March 28, 2024(Revised)

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	30.00	30.00	[ICRA]BBB- (Stable); reaffirmed
Long-term – Fund-based – Cash Credit	8.50	8.50	[ICRA]BBB-(Stable); reaffirmed
Long-term/Short-term – Non-fund Based – Bank Guarantee	7.50	7.50	[ICRA]BBB-(Stable)/[ICRA]A3; reaffirmed
Total	**46.00**	**46.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings of IRM Private Limited (IRMPL) take into account its diversified business operations, expected improvement in financial and business profile, with closure of loss-making travel and ticketing business in the last fiscal and turnaround in subsidiary operations. The ratings further consider the operational and financial support it derives from Cadila Pharmaceuticals Limited (CPL) as part of the Cadila Group. The ratings also favourably factor in the company's adequate capitalisation and comfortable liquidity profile, as reflected by a sound net worth base and healthy buffer in fund-based limits.

The ratings, however, are constrained by IRMPL's average financial risk profile characterised by moderate scale of operations and limited profitability levels. The ratings also consider the fragmented and highly competitive tea business, and the exposure of profitability to agro-climatic changes in the business, which keeps the margins under check. The operations of air transport are also exposed to regulatory changes as well as external shocks, along with vulnerability of margins to volatility in air turbine fuel (ATF) expenses. The company expects to grow its air charter and allied services under its air transport operations, wherein it has leased a bigger aircraft. Moreover, its ability to profitably scale up the same remains critical from a credit perspective.

The Stable outlook on IRMPL's rating reflects ICRA's opinion that the company will continue to benefit from the financial and operational support/business synergies it derives from CPL and its diversified business verticals, which insulates it from slowdown in any specific business sector. The absence of any large debt-funded capex, moreover, is expected to keep the debt metrics at satisfactory levels, supporting the credit profile in the near to medium term.

Key rating drivers and their description

Credit Strengths

Operational and financial support/business synergies as part of the Cadila Group – IRMPL belongs to the Cadila Pharmaceutical Group whose flagship company is CPL, a reputed player in the Indian pharmaceutical market. IRMPL drew around ~85% of its revenue from CPL in FY2023 (on standalone levels), mainly for its air charter and facility management businesses. ICRA notes that the credit profile of CPL weakened in FY2023 over FY2022 because of a sharp dip in margins, due to increase in overhead and other expenses, which have posted partial recovery in the current fiscal. The company is also in the midst of a large debt-funded capex programme to augment its capacity as well as strengthen its R&D capability at a consolidated level, which in turn is expected to keep the debt metrics under check in the medium term. While the credit profile of CPL witnessed a deterioration, given the inherent strengths of IRMPL at the entity level, with the closure of loss-making businesses and overall strengthening of its consolidated profile, the IRMPL's ratings remain commensurate with the present level. ICRA will continue to monitor the sustenance of recovery in CPL's margin profile as well as the impact on its credit profile in terms of timely completion of and commensurate returns from the large debt-funded capex it is undergoing.

Turnaround in operations at subsidiary level in FY2023 to support overall credit profile – The company's revenues (at a consolidated level) witnessed YoY growth of 24% in FY2023 to ~Rs. 300.9 crore from ~Rs. 242.7 crore in FY2022. The revenue growth was driven by increase in revenue from the air transport business to ~Rs. 124 crore in FY2023 from ~Rs. 89 crore in FY2022, and increase in revenues of its subsidiary, IRM Enterprise Private Limited (IRMEPL), which witnessed YoY growth of 18% to ~Rs. 128.5 crore in FY2023 from ~Rs. 108.5 crore in FY2022, on the back of increase in demand for its products. Further, the operating profitability improved at the subsidiary levels to 9.3% in FY2023 over 5.7% in FY2022. The performance is expected to steadily improve over the medium term (at a consolidated level), driven by likely traction in the air charter business and turnaround of the business at the subsidiary level in FY2023.

Diverse business segments – IRMPL operates diverse businesses such as tea production, facility management services, rental of immovable properties and charter flights. It discontinued its foreign exchange money changing (FEMC) services in FY2023 wherein it was incurring losses. Its subsidiary, 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 extend shields it from adverse cyclical movement in a particular segment. The company has adequate capitalisation with a healthy net worth base of Rs. 88 crore (as of FY2023) at the consolidated level and a comfortable liquidity position.

Credit Challenges

Average financial risk profile and revenue remain vulnerable to air transport segment – The company's financial profile remains average, with moderate scale of operations and subdued operating margin. Further, the revenues are vulnerable to the air transport business as it derives ~67% of its revenue (at standalone level) from it. The tea and the facility management businesses remain small in scale, thereby lacking any competitive edge. IRMPL is planning to provide a gamut of aviation related services to third parties, including maintenance, repairs and overhaul (MRO) services, management and operations, among others. Therefore, the ability of the company to scale up its air charter business by 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 input costs for tea and air transport businesses and related 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 the volatility in ATF prices, as well as to regulatory changes.

Liquidity position: Adequate

The company's liquidity position remains adequate, with expectations of its cash accruals being enough to cover the repayments in the near to medium term. The average utilisation of the working capital limit stood at ~11% in the last 12-month period ending in February 2024. Moreover, it had free cash and bank balance of ~Rs. 13 crore as on March 31, 2023. The company also is expected to receive financial support from its parent, CPL, as and when required.

Rating sensitivities

Positive factors – ICRA could upgrade IRMPL's rating if improvement in outlook for its key business segments translates to increase in consolidated scale and profitability; and, consequently, cash accruals and overall liquidity 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 higher-than-anticipated decline in revenues and profitability impacts the liquidity and coverage indicators. Any weakening in the business linkage with CPL, or deterioration in CPL's credit profile, which materially impacts IRMPL's credit profile at the entity level, will also be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology ICRA's Methodology on Tea
Parent/Group support	Group support: Cadila Pharmaceuticals Limited. The ratings assigned to IRMPL 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 IRMPL, which includes IRM Enterprises Pvt. Ltd. and its step-down subsidiary, as shared in Annexure II.

About the company

Incorporated in 1994, IRMPL 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 ~80-85% of its revenues from CPL (at standalone levels). IRMEPL is a wholly-owned subsidiary of IRMPL and was involved in the bakery business till FY2018. From November 2018, 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 the National Company Law Tribunal (NCLT). The overall consideration was paid by IRMPL by issue of shares to IRM Trust (major shareholder of CPL and KEPL).

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	242.7	300.9
PAT	3.8	5.3
OPBDIT/OI	7.8%	4.4%
PAT/OI	1.6%	1.8%
Total outside liabilities/Tangible net worth (times)	1.5	1.6
Total debt/OPBDIT (times)	2.2	2.5
Interest coverage (times)	3.8	3.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; 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 as of December 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 28, 2024	Jan 25, 2023	Oct 07, 2021	Sep 08, 2020
1	**Cash Credit**	Long Term	8.50	-	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Negative)**
2	**Term Loan**	Long Term	30.00	21.00	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Negative)**
3	**Bank Guarantee**	Long Term/ Short Term	7.50	-	**[ICRA]BBB- (Stable)/ [ICRA]A3**	**[ICRA]BBB- (Stable)/ [ICRA]A3**	**[ICRA]BBB- (Stable)/ [ICRA]A3**	**[ICRA]BBB- (Negative)/ [ICRA]A3**
4	**Unallocated Limited**	Long Term/ Short Term	-	-	-	-	**[ICRA]BBB- (Stable)/ [ICRA]A3**	**[ICRA]BBB- (Negative)/ [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**	FY2022	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	IRMPL Ownership	Consolidation Approach
IRM Enterprises Private Limited	100.00%	Full Consolidation
GIG- IRM Glass Insulators Private Limited (Subsidiary of IRMEPL)	50.00%	Full Consolidation

Source: Company

Corrigendum

The press release dated March 28, 2024, has been corrected with revisions as below:

• TOL/TNW under Key financial indicators on page 3 has been revised to 1.6 for FY2023.

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