

Stock Note

IOL Chemicals & Pharmaceuticals Ltd.

Nov 28, 2023





IOL Chemicals & Pharmaceuticals Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Pharmaceuticals	Rs 452.35	Buy in the band of Rs 452-458 & add more on dips to Rs 403	Rs 496.5	Rs 543.5	2-3 quarters

HDFC Scrip Code	IOLCHEEQNR
BSE Code	524164
NSE Code	IOLCP
Bloomberg	ICP IN
CMP Nov 24, 2023	452.35
Equity Capital (Rs cr)	58.7
Face Value (Rs)	10
Equity Share O/S (cr)	5.87
Market Cap (Rs cr)	2658
Book Value (Rs)	257
Avg. 52 Wk Volumes	409297
52 Week High	535
52 Week Low	273

Share holding Pattern % (Sep, 2023)	
Promoters	48.19
Institutions	2.7
Non Institutions	49.11
Total	100.0



for details about the ratings, refer at the end of the report
* Refer at the end for explanation on Risk Ratings

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Our Take:

IOL Chemicals & Pharma (IOL CP) is one of the leading API Pharmaceuticals company and is a significant player in the field of specialty chemicals with world class facilities. IOL CP is one of the largest manufacturers of Ibuprofen with a significant global share (35%) with backward integration facilities for manufacturing Ibuprofen. IOL has a market presence across more than 50 countries with sales contribution from exports forming around 29% of the sales. Moreover, the company is also second largest manufacturer of Iso Butyl Benzene (key raw material for Ibuprofen) with capacity of 12000 MT having 30% global share. In addition to Ibuprofen company manufactures other APIs which include Pantoprazole, Metformin, Clopidogrel, Fenofibrate, Lamotrigine, Gabapentin and paracetamol. Company has increased the installed capacity of Paracetamol to 3600 MTPA from 1800 MTPA in FY23. IOL is also amongst the largest producer of Metformin in India.

Company also operates in chemical segment and manufactures chemicals like Ethyl Acetate, Acetyl Chloride and Mono Chloro Acetic Acid. Company has emerged as the largest single-location plant of Ethyl Acetate in India, with a production capacity of 1,00,000 MT. Company filed six new US DMFs during the year, and also submitted four CEP (Certificate of Suitability) applications to the European Directorate for the Quality of Medicines (EDQM) authorities during FY23.

The backward integrated plants add to the strength of the company as major raw materials for Ibuprofen which include Iso Butyl Benzene, Acetyl Chloride and Mono Chloro Acetic Acid are produced by the company in house. With steady chemical prices, we expect Chemical segment to see steady growth in the medium term while Pharma (API) business is likely to register strong growth led by capacity addition and new products. The company has an internal target to grow the non-Ibuprofen business at ~25% CAGR for the next 2–3 years. Non-Ibuprofen APIs business contribution increased from 17% of API sales in FY21 to ~37% in FY23.

Valuation & Recommendation:

IOL CP is witnessing increased demand for Ibuprofen which can be seen in improved utilisation to 85-90%. Besides Ibuprofen, IOL is witnessing healthy demand for other APIs like Metformin, Paracetamol, Clopidogrel, Pantoprazole, Lamotrigine, etc. with stable growth and non-Ibuprofen APIs operating at 65-70% utilisation. IOL's chemical segment is witnessing some stability in prices with softening of raw material cost which could help sustain overall EBITDA margin at 15% in FY24E.



Company has incurred capex of Rs 220cr in FY23 in the growing segment of APIs & Chemicals and intends to continue to incur additional capex of Rs 200cr annually for the next two years. Benefits from expanded capacity and better utilisation to result in better operating leverage which may improve its EBITDA margins to 15% in the coming years. With rising share of non-Ibuprofen portfolio to nearly 50% of total Pharma revenue in the medium term, we expect gradual improvement in valuations of the stock.

IOL faced challenging times mainly in chemicals segment with the worst in Q2FY23 with high RM costs, falling demand and falling realisations. Despite such challenging times, it continued to report positive bottomline. Things have started to improve for IOL as visible in H1 FY24. As and when the spread earned on products improve due to increased demand, introduction of new products and penetration in newer markets, its profitability could dramatically improve.

We estimate Revenue, EBITDA and PAT to see CAGR of 8%, 25% and 25.3% respectively, over FY23-25E. It would be led by steady growth from Chemicals business due to pricing and strong growth from API business. With improvement in gross margin and operating leverage, we expect EBITDA margin to see strong improvement in the medium term. We feel investors can buy the stock in the band of Rs 452-458 band and add more on dips to Rs 403 (10.75x FY25E EPS) for base case target of Rs 496.5 (13.25x FY25E EPS) and bull case target of Rs 543.5 (14.5x FY25E EPS).

Financial Summary

Particulars (Rs cr)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Revenues	545	541	0.7	563	-3	1,685	1,895	1,967	2,184	2,217	2,324	2,598
EBITDA	64	32	100.6	73	-11	410	574	592	257	227	297	353
Depreciation	16	11	38.9	14	9	33	36	39	43	46	62	71
Other Income	7	5	38.5	7	3	10	16	24	32	26	28	31
Interest Cost	4	4	25.7	4	10	51	21	6	8	17	16	14
Tax	13	6	111.1	15	-13	100	172	127	57	50	65	79
APAT	38	16	138.4	46	-17	237	361	445	166	140	182	220
EPS (Rs)						41.6	63.5	78.2	28.2	23.9	31.0	37.5
RoE (%)						68.6	56.1	42.9	12.5	9.7	11.5	12.6
P/E (x)						10.9	7.1	5.8	16.0	19.0	14.6	12.1
EV/EBITDA (x)						6.6	4.7	4.6	10.6	12.0	9.1	7.7

(Source: Company, HDFC sec)



Q2FY24 result update

Revenue for the quarter grew 0.7% YoY at Rs 545.3cr. EBITDA margin improved 590bps YoY at 11.8%. Net profit increased 138% YoY at Rs 37.9cr. Pharma business grew 10% YoY at Rs 332cr while chemicals sales declined 0.3% at Rs 290cr.

For H1FY24, total revenue remained flat YoY at Rs 1108.5cr. EBITDA margin expanded 440bps YoY at 12.4%. Gross margin improved 720bps at 35.2%. Net profit increased 64.5% YoY at Rs 84cr on better operational performance. Other Income was up 40% at Rs 14.2cr. API sales grew 18% YoY at Rs 680.4cr. Chemicals revenue declined 7% YoY at Rs 591cr. Capex for H1 FY24 stood at Rs 115 crore. The mix between Ibuprofen and non-Ibuprofen business stood at 65:35 with growth in both segments. Company plans to scale up non-Ibuprofen export with market expansion to other regulated markets like Europe and China. EPS for the quarter stood at Rs 6.5 and it stood at Rs 14.3 for H1 FY24.

Concall Highlights

- Sales remained flat YoY at Rs 545 crore; growth in the pharma segment was offset by a decline in chemicals.
- Gross margin improved 960bps to 35.2%. Staff costs and other expenses increased 21% and 18% YoY respectively. Other expenses were higher on account of capacity addition and increase in power and fuel costs.
- EBITDA margin expanded 590bps YoY to 11.8% on a lower base. Company guided for 10% growth in revenue for FY24 and FY25.
- Due to seasonal nature of business, the company said that Q2 remains little weak while Q4 remains better.
- Management guided for 15-17% operating margin in the medium term.
- Revenue guidance maintained at 10% annually. Margin guided for FY24 and FY25 at 15-17%.
- Capex spend expected to be Rs 200cr annually. Spending to be on green chemistry, capacity expansion, maintenance capex.
- Expect Q3FY24 to be almost similar to Q2FY24, while Q4 to be much better.

Pharma Segment

- Pharma segment grew 14% YoY to Rs 332.3 crore and accounted for ~60% of sales.
- Ibuprofen recorded sales of Rs 221 crore, up 27% YoY, accounting for ~65% of API sales.
- Other API recorded sales of Rs 112 crore, declining 13% YoY due to drop in realization while volume continues to grow. EBIT margin for the segment improved to 15%.
- Company has filed 12 DMFs with US FDA & five CEP with EDQM. Currently, the company has six DMFs under evaluation with US FDA.
- Paracetamol capacity now stands at 3,200 MT and operates at 80-85% utilization.
- Paracetamol prices have seen 25% decline during the quarter, while Metformin prices have seen 6-7% decline.
- Ibuprofen utilization at 90% with capacity of 12,000 MT.



- Company aims to achieve Rs 500cr non-Ibuprofen sales in FY24 and expect the segment to grow 20-25% for FY25.
- Domestic prices are usually lower, regulated market prices are 20-50% higher than domestic market prices. It varies from product to product.

Chemicals

- Chemical segment (net of inter-segmental revenue) declined 14% YoY at Rs 221cr. EBIT margin for the segment declined and stood at 1%.
- The business was impacted due to price decline due to Chinese dumping.
- Realization for acetic acid and ethyl acetate at US\$ 1-1.5 per kg.
- Aims to achieve 6-8% EBIT margin for the chemical segment.
- Company commenced Acetic Anhydride unit in June'23 with a capacity of 25,000 tpa. This unit currently operates at ~60% utilization. ~60% of the production is used for in house consumption.
- From merchant sale, Acetic Anhydride to generate ~Rs 70cr revenue in FY24 and ~Rs 125cr at peak utilization.

Other Key Highlights

- Demand is there for Ibuprofen and utilization is likely about 85-90% for FY24.
- Non-Ibuprofen sales stood at Rs 477cr for FY23; management guided for revenue of Rs 550cr for FY24.
- Post FY24, the company aims 20-25% growth in non-Ibuprofen sales led by new launches and better volume growth.
- Non-Ibuprofen business has high single digit EBITDA margin and with better utilization and revenue exports market, margin should be in double digits in the medium term.
- About 80% of Ibuprofen sales came from domestic market and the balance from exports.
- Recently, the company commissioned 25000 Tonnes Acetyl Anhydride plant. Primarily, around 60% in-house and 40% to the merchant sale.
- Company may go for further capacity expansion in Paracetamol. It has high degree of Backward integration in it.
- Major exports market for Ibuprofen are Europe and Latin America. US sales is not major part currently. About 35% of Ibuprofen sales derived from exports market.
- Capex for FY24 to be ~Rs 250cr for automation and growth capex. Net cash on book as on Sep-2023 stood at Rs 265cr.
- Employee cost increased QoQ due to addition of ~400 employees and annual increment also. The quarterly cost to be in Rs 50cr range.
- The company is in the process of registering Ibuprofen from NMPA, China. The company plans to register Metformin and Paracetamol too.
- Company has EU and Korean authority approvals for non-Ibuprofen business; US FDA inspection is awaited.



- Paracetamol currently operates at ~90% utilization. The company may explore capacity expansion.
- Non-Ibuprofen EBIT margin is currently at single digits, with increase in capacity for export and better utilization will lead to better EBIT margin for the segment going ahead.
- The company has an internal target to grow the non-Ibuprofen business at ~25% CAGR for the next 2-3 years. Non-Ibuprofen APIs business contribution increased from 17% of API sales in FY21 to ~37% in FY23.
- Company doubled Paracetamol capacity from 1800 MT to 3600 MT in Q4 FY23. Full benefits would be visible in FY24.
- API manufacturers in India faced severe margin pressure earlier with significant correction in the raw material prices. The worst seem to be over for the sector as domestic API manufacturers resumed their investments and increased their capacity gradually to capitalize on robust domestic demand.
- Company has received approval for Paracetamol from EU authorities. Realisation difference is around 20% vs. domestic market.
- About 40% of Exports sales came from regulated markets and 60% from Latin America, Asia and MENA region.
- In Paracetamol, there are players such as Farmson, Meghmani and Granules etc.
- Two players (Vinati and IOL) have around 90% global market share in IBB. IOL CP has around 30% market share in IBB.
- Stable prices of Ethyl Acetate and Acetic Acid should help drive Chemicals business profitability.
- Company has already filed DMF for all the non-Ibuprofen products to the US authorities. Management eyes for 12-15% margin in Pharma (API) and high single digit margin in Chemicals segment.

Established market position and diversified product offering

Company was incorporated in the year 1986 with the commencement of business in chemical segment. Further in the year 2000, the company started production of Ibuprofen. IOL is one of the largest manufacturers of Ibuprofen with significant global share and the company is backward integrated for manufacturing of Ibuprofen. It has a market presence across more than 50 countries with sales contribution from exports forming around 29% of the total sales in FY23 (25% in FY22). The company's overseas customers are spread across several countries including Switzerland, Bangladesh, Spain, Indonesia, Hungary, United Kingdom, Egypt, Thailand and UAE among others. Moreover, the company is one of the largest manufacturers of Ibuprofen (capacity of 12000 MTPA) and has the second largest manufacturing capacity (12000 MTPA) for Iso Butyl Benzene (key raw material for Ibuprofen). In addition to Ibuprofen company manufactures other APIs which include Pantoprazole, Metformin, Clopidogrel, Fenofibrate, Lamotrigine, Gabapentin and paracetamol. Company also operates in chemical segment and manufactures chemicals like Ethyl Acetate, Acetyl Chloride and Mono Chloro Acetic Acid. Company has enhanced the installed capacity of paracetamol to 3600 MTPA from 1800 MTPA in FY23.

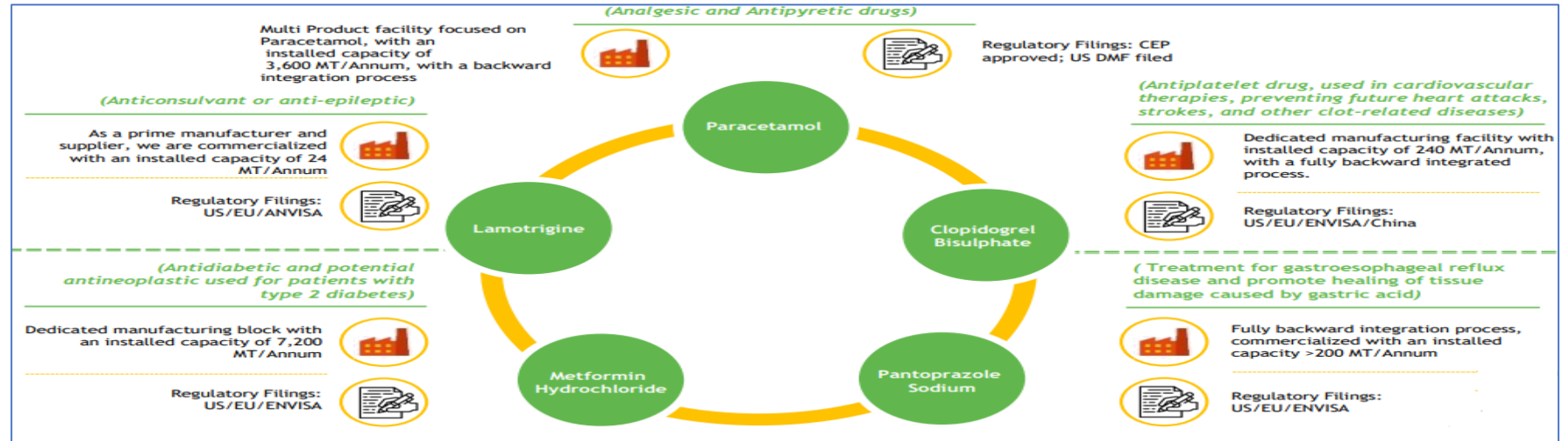
Pharma business: Non-Ibuprofen segment

IOL's non-Ibuprofen segment comprises of key API's like Paracetamol, Metformin, Clopidogrel, Pantoprazole, Fenofibrate, Lamotrigine, etc. It was up 8% at Rs 122 crore for Q4FY23 while the segment revenue increased 36.3% YoY at Rs 477 crore for FY23. It has identified



several new APIs for its future growth plans to increase its share of non-Ibuprofen segment to nearly 50% of Pharma revenues, from current share of 38% at end of FY23.

With increase in Paracetamol capacity to 3,600 MT from 1,800 MT which was completed in February 2023, we expect better traction from Paracetamol in FY24E. IOL has done backward integration into Para Amino Phenol (PAP) which is the KSM for Paracetamol which is entirely captively consumed for Paracetamol production.



IOLCP is the largest producer of Ibuprofen with ~35% Global share and the only company worldwide being backward integrated for all Intermediates and Key Starting Material of Ibuprofen having a capacity of 12000+ MT

- Dedicated USFDA approved facilities for Ibuprofen
- Among the largest producer of Metformin in India
- EUGMP Certification from National Institute of Pharmacy and Nutrition, Hungary for 12 APIs.
- Received approval from Korean FDA for 2 products and 6 products from Russian regulatory Authorities
- Filed 12 DMFs with USFDA & 5 CEP with EDQM.

Product application across various therapeutic areas

	Anti - Inflammatory		Analgesic & Antipyretic
	Anti - Diabetic		Anti - Convulsant
	Anti - Platelet		Anti - Cholelithic
	Anti- Cholesterol		Proton Pump Inhibitor

Product Portfolio

Existing Porffolio		
Ibuprofen	Clopidogrel	Losartan Potassium
Ibuprofen Lysinate	Pantoprazole Sodium	Levetiracetam
Ibuprofen Sodium	Fenofibrate	Paracetamol
Dex-Ibuprofen	Gabapentin	
Metformin HCL	Lamotrigine	



Ibuprofen segment

Ibuprofen revenue grew 30% YoY at Rs 445cr in H1 FY24 and the contribution has increased to 40.3% of sales. After a slump in demand post FY21 when production was at its peak, IOL saw muted demand for several quarters before it recovered in H2FY23. Improved volume demand has resulted in capacity utilisation going up to 85-90%. IOL is the largest producer of Ibuprofen in the world with 12,000 tpa and is the only company worldwide with backward integration into IBB (Iso-Butyl Benzene) with ~35% global market share. In FY23, Ibuprofen sales grew 19% YoY at Rs 782 crore.

Other Highlights

- Paracetamol is among the largest volume drug in the world with global demand estimated to be around 6-7 lakh tpa. Demand had shot up significantly during the Covid-19 phase due to increased usage of Paracetamol to reduce fever.
- IOL was granted EDQM certificate for Paracetamol. This will enable IOL to export Paracetamol in the European markets in the future. Export of Paracetamol to European markets to aid in 20-25% incremental sales from regulated markets of exports.
- IOL's export contribution through regulated market stands at 40% and rest is driven from LatAm, MENA and South Asian countries.
- During Q3FY23, IOL was granted a patent for an improved safe process for the preparation of Sartan drugs of Formula I by Indian Patent Office.
- Currently, Metformin is the 2nd largest API contributor by volume after Ibuprofen. IOL is witnessing stability in pricing for Metformin. To produce Metformin, China is the only supplier of DCDA, KSM for Metformin.

Chemical segment

- IOL operates in chemical segment and manufactures chemicals like Ethyl Acetate, Acetyl Chloride and Mono Chloro Acetic Acid. It has captive consumption of Mono Chloro Acetic Acid with 7,200 TPA capacity and Acetyl Chloride with 5,200 TPA capacity. In the Specialty Chemicals division, IOL manufactures Ethyl Acetate, Iso Butyl Benzene (IBB), Mono Chloro Acetic Acid (MCA), and Acetyl Chloride.
- Chemical prices have seen rise in the past two quarters and that has helped the company to report better operational performance.
- In the Specialty Chemicals, Ethyl Acetate is manufactured from organic alcohol and its application is in multiple industries like flexible packaging, pharmaceuticals, ink, food processing, pesticides and paint industry.
- Mono Chloro Acetic Acid, Acetyl Chloride and Iso Butyl Benzene are also manufactured.
- For FY23, Chemical business registered 19% YoY decline at Rs 905cr mainly due to lower realisations. Chemical segment declined 11% YoY in Q4FY23 with share declining to 43% of sales in Q4FY23 vs. 52% in Q4FY22.
- Chemical prices have softened in the past two quarters where Ethyl Acetate price stood at Rs 80 per kg and Acetic Acid price stood at Rs 40 per kg. The stability in price correction is expected to bring demand back and aid in chemicals business margin to recover back to 5% (EBIT margin of 1.6% in FY23).



- Global capacity for Ethyl Acetate is 7 lakh tpa and IOL has capacity of 1 lakh tpa. The intent of the company is to serve more clients in the existing geographies by utilising 100% of the capacity.
- IOL has installed capacity of 1 lakh tpa for Ethyl Acetate and is expected to increase by 20k tonnes to 1.20 lakh tpa through de-bottlenecking and is currently running at 90-95% asset utilisation.
- Most of the high-cost inventory exhausted in Q3FY23 itself and IOL has seen a turnaround in EBIT margins for its Chemical segment which stood at 4% in Q4FY23 vs negative 1% for earlier quarters of Q2 & Q3FY23.
- Company had faced a cost crunch because of increased prices of acetic acid, which is the primary raw material for ethyl acetate. As a result, chemical segment recorded an EBITDA margin of 5% in FY22 as compared to 13% in FY21.

Business Overview

IOL Chemicals & Pharma is a renowned company in the Active Pharmaceutical Ingredient (API) and specialty chemicals sectors. With substantive manufacturing capacities, the company benefits from economies of scale and cost supremacy. Within the API segment, IOL CP develops and supplies a wide range of essential products utilized by pharmaceutical companies worldwide for the production of key medicines. Company is highly regarded and recognized in the API and specialty chemicals sectors.

It serves as a global supplier of various APIs, including Ibuprofen, Metformin, Clopidogrel, Lamotrigine, Pantoprazole, and Fenofibrate, alongside other APIs, and maintains a significant presence in all major therapeutic categories. Vinati is the largest manufacturer of IBB in the World. IOL has 30% global market share and is the second largest player.

Given the increasing prevalence of lifestyle disorders and the demand for more affordable healthcare delivery methods, the need for APIs continues to rise. In the Specialty Chemicals division, IOL manufactures Ethyl Acetate, Iso Butyl Benzene (IBB), Mono Chloro Acetic Acid (MCA), and Acetyl Chloride. Company is a leader in fostering green chemistry through its extensive production of Ethyl Acetate, a sustainable and environmentally friendly solvent. As one of the largest manufacturers globally, the Company plays a vital role in promoting the adoption of eco-friendly practices in various industries such as pharmaceuticals, printing, flexible packaging, adhesives, surface coatings, flavors, paints & lamination, and essences.

Company's production facilities are in Barnala District, Punjab. Its R&D center equipped with modern analytical equipment is approved by the Department of Scientific and Industrial Research (DSIR). Company's R&D efforts are centered around developing products that address the pharmaceutical industry's requirements for uninterrupted supply of superior quality products.

By focusing on promising innovations, IOL collaborates with innovators to deliver solutions that cater to the current and future drug needs of pharmaceutical companies worldwide.



Starting with a modest capacity of 3,000 MT for Ethyl Acetate, the company has emerged as the largest single-location plant in India, with a staggering production capacity of 1,00,000 MT. It is India's second-largest manufacturer of Iso Butyl Benzene (IBB), commanding ~30% global market share.

IOLCP first commenced manufacturing Ethyl Acetate in 1996, with a starting capacity of 3000 TPA Today, the Company has grown this business to become the largest single location plant in India, with a production capacity of 1,00,000 TPA

- India's second largest manufacturer for Iso Butyl Benzene (IBB) with ~30% global share
- Received REACH Certificate for ethyl acetate and is exported to over 40 countries worldwide
- Asia's first continuous dual technology (green chemistry) plant for MCA and Acetyl Chloride

Product Portfolio

Ethyl Acetate 1,00,000 TPA	Acetyl Chloride 5,200 TPA	Iso Butyl Benzene 12,000 TPA
Mono Chloro Acetic Acid 7,200 TPA	Acetic Anhydride 25,000 TPA	

Product application across diversified industries

Food processing	Textiles
Flexible Packaging	Ink
Pharma	Paints
Chemical Intermediate	Pesticides

FY23 update

Total revenue grew marginally by 1.5% YoY at Rs. 2217 crore in FY23 from Rs. 2184 crore in FY22 led by growth in API business. Revenue from chemical segment of the company declined ~19% while pharma segment witnessed an increase of ~26% in FY23. In pharma segment, major revenue came from Ibuprofen and Metformin while in chemical segment, major revenue were from Ethyl Acetate and IBB (Iso Butyl Benzene). Overall margin saw slight moderation in FY23. Ibuprofen prices have remained in the similar range i.e., into the range of US\$ 10-11/Kg, however prices of acetic acid have remained highly volatile and in turn prices of ethyl acetate has also seen volatile trend. Further, the margin got also impacted on account of high input cost both in Chemical and API segment. Rice husk and coal are used for cogeneration of steam and power. Power and fuel cost increased 69% to Rs.132 crore in FY23 from Rs.78 crore in FY22.

Total exports stood at Rs 634 crore for FY23 which is ~29% of total revenues of Rs 2217 crore. Company filed six new US DMFs during the year, and also submitted four CEP (Certificate of Suitability) applications to the European Directorate for the Quality of Medicines (EDQM) authorities.



Company made strategic investments to expand operations. IOL invested Rs 55 crore to establish an acetic anhydride plant, adding significant production capacity that shall be used for captive purpose and merchant sale. This investment aligns with objective to broaden backward integration and capture new opportunities.

IOL CP incurred capex of Rs 220cr in FY23 and is on track to incur additional capex of Rs 200cr annually over the next two years. Capex allocation is largely attributed towards growth capex in both pharma and chemical segment where new capacities are being added besides investing into backward integration projects (PAP for Paracetamol) and ETP plants.

Expanded Capacity of Paracetamol

Company had added Paracetamol in its API products portfolio with an installed capacity of 1800 MT along with backward integration by manufacturing Para Amino Phenol (a key raw material of Paracetamol) for captive consumption in FY22. During FY23, the capacity of Paracetamol Plant was further enhanced from 1800 MTPA to 3600 MTPA.

Company has also expanded its regulatory horizons with six new filings in Europe and the US and new country inclusions such as China and Brazil.

During the year, the company also got the Patent on Sitagliptin Process and patent for invention entitled an Improved Safe Process for the preparation of Sartan Drugs of Formula I.

IOL has an integrated manufacturing facility for chemicals and APIs. The chemical manufacturing facilities give the advantage of backward integration for final pharmaceutical products like Ibuprofen. The backward integrated plants add to the strength of the company as major raw materials for Ibuprofen which include Iso Butyl Benzene, Acetyl Chloride and Mono Chloro Acetic Acid are produced by the company in house. Further, the company has 17-MW co-generation captive power plant which produces steam and power. Company has high degree of backward integration for most of its key products.

Key Risks

Raw material and price volatility risk

Raw materials consumed remain the major cost driver for IOL. It procures raw material from International market China in chemical segment. The prices of the same are volatile in nature and prices have fluctuated in the past. Prices of Ethyl acetate and raw material required for the same which is acetic acid has shown a volatile trend over last few years which exposes the company to the price volatility risk and any volatility in the prices may impact margins as Ethyl Acetate is one of the major contributors in company's overall revenue. Further in the API business, company procures majority of the raw material from the domestic market, the prices of the same and input cost has also been volatile over the last year. Though company passes on the rise in prices of raw materials to the customers



but with a lag since for instance in the chemical business, once the company places the order for the raw material, it takes two months before that raw material gets used in its facility. Chinese strategies of dumping raw materials and finished goods in the world and/or India impacts the ability of IOL to make sufficient margins especially given the sluggish demand seen over the last few quarters globally. In Q2FY24, IOL witnessed a fall in realization of Paracetamol by about 25%. And in case of metformin it was around 6% to 10%. For ethyl acetate, the major raw material is acetic acid which was very volatile in Q2FY24, especially in September month.

Regulatory Risk

The pharmaceutical industry is highly regulated in most countries and requires various approvals, licenses, registrations and permissions for business activities. Any delay or failure in getting approval for new product launch or facility could adversely affect the business prospects of the company. However, the company's manufacturing facility of Ibuprofen has been approved by USFDA in FY20 and the next audit is usually conducted after 2-3 years. Further, no products of IOL are covered under Drug Price Control Order (DPCO).

Adverse currency fluctuations could impact revenue and margin as the company derives around 50% of revenue from International Markets.

Any negative outcome of inspection of its key manufacturing facility by the US FDA or other regulatory authority could affect the company's growth prospects.

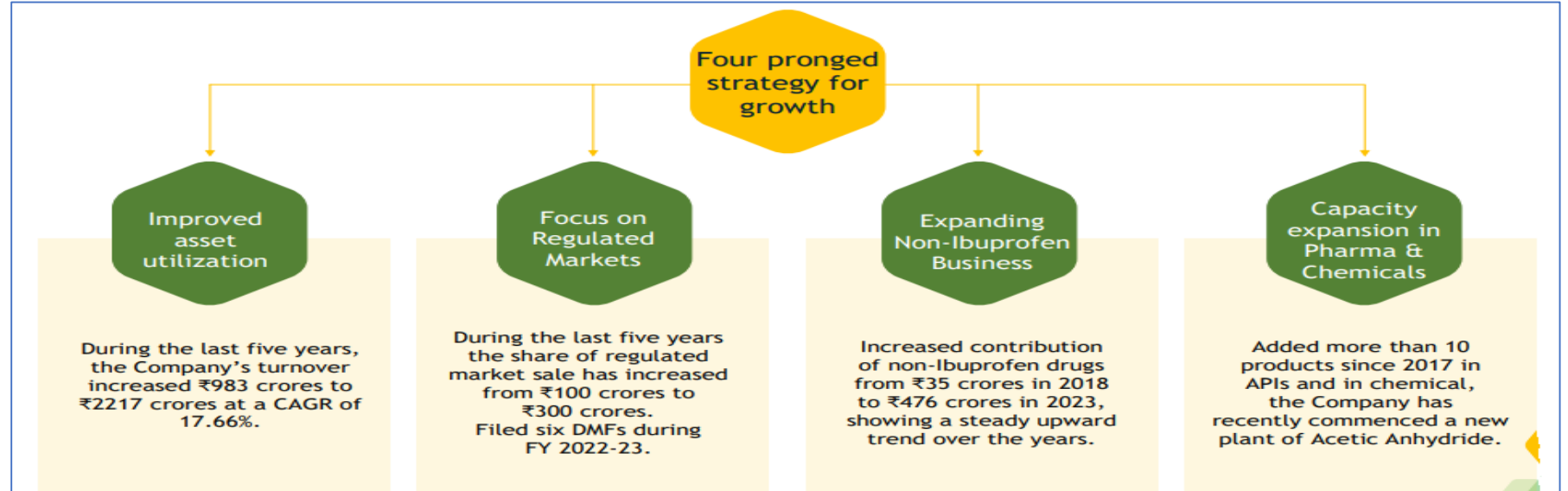
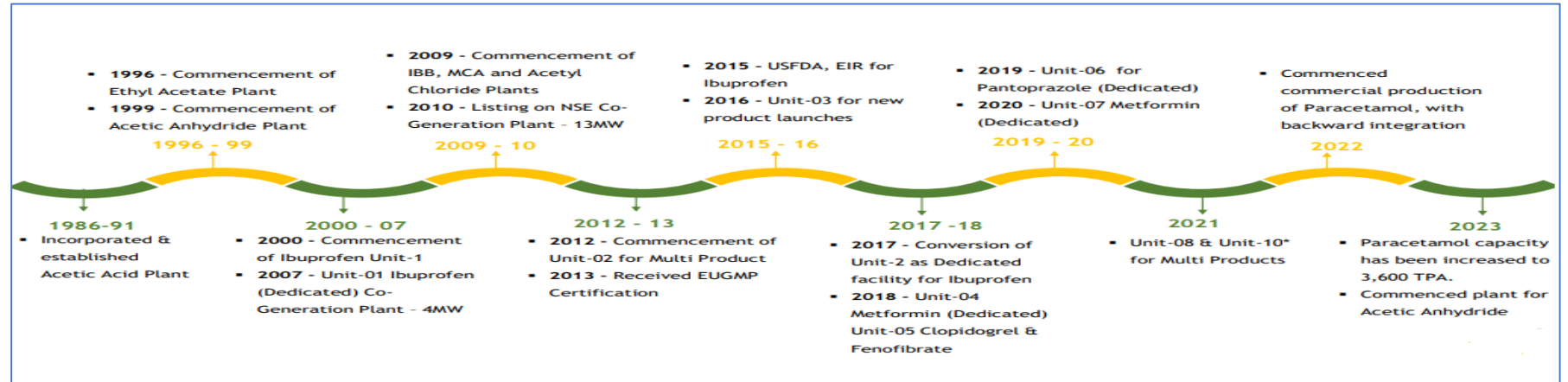
Company is exposed to geo-political risk as it derives ~50% of revenue from Europe, Asia and LatAm markets. A slowdown in the economy of the region could impact growth.

Company Background

IOL Chemicals & Pharma was incorporated as a public limited company in September, 1986 by Mr. Varinder Gupta and Mr. Rajinder Gupta to setup acetic acid manufacturing facility. IOL's manufacturing facility is located at Barnala, Punjab, having total capacity of 1,47,962 Metric Tonne Per Annum (MTPA) as on March, 2023. IOLCP is involved in manufacturing of Chemicals (Ethyl Acetate, Acetyl Chloride, Iso-Butyl Benzene (IBB) etc.) and Active Pharmaceutical Ingredients (Ibuprofen, Metformin, Paracetamol etc.). As on March, 2023, the total installed capacity of Ibuprofen is 12000 MTPA. APIs portfolio covers various therapeutic categories, such as Pain Management, Anti-diabetic, Anti-hypertensive, and Anti-convulsant etc. Company is backward integrated producing all Intermediates and Key Starting Materials (KSMs) of ibuprofen. IOL CP is the largest player in Ibuprofen in API and second largest player in IBB (Chemicals). Company derived 55% of sales from API, 41% from Chemicals and the balance from Others.



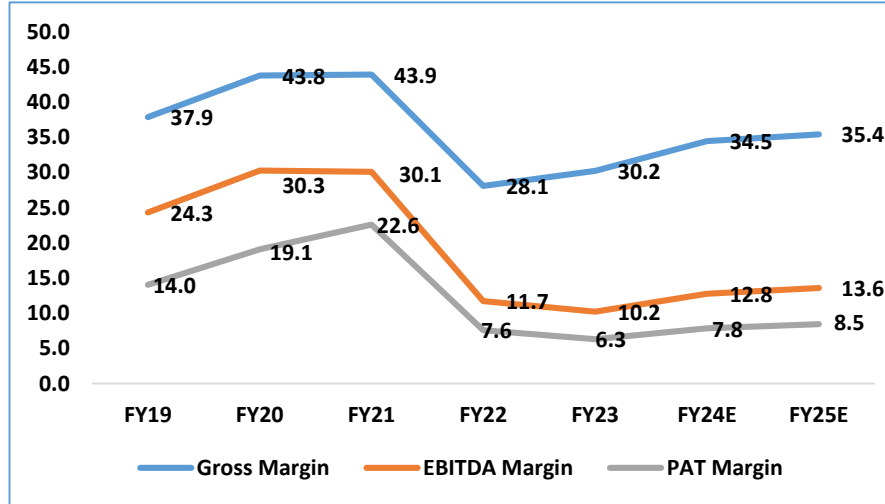
IOL CP: Journey



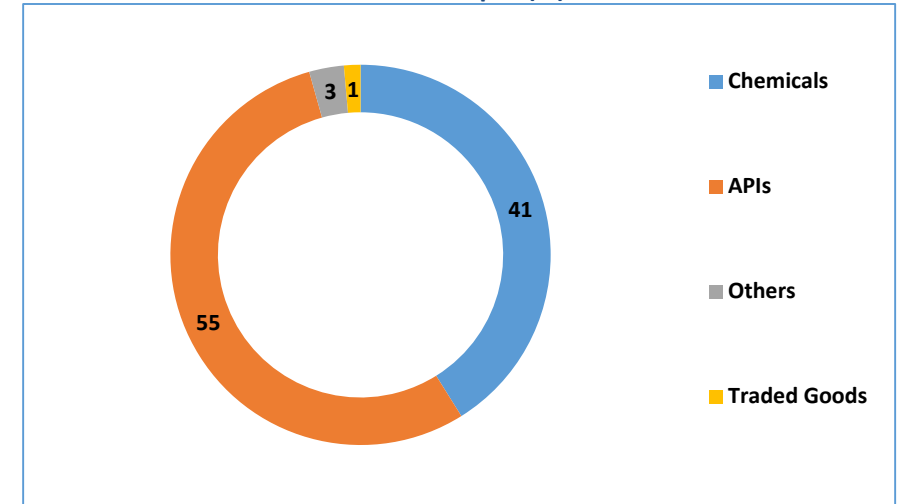


IOL Chemicals & Pharmaceuticals Ltd.

Margin Trend

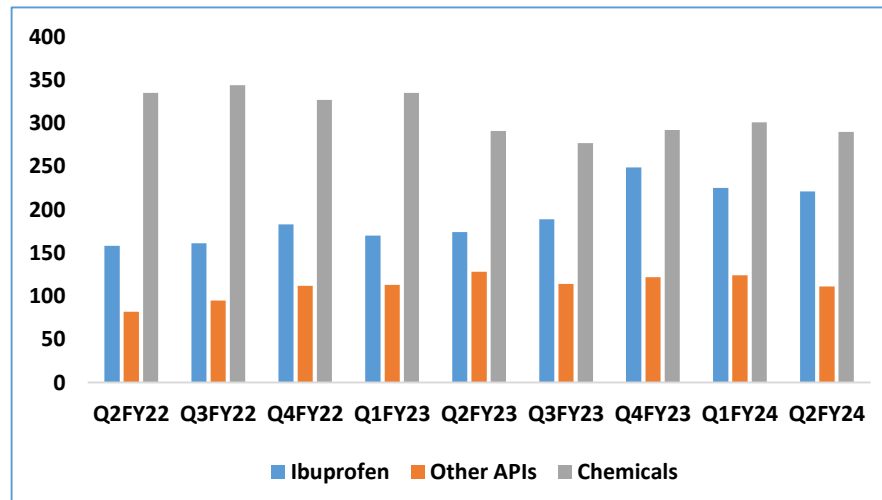


Revenue Split (%)

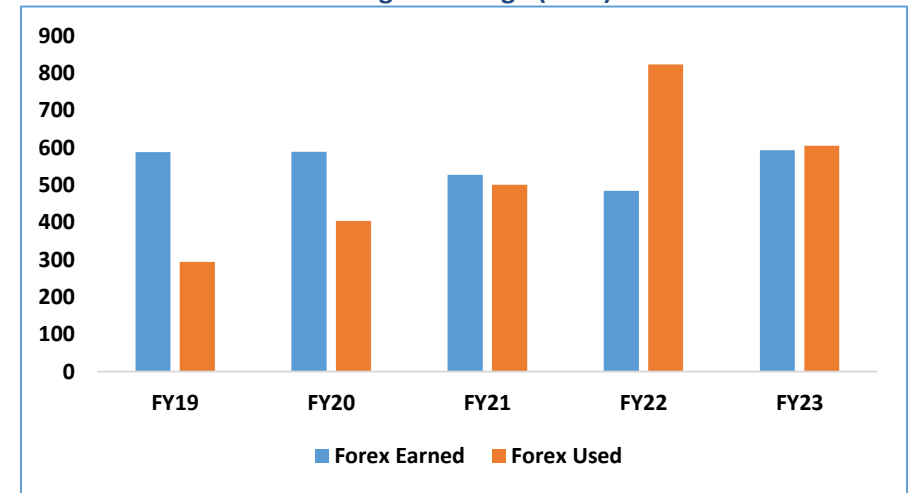


(Source: Company, HDFC sec)

Revenue Trend



Foreign Exchange (Rs cr)



(Source: Company, HDFC sec)



IOL Chemicals & Pharmaceuticals Ltd.

Financials

Income Statement

(Rs Cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Revenue	1895	1967	2184	2217	2324	2598
Growth (%)	12.4	3.8	11.0	1.5	4.8	11.8
Operating Expenses	1321	1375	1928	1991	2026	2244
EBITDA	574	592	257	227	297	353
Growth (%)	40.1	3.1	-56.7	-11.7	31.1	19.0
EBITDA Margin (%)	30.3	30.1	11.7	10.2	12.8	13.6
Depreciation	36	39	43	46	62	71
EBIT	538	553	213	181	235	282
Other Income	16	24	32	26	28	31
Interest expenses	21	6	8	17	16	14
PBT	533	572	223	190	247	299
Tax	172	127	57	50	65	79
PAT	361	445	166	140	182	220
Growth (%)	52.6	23.1	-62.7	-15.4	30	20.8
EPS	63.5	78.2	28.2	23.9	31.0	37.5

Balance Sheet

As at March	FY20	FY21	FY22	FY23	FY24E	FY25E
SOURCE OF FUNDS						
Share Capital	56.9	56.9	58.7	58.7	58.7	58.7
Reserves	757	1202	1332	1448	1599	1780
Shareholders' Funds	814	1259	1390	1507	1657	1839
Long Term Debt	1	0	0	0	0	0
Net Deferred Taxes	73	53	53	56	56	56
Long Term Provisions & Others	6	6	4	2	5	9
Total Source of Funds	893	1317	1447	1565	1719	1904
APPLICATION OF FUNDS						
Net Block	488	561	663	832	952	1019
Intangible Assets	1	0	3	9	9	9
Non-current Investments	0	0	0	18	22	27
Other Non-current Assets	11	40	216	243	235	220
Total Non-Current Assets	499	600	882	1101	1217	1275
Current Investments	0	1	2	3	3	4
Inventories	188	295	410	326	369	420
Trade Receivables	273	300	470	505	522	571
Cash & Equivalents	155	365	135	21	34	98
Other Current Assets	56	48	59	65	62	70
Total Current Assets	671	1009	1079	919	990	1163
Short-Term Borrowings	56	0	43	80	100	103
Trade Payables	180	239	409	314	316	344
Other Current Liab & Provisions	36	48	54	54	60	69
Short-Term Provisions	4	6	7	8	12	17
Total Current Liabilities	277	293	513	456	488	533
Net Current Assets	394	716	565	464	502	630
Total Application of Funds	893	1317	1447	1565	1719	1904

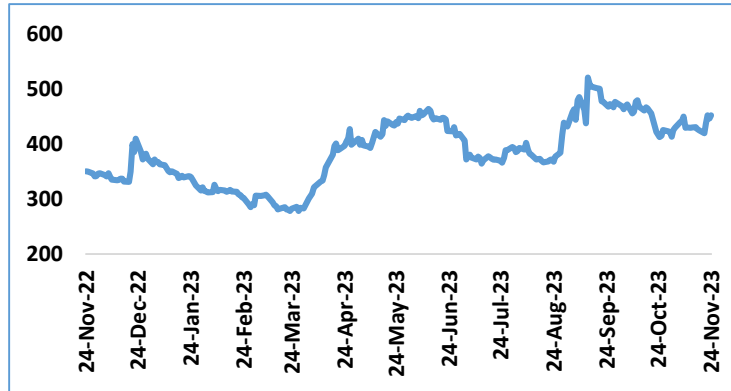


IOL Chemicals & Pharmaceuticals Ltd.

Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Reported PBT	533	572	223	190	247	299
Non-operating & EO items	-25	-24	-32	-26	-28	-31
Interest Expenses	21	6	8	17	16	14
Depreciation	36	39	43	46	62	71
Working Capital Change	23	-70	-89	-57	-25	-63
Tax Paid	-117	-142	-63	-47	-65	-79
OPERATING CASH FLOW (a)	471	380	93	122	207	211
Capex	-79	-107	-151	-209	-182	-138
Free Cash Flow	392	273	-60	-87	25	73
Investments	-130	-235	-2	64	4	9
Non-operating income	25	24	32	26	28	31
INVESTING CASH FLOW (b)	-184	-317	-121	-120	-150	-98
Debt Issuance / (Repaid)	-230	-29	42	36	3	4
Interest Expenses	-21	-6	-8	-17	-16	-14
FCFE	141	238	-27	-66	12	63
Share Capital	0	0	0	0	0	0
Dividend	-21	-24	-35	-24	-31	-39
FINANCING CASH FLOW (c)	-272	-58	-2	-4	-44	-48
NET CASH FLOW (a+b+c)	15	4	-29	-2	13	64

One Year Price Chart



Key Ratios

	FY20	FY21	FY22	FY23	FY24E	FY25E
Profitability (%)						
Gross Margin	43.8	43.9	28.1	30.2	34.5	35.4
EBITDA Margin	30.3	30.1	11.7	10.2	12.8	13.6
EBIT Margin	28.4	28.1	9.8	8.1	10.1	10.9
PAT Margin	19.1	22.6	7.6	6.3	7.8	8.5
RoE	56	42.9	12.5	9.7	11.5	12.6
RoCE	60	42	14.7	11.5	13.7	14.8
Solvency Ratio						
Net Debt/EBITDA (x)	-0.2	-0.6	-0.4	0.2	0.2	0.0
D/E	0.1	0	0	0.1	0.1	0.1
Net D/E	-0.1	-0.3	-0.1	0	0	0
PER SHARE DATA						
EPS	63.5	78.2	28.2	23.9	31	37.5
CEPS	69.8	85	35.6	31.7	41.6	49.6
BV	143	221	237	257	282	313
Dividend	3	6	4	4	5	6.3
Turnover Ratios (days)						
Debtor days	53	56	79	83	82	80
Inventory days	36	45	59	61	58	59
Creditors days	57	72	87	68	68	67
VALUATION						
P/E	7.1	5.8	16.1	19.0	14.6	12.1
P/BV	3.2	2	1.9	1.8	1.6	1.4
EV/EBITDA	4.7	4.6	10.6	12	9.1	7.7
EV / Revenues	1.4	1.4	1.2	1.2	1.2	1.2
Dividend Yield (%)	0.7	1.3	0.9	0.9	1.1	1.4
Dividend Payout	4.7	7.7	14.2	16.8	16.1	16.7

(Source: Company, HDFC sec)



IOL Chemicals & Pharmaceuticals Ltd.



HDfC Sec Retail Research Rating description

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Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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