

IRM Ltd.

February 28, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based-Term Loan	19.01	15.12	[ICRA]BBB-(Stable); reaffirmed
Fund-based-Working Capital Limits	35.00	36.00	[ICRA]BBB-(Stable); reaffirmed
Non-fund Based- Bank Guarantee	10.00	10.0	[ICRA]A3; reaffirmed
Fund-based/ Non-fund Based-Unallocated Limits	0.00	3.29	[ICRA]BBB-(Stable)/[ICRA]A3; reaffirmed
Total	64.01	64.41	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation takes into account IRM Ltd.'s operational and financial support from its promoter Group—Cadila Pharmaceutical's and its AD Category II license holder status, which enables it to buy and sell all currencies, among various other activities. The ratings also factor in company's presence in the diverse business segments and its reputed client profile across its business segments besides, business coming from the promoter Group.

The ratings reaffirmation however remains constrained by the company's modest financial risk profile characterised by, leveraged capital structure and modest coverage indicators. The ratings also take into account the fragmented/ highly competitive nature of businesses (especially tea, travel and forex management) and exposure of profitability to agro-climatic changes in the tea business and currency fluctuations in the Foreign Exchange Money changing business which keeps the margins under check.

Outlook: Stable

ICRA expects IRM to continue to benefit from its established presence in various business and operational/financial support by being a part of the Cadila group. The outlook may be revised to Positive if substantial improvement in the company's operating income (OI) and profitability leads to higher-than-expected cash accruals, or prudent working capital management, improves the capital structure and coverage indicators. Conversely, the outlook may be revised to Negative if substantial reduction in revenue or profit margin leads to inadequate cash accruals or in case of any major debt funded capex or stretch in working capital cycle lads to pressure on the capital structure and the overall financial risk profile.

Key rating drivers

Credit strengths

Part of strong Group; operational and financial support and AD II license holder-IRM is a Group company of Cadila Pharmaceuticals Limited (CPL), a reputed player in the Indian pharmaceutical market. IRM was initially setup to cater to CPL's- in house requirements relating to travel and, facility management etc, and over the years, it has added various corporate to its profile. Currently, CPL contributes to ~one-third of IRM's revenues, providing stability to the latter's cash flow. The company also benefits in terms of operational and financial support from the Cadila Group. IRM is one of the few AD Category II license holders, enabling it to buy and sell all currencies, honour remittances, issue forex cards and carry out other related activities.

Reputed customer profile -Besides CPL, the company, through its gamut of businesses, provides services to over 300 corporates with reputed and established track record. This mitigates its customer concentration risks to some extent.

Diverse business segments-IRM currently operates in diverse business lines, including tea production, travel management, foreign exchange money changing (FEMC) services, facility management services, renting of immovable properties and charter flights, etc. This not only leads to low dependence on a single business and but also shield it from adverse cyclical movement in any particular segment.

Credit challenges

Modest financial risk profile-The company's revenue recorded 7% growth in FY2018 to Rs. 79.38 crore vis-à-vis Rs. 74.08 crore in FY2017, driven by the growth in Foreign exchange money changing (FEMC) and air travel businesses. Tea business reported 6% de-growth in FY2018 due to lower realisations. Apart from this, the remaining captive businesses reported de-growth ranging from 4-13%. The operating margins after a decline to 15.48% in FY2017 due to higher raw material cost (higher trading of tea), repairs and maintenance expenses and selling and distribution expenses (old bad debts charged off and increased sales commission), it increased to 17.83% in FY2018. Despite improvement, the company's capital structure remained leveraged in FY2018 at 1.97 times (2.33 times in FY2017). The coverage indicators remained moderate marked by TD/OPBDIT of 4.91 times in FY2017 and 3.96 times in FY2018 (4.49 times in FY2016), interest coverage of 1.92 times in FY2017 and 2.09 times in FY2018 (2.05 times in FY2016) and DSCR of 1.30 times in FY2017 and 1.40 times in FY2018 (1.19 times in FY2016).

Intense competition to keep margins at modest levels-The company is present in businesses like travel management, FEMC, te a processing, facility management etc, which have low entry barriers and stiff competition from other organised players, which keeps the margins under check.

Vulnerability of profitability to fluctuations in raw material prices and currency rates -Tea business, which contributes ~one-third to the company's revenues, remains exposed to agro-climatic risks. Likewise, the FEMC business remains exposed to currency fluctuation risks as the company stocks foreign currencies; though company tries to minimise its exposure by stocking limited currencies.

Liquidity position

IRM's fund flow from operations remained positive in FY2017 and FY2018. However, the free cash flows turned negative in FY2018 with its repayment obligations, interest and finance costs, capex and dividend payment. The company's liquidity profile remains comfortable with the stable cashflow generation vis-à-vis repayments, along with the cushion available in working capital limits and customer advances from the FEMC business.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA's Methodology on bulk tea industry
Parent/Group Support	Not applicable.
Consolidation/Standalone	The ratings are based on the standalone financial statements of the issuer.

About the company

Incorporated in 1994, IRM Limited is a Group company of Cadila Pharmaceutical's Limited. IRM was primarily formed to provide guest house facilities to the CPL's personnel. Over the years, the company has successfully ventured into a gamut of businesses like travel management, FEMC services, facility management services, tea production, chartered flights etc. It serves various corporate and currently, only one-third of its revenues come from CPL.

In FY2018, the company reported a net profit of Rs. 4.53 crore on an OI of Rs. 79.38 crore, compared to a net profit of Rs. 4.14 crore on an OI of Rs. 74.08 crore in FY2017.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	74.08	79.38
PAT (Rs. crore)	4.14	4.53
OPBDIT/ OI (%)	15.48%	17.83%
RoCE (%)	13.13%	14.38%
Total Debt/ TNW (times)	2.33	1.97
Total Debt/ OPBDIT (times)	4.91	3.96
Interest Coverage (times)	1.92	2.09

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument		Chronology of Rating History for the past 3 years							
		Current Rating (FY2019)		Date & Rating in FY2018			Date & Rating in FY2017		Date & Rating in FY2016
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in February 2019	Date & Rating in August 2017	July 2017	April 2016	April 2015	
1	Term Loan	Long Term	15.12	13.38*	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Working Capital Limits	Long Term	36.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	Bank Guarantee	Short Term	10.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
4	Unallocated Limits	Long Term and Short Term	3.29	-	[ICRA]BBB- (Stable)/ A3	-	-	-	-

* as on December 31, 2018

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2017	10.85%	FY2023	9.00	[ICRA]BBB-(Stable)
NA	Term Loan	FY2014	11.45	FY2020	1.60	[ICRA]BBB-(Stable)
NA	Term Loan	FY2013	10.95%	FY2022	4.52	[ICRA]BBB-(Stable)
NA	Overdraft	NA	NA	NA	1.00	[ICRA]BBB-(Stable)
NA	Cash Credit	NA	NA	NA	35.00	[ICRA]BBB-(Stable)
NA	Bank Guarantee	NA	NA	NA	10.00	[ICRA]A3
NA	Unallocated Limits	NA	NA	NA	3.29	[ICRA]BBB-(Stable)/ [ICRA]A3

Source: IRM Ltd.

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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