

June 28, 2024

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; **Sub-limit of EC; ^Sub-limit of LC

Rationale

The reaffirmation of ratings for Innovassynth Technologies (I) Limited (ITIL) factors in the strong financial flexibility enjoyed by the company for being a part of the Rajan Raheja Group (a well-diversified business group) and ITIL's established operational track record in the contract research and manufacturing services (CRAMS) industry, which is supported by its research and development (R&D) infrastructure. Leveraging on the same, ITIL has developed a wide client base, which includes some reputed global companies from the pharmaceutical and chemical industries. ICRA has noted that the company's financial performance has moderated in FY2024 with lower-than-expected revenue growth and accrual generation, resulting in some weakening in its debt protection metrics. This was on the back of relatively lower offtake by some global clients, expenses incurred towards strategic initiatives to enhance client base/business diversification and R&D capabilities. There was some impact on production also due to partial utilisation of facilities for trial runs of new products. Given its healthy order book position, recent addition to its customer base and commercialisation of newly developed products, ICRA expects ITIL to report a healthy revenue growth and improve its operating margins in the current fiscal, and the same would remain a key rating sensitivity.

The ratings, however, remain constrained by the company's moderate scale of operations and intense competition in the industry, marked by presence of several large and established players, resulting in limited economies of scale. Also, ITIL's profitability remains exposed to volatility in raw material prices and foreign exchange (forex) rates. Further, the company is exposed to customer concentration risk with more than 50% of its revenues derived from a single customer. However, ITIL's long relationship with the customer and diversification of product portfolio for the customer in the recent months provide some comfort.

The Stable outlook on the long-term rating reflects ICRA's expectation ITIL's credit profile will be supported by higher internal accrual generation, a comfortable capital structure and strong financial flexibility.

Key rating drivers and their description

Credit strengths

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

Strong promoter group enhances financial flexibility – ITIL is a 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. ITIL is set to provide two new products to one of its key customers, which provides revenue visibility in the near term. In addition, ITIL's customer base also includes reputed global pharmaceutical companies.

Comfortable capital structure and debt coverage indicators – Notwithstanding some increase in debt level in FY2024, ITIL's capital structure and gearing level (0.4 times as on March 31, 2024) have remained comfortable, supported by its adequate net worth base of Rs. 101.2 crore as on March 31, 2024. Its operating margins contracted in the past two fiscals due to one-time expenses/fees paid to a leading consultancy firm as a part of ITIL's strategic initiative to widen its customer base, higher employee expenses on the back of addition to its staff base to support business growth and R&D activities and some impact on production in FY2024 due to partial utilisation of facilities for development of new products. While these led to some moderation in its coverage metrics, the same are expected to strengthen in FY2025, aided by higher cash accruals and no material increase in debt levels, supporting the company's credit profile.

Credit challenges

Moderate scale of operations in competitive CRAMS sector with large and established players exerting pricing pressure – ITIL's scale of operations remains moderate with an operating income of Rs. 160-200 crore in FY2023 and FY2024, which marks it as a mid-sized player in the industry. Moreover, ITIL faces stiff competition from other large pharmaceutical and chemical manufacturing companies in the domestic as well as export markets, which exerts pricing pressure 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 the recent years, ITIL has derived 50-60% of its revenues from one of its key customers, exposing it to high customer concentration risk. However, the company has a long relationship with the customers and has also increased its wallet share with them. Moreover, its recent and ongoing efforts to diversify its customer base by expanding its product base and market presence are expected to aid its business profile further.

Profitability exposed to volatility in raw material prices and forex rates – ITIL's key raw materials are 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. 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 remains **adequate** supported by steady internal accrual generation, cash balances of ~Rs. 4 crore and a buffer of ~Rs. 21 crore in the form of undrawn bank lines as of May 2024. Further, the company does not have any significant term loan repayment liability or debt-funded capex over the near term, 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 ratings 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 pressure, or if a stretch in the working capital cycle or higher-than-anticipated debt-funded capex weakens its liquidity and debt coverage indicators. Specific metrics that could lead to ratings 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 Pharmaceuticals
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

ITIL was incorporated in December 2001 and acquired the chemical division of Indian Organics Chemicals Limited. ITIL provides custom research and manufacturing services along with R&D support programs from lead generation to clinical supplies. The company is involved in developing, scaling up and manufacturing specialty chemicals and pharmaceutical intermediates. Its key business areas are customs synthesis, contract research and manufacturing specialty chemicals, toll manufacturing of chemicals and similar businesses.

Key financial indicators (audited)

ITIL - Standalone	FY2023	FY2024
Operating income (OI)	203.1	160.0
PAT	-2.9	-0.5
OPBDIT/OI	2.8%	7.0%
PAT/OI	-1.4%	-0.3%
Total outside liabilities/Tangible net worth (times)	0.8	0.7
Total debt/OPBDIT (times)	5.4	3.9
Interest coverage (times)	1.9	2.4

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: 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 with 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 as on January 16, 2024.

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jun 28, 2024	-	Mar 28, 2023	Dec 20, 2021
1 Term loans	Long-term	4.64	4.64	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2 Export Credit (EC)	Long-term	15.00	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3 Cash Credit*	Long-term	(15.00)	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
4 Letter of Credit (LC)	Short-term	12.50	-	[ICRA]A2	-	[ICRA]A2	[ICRA]A2
5 Bank Guarantee^	Short-term	(12.50)	-	[ICRA]A2	-	[ICRA]A2	[ICRA]A2

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

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based limit – Term Loan	Simple
Long-term – Fund-based limit – Export Credit	Simple
Long-term – Fund-based limit – Cash Credit	Simple
Short-term – Non-fund based limit – Letter of Credit	Very Simple
Short-term – Interchangeable Limit – 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 loans	FY2020	8.5-9.0%	FY2028	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; *Sub-limit of EC; ^Sub-limit of LC

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

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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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Branches



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