalone	The ratings are based on the consolidated financial statements of IRM Private Limited, which includes IRM Enterprises Pvt. Ltd. and its step-down subsidiary as per Annexure II.

About the company

Incorporated in 1994, IRM is a group company of CPL. The company is involved in various businesses such as travel management, facility management services, tea production, and chartered flights. It serves various corporates and derives ~55-65% of its revenues from CPL. IRMEPL is a wholly-owned subsidiary of IRMPL. IRMEPL was involved in the bakery business till FY2018. From November 2018, as per the scheme of merger, the agro and veterinary businesses of CPL and the pharma machinery business of Karnavati Engineering Pvt. Ltd. (KEPL) were demerged and vested into IRMEPL through a scheme of arrangement approved by National Company Law Tribunal (NCLT). The overall consideration was paid by IRM by issue of shares to IRM Trust (major shareholder of CPL and KEPL).

Key financial indicators (audited) (consolidated)

Consolidated	FY2021	FY2022
Operating income	195.9	265.6
PAT	1.5	3.8
OPBDIT/OI	7.4%	7.1%
PAT/OI	0.8%	1.4%
Total outside liabilities/Tangible net worth (times)	1.3	1.5
Total debt/OPBDIT (times)	2.5	2.2
Interest coverage (times)	3.1	3.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Jan 25, 2023	Oct 07, 2021	Sep 08, 2020	Jan 30, 2020
1 Cash Credit	Long Term	8.50	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)
2 Term Loan	Long Term	30.00	21.00	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)
3 Bank Guarantee	Long Term/ Short Term	7.50	-	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/[ICRA]A3	[ICRA]BBB- (Negative)/[ICRA]A3	[ICRA]BBB- (Stable)/[ICRA]A3
4 Unallocated Limited	Long Term/ Short Term	-	-	-	[ICRA]BBB- (Stable)/[ICRA]A3	[ICRA]BBB- (Negative)/[ICRA]A3	[ICRA]BBB- (Stable)/[ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loan	Simple
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	Cash Credit	NA	NA	NA	8.50	[ICRA]BBB-(Stable)
NA	Term Loan	March 2022	NA	FY2032	30.00	[ICRA]BBB-(Stable)
NA	Bank Guarantee	NA	NA	NA	7.50	[ICRA]BBB-(Stable)/[ICRA]A3

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
IRM Enterprises Private Limited	100.00%	Full Consolidation
GIG- IRM Glass Insulators Private Limited (Step Subsidiary of IRMEPL)	50.00%	Full Consolidation

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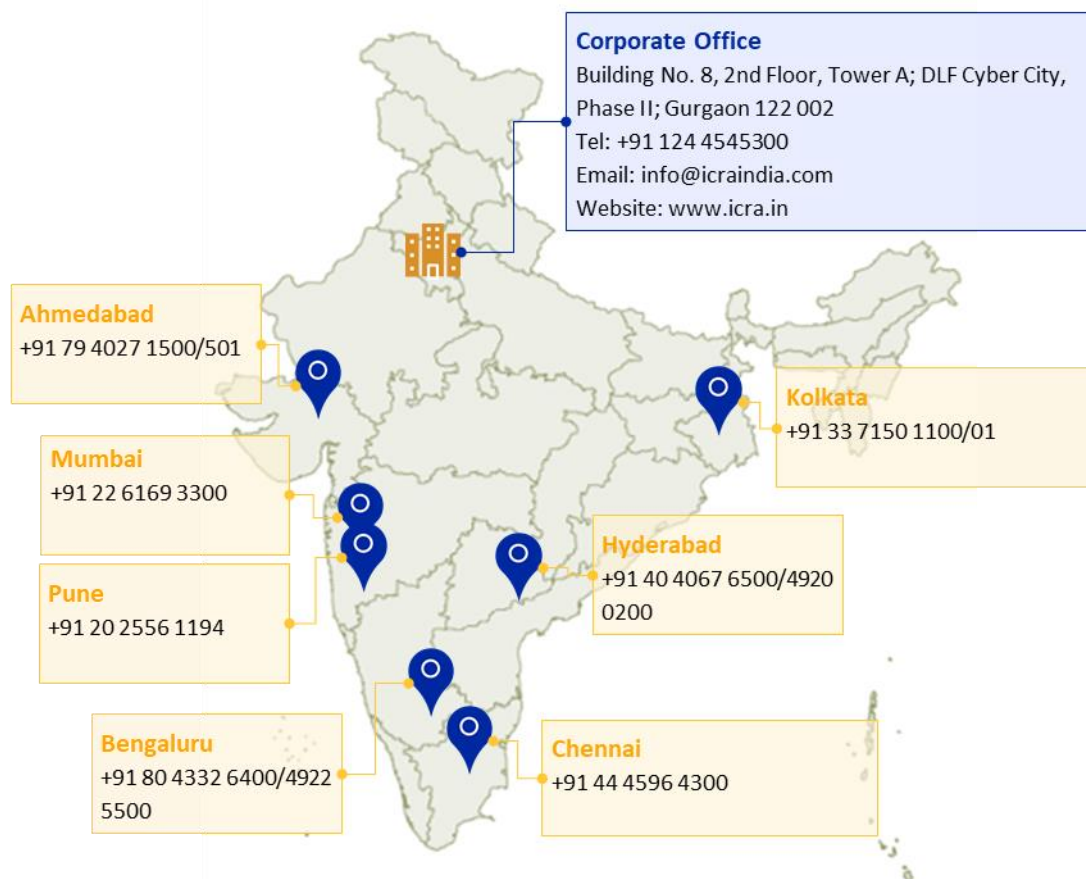


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Branches



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