July 23, 2024

Indosol Exports: Rating 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-I*

Rationale

The rating reaffirmation is based on 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. 122.5 crore in FY2023 and Rs. 110 crore in 9M FY2024, 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 amid the lack of a hedging policy and variation in the prices of traded chemicals. High competition from 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 partnership firms wherein capital withdrawals can impact the company's liquidity position. The management withdrew Rs. 1.9 crore in March 2024 and plans to withdraw Rs. 4.0 crore in FY2025.

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 trades in around 100 products under pharmaceuticals, APIs and chemicals. Although four chemicals (paracetamol, chlorpheniramine maleate, amoxycylline and maleic anhydride) were the firm's core products, they contributed only ~39% to the revenues in 9M FY2024 (~34% in FY2023), indicating low product concentration risk. Further, the firm has a diversified geographic presence with exports to countries such as China, West Asia and Africa.

Comfortable capital structure - The total debt on the firm's books was Rs. 16.1 crore as on March 31, 2023, and Rs. 19.1 crore as on December 31, 2023, and consisted of vehicle loan, unsecured loans from partners, term loan availed for office premises and working capital facilities in the form of pre-shipment and post-shipment facilities. The company's gearing improved to 0.8x at the end of 9M FY2024 and FY2023 against 1.2x at the end of FY2022, supported by part repayment of loans and improved net worth. Moreover, adjusting for the unsecured loans infused by partners and related parties, the gearing improved to 0.4x at the end of FY2023 against 0.5x at the end of FY2022. The gearing is further expected to improve, going forward, amid expectation of lower capital withdrawals and healthy accretion to reserves.

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. 122 crore in FY2022 and FY2023 and ~Rs. 110 crore in 9M FY2024. 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 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 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. Although there was only Rs. 0.46-crore withdrawal in FY2023, the management withdrew Rs. 1.91 crore in FY2024 and plans to withdraw Rs. 4.0 crore in FY2025, which might lead to a moderation of the net worth.

Liquidity position: Adequate

The liquidity position of the entity is expected to remain adequate, given the availability of Rs. 2.68 crore of unencumbered cash as on December 31, 2023, and cushion in the working capital limits wherein the utilisation levels have remained low in the last 12 months. Going forward, the net cash accruals will remain in the range of Rs. 3.5-4 crore per annum which will be sufficient to meet the debt repayment of Rs. 0.74 crore in FY2025 and FY2026 and the incremental working capital requirements.

Rating sensitivities

Positive factors – The rating may be upgraded if 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
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 (audited)

IE Standalone	FY2022	FY2023	9MFY2024*
Operating income	122.3	122.5	109.9
PAT	5.2	5.3	4.6
OPBDIT/OI	6.9%	7.0%	9.1%
PAT/OI	4.2%	4.3%	4.2%
Total outside liabilities/Tangible net worth (times)	1.6	1.5	2.1
Total debt/OPBDIT (times)	2.1	1.9	1.4
Interest coverage (times)	4.5	4.6	3.5

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *Provisional numbers*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Jul 23, 2024	Apr 27, 2023	-	Feb 25, 2022
1 **Fund-based**	Short term	10.00	**[ICRA]A3**	**[ICRA]A3**	-	**[ICRA]A3**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short term – Fund-based	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	**Fund-based limits**	NA	NA	NA	10.00	[ICRA]A3

Source: Company

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

ANALYST CONTACTS

Girishkumar Kadam
+91 124 4545328
girishkumar@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Varun Gogia
+91 124 4545 319
varun.gogia1@icraindia.com

Pawankumar Jagdale
+91 704 5595 212
pawankumar.jagdale@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches