

January 30, 2020

## 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
Fund-based-Term Loan	15.12	9.42	[ICRA]BBB-(Stable); reaffirmed
Fund-based-Working Capital Limits	36.00	35.00	[ICRA]BBB-(Stable); reaffirmed
Non-fund Based- Bank Guarantee	10.0	10.00	[ICRA]BBB-(Stable)/[ICRA]A3; reaffirmed
Fund-based/ Non-fund Based- Unallocated Limits	3.29	9.99	[ICRA]BBB-(Stable)/[ICRA]A3; reaffirmed
<b>Total</b>	<b>64.41</b>	<b>64.41</b>	

\*Instrument details are provided in Annexure-1

### Rationale

To arrive at the ratings ICRA has taken the consolidated account of IRM Private Limited (IRM) and its subsidiary IRM Enterprises Private Limited's along with the operational and financial support it enjoys by virtue of being part of the Cadila group. The ratings reaffirmation continues to favourably factor in IRM's diversified business operations along with its AD Category II license holder status for its foreign exchange money changer business, its reputed clientele base along with support in terms of ~40% of revenues coming from Cadila Pharmaceuticals Limited.

The ratings, however, continue to be constrained by the moderate financial risk profile, marked by moderate profitability and coverage indicators. ICRA also takes note of the one-time exceptional cash outflow towards settlement of the disputed worker's liability in FY2019, leading to negative cash accruals. However, on the consolidated level the size of the company has augmented in terms of scale and net worth post the merger of the agro and veterinary business of CPL and the pharma machinery business of KEPL in IRMEPL. The ratings also take into account the fragmented and highly competitive tea, travel and forex management businesses; the exposure of profitability to agro-climatic changes in the tea business and the currency fluctuations in the foreign exchange money changing business keeps the margins under check. The operations of FEMC and aviation are exposed to regulatory changes.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that IRM will continue to benefit from the financial and operational support from the group companies.

### Key rating drivers

#### Credit strengths

**Part of strong group which provides operational and financial support** -IRM is a Group company of Cadila Pharmaceuticals Limited (CPL), a reputed player in the Indian pharmaceutical market. Currently, IRM draws 40% of its revenue from CPL apart from benefits in terms of operational and financial support.

**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 and AD II license holder** -IRM operates in diverse business lines, including tea production, travel management, foreign exchange money changing (FEMC) services, facility management services, rental of immovable properties and charter flights, etc. Also, IRM's wholly owned subsidiary, IRMEPL, is now involved in various businesses such as agro, veterinary, pharma machinery and bakery business. This diversification leads to low dependence on a single business and shields it from adverse cyclical movement in a particular segment. Further, IRM is one of the few AD Category II license holders, which enables it to buy and sell all currencies, honour remittances, issue forex cards and carry out other related activities.

## Credit challenges

**Moderate financial risk profile; negative cash accruals in FY2019 due to exceptional item** - IRM, on a consolidated basis, reported revenues of Rs. 80.09 crore in FY2018, which increased to Rs. 209.62 crore in FY2019 because of merger of pharma, agro and veterinary business in subsidiary, IRMEPL, and also because of change in IRM's accounting policy in airline ticketing business (currently gross basis vis-à-vis net basis for part of FY2018). The operating margin fell from 17.94% in FY2018 to 7.16% in FY2019 mainly on account of revenue policy changes, increased raw material (tea leaves) cost and vintage costs issues in IRMEPL's newly acquired businesses. IRM reported an exceptional item (expense) of Rs. 16.12 crore in FY2019, pertaining to out of court settlement with the worker' union, leading to net loss of Rs. 11.12 crore and negative cash accruals in FY2019 as against PAT of Rs. 3.81 crore in FY2018 and consequently negative cash accruals in FY2019. Though, the net worth was impacted by the extraordinary expense on an overall basis, it swelled with issue of share capital for merger consideration (Rs. 77.15 crore) leading to improvement in the capital structure as debt remained mostly at similar levels of the company has improved. However, with deterioration in the profitability, the coverage indicators remained moderate as reflected by TD/OPBDITA of 4.16 times in FY2019 (vis-à-vis 3.90 times in FY2018) and interest coverage ratio of 1.95 times in FY2019 (2.12 times in FY2019).

**Intense competition to keep margins at modest levels-** The segment in which company operates such as travel management, FEMC, tea processing, and facility management are characterised by stiff competition from other organised players, which keeps the margins under check.

**Vulnerability of profitability to fluctuations in input prices, currency rates, and agro climatic conditions; operations remains exposed to regulatory changes-**Tea business, which contributes ~25-30% to the company's revenues, remains exposed to agro-climatic risks and fluctuations in the input prices. Likewise, the FEMC business remains exposed to currency fluctuation risks as the company stocks foreign currencies; though, the company tries to minimise its exposure by stocking limited currencies. Also, FEMC and aviation businesses of the company are highly regulated, exposing operations to any changes in the regulations.

## Liquidity position: Adequate

Liquidity is expected to remain adequate with generation of adequate cash against repayments and cushion available in the working capital. Also, the company gets financial support from Cadila Pharmaceuticals Limited in the form of advances as and when required.

## Rating sensitivities

**Positive triggers** – Substantial increase in scale of operations and profitability that leads to higher-than-expected cash accruals on a sustained basis may result in a rating upgrade. Specific indicators that may lead to rating upgrade will be interest coverage ratio of more than 3.5 times and TD/OPBDITA of less than 2.8 times (on consolidated basis).

**Negative triggers** – Downward pressure on the rating could emerge if there is any weakening in the support from the group company, Cadila Pharmaceuticals Limited. Rating can also be downgraded if significant moderation in revenue and

profitability leads to lower-than-expected cash accruals or if there is any deterioration in the capital structure due to major debt-funded capex or increase in working capital cycle. Specific indicators that may lead to rating downgrade will be interest coverage ratio of less than 2 times and TD/OPBDITA of less than 4 times (on consolidated basis).

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">ICRA's Methodology on bulk tea industry</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a>
Parent/Group Support	Group support: Cadila Pharmaceuticals Limited The rating assigned to IRM factors in the reasonable likelihood of its group company extending financial support to it because of the close business linkages between them.
Consolidation/Standalone	The ratings are based on the consolidated financial statements of IRM Private Limited

## About the company

Incorporated in 1994, IRM Private Limited (erstwhile IRM Limited) is a Group company of Cadila Pharmaceutical's Limited (CPL). The company is involved in various businesses such as travel management, foreign exchange money changing services, facility management services, tea production, and chartered flights. It serves various corporates and currently, 35-40% of its revenues come from CPL. IRM Enterprise Private Limited (IRMEPL) is the wholly owned subsidiary of IRM Private Limited.

IRMEPL manufactured bakery products till FY2018. In November 2018, as scheme of merger the agro and veterinary business of Cadila Pharmaceuticals Limited and pharma machinery business of Karnavati Engineering Pvt. Ltd. (KEPL) was merged with IRMEPL. Currently, IRMEPL operates four divisions viz Agro, Veterinary, Bakery and Pharma machinery. The overall consideration was paid by IRM by issue of shares to IRM Trust (major shareholder of CPL and KEPL).

In FY2019, on a consolidated basis, IRM reported a net loss of Rs. 11.12 crore on an operating income of Rs. 209.63 crore compared to a net profit of Rs. 3.81 crore on an operating income of Rs. 80.09 crore in FY2018.

### Key financial indicators (audited)- Consolidated

	FY2018	FY2019
Operating Income (Rs. crore)	80.09	209.63
PAT (Rs. crore)	3.81	-11.12
OPBDIT/OI (%)	17.94%	7.16%
RoCE (%)		-7.11%
Total Outside Liabilities/Tangible Net Worth (times)	3.75	1.80
Total Debt/OPBDIT (times)	3.90	4.16
Interest Coverage (times)	2.12	1.95
DSCR (times)		-0.05

\*includes an exceptional one-time payment of Rs. Rs.16.12 crore

### Key financial indicators (audited)- Standalone

	FY2018	FY2019
Operating Income (Rs. crore)	79.38	116.66
PAT (Rs. crore)	4.52	-7.64
OPBDIT/OI (%)	17.82%	11.16%
RoCE (%)	14.37%	-4.62%
Total Outside Liabilities/Tangible Net Worth (times)	3.96	4.02
Total Debt/OPBDIT (times)	2.08	2.11
Interest Coverage (times)	3.64	1.19
DSCR (times)	1.40	-0.23

\*includes an exceptional one-time payment of Rs. Rs.16.12 crore

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018		FY2017	
					30-Jan-2020	28-Feb-2019	23-Aug-2017	28-Jul-2017	27-Apr-2016	
1	Term Loan	Long Term	9.42	9.42*	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	
2	Working Capital Limits	Long Term	35.00	NA	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	
3	Bank Guarantee	Short Term	10.00	NA	[ICRA]BBB-(Stable)/A3	[ICRA]BBB-(Stable)/A3	[ICRA]BBB-(Stable)/A3	[ICRA]BBB-(Stable)/A3	[ICRA]BBB-(Stable)/A3	
4	Unallocated Limits	Long Term and Short Term	9.99	NA	[ICRA]BBB-(Stable)/A3	[ICRA]BBB-(Stable)/A3	-	-	-	

Amount in Rs. crore, \*as on November 30, 2019

### 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](http://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	6.80	[ICRA]BBB-(Stable)
NA	Term Loan	FY2014	11.45%	FY2020	0.28	[ICRA]BBB-(Stable)
NA	Term Loan	FY2013	10.95%	FY2022	2.34	[ICRA]BBB-(Stable)
NA	Cash Credit	NA	NA	NA	35.00	[ICRA]BBB-(Stable)
NA	Bank Guarantee	NA	NA	NA	10.00	[ICRA]BBB- (Stable)/A3
NA	Unallocated Limits	NA	NA	NA	9.99	[ICRA]BBB-(Stable)/[ICRA]A3

Source: IRM Private Limited

### Annexure-2: List of entities considered for consolidated analysis-

Company Name	Ownership	Consolidation Approach
IRM Enterprise Private Limited	100.00%	Full Consolidation

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