INDIA GLYCOLS LIMITED

SYSTEM CERTIFICATION
DNV GL
ISO 9001
ISO 14001; ISO 45001;
ISO 50001

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12th January, 2021

The Manager (Listing)
BSE Limited
1st Floor, New Trading Ring,
Rotunda Building, P.J. Towers,
Dalal Street,
Mumbai- 400 001

Scrip Code: 500201

The Manager (Listing)
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (East),
Mumbai – 400 051

Symbol: INDIAGLYCO

Dear Sirs,

Sub: Disclosure under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations") - Credit Rating

Pursuant to Regulation 30 of the SEBI Listing Regulations, we wish to inform you that India Ratings & Research (Ind-Ra), credit rating Agency, has **affirmed the Company's Long-term Issuer Rating as 'IND A-' and the Outlook is stable.** The instrument-wise ratings are as follows:

Instrument Type	Amount (in Rs. Crores)	Rating/outlook	Rating Action
Term Loan	452.43	IND A-/Stable	Affirmed
Proposed term loan*	100.00	IND A-/Stable	Assigned
Proposed term loan**	100.00	IND A-/Stable	Assigned
Fund-based limit	415.00	IND A-/Stable/IND A2+	Affirmed
Non-fund-based limit	1,153.35	IND A-/Stable/IND A2+	Affirmed

* The provisional rating of the proposed bank facilities has been converted to final rating as per India Ratings' updated policy. This is because the agency notes that debt seniority and general terms and conditions of the proposed limits tend to be uniform across lenders, and are not a rating driver.
** Unallocated

The release as issued by Ind-Ra dated 11th January, 2021 is enclosed.

We request you to take the above information on record.

Thanking you,

Yours truly,
For **India Glycols Limited**

Ankur Jain
Head (Legal) & Company Secretary

Encl: A/a

India Ratings & Research
A Fitch Group Company

India Ratings Affirms India Glycols at 'IND A-'; Outlook Stable

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JAN 2021

By Bhavana Mhavarkar

India Ratings and Research (Ind-Ra) has affirmed India Glycols Limited's (IGL) Long-Term Issuer Rating at 'IND A-'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loan	-	-	January 2022-March 2028	INR4,524.30 (reduced from INR4,636.2)	IND A-/Stable	Affirmed
Proposed term loan*	-	-	-	INR1,000	IND A-/Stable	Assigned
Proposed term loan**	-	-	-	INR1,000	IND A-/Stable	Assigned
Fund-based limit	-	-	-	INR4,150	IND A-/Stable/IND A2+	Affirmed
Non-fund-based limit	-	-	-	INR11,533.45 (reduced from INR12,545)	IND A-/Stable/IND A2+	Affirmed

*The provisional rating of the proposed bank facilities has been converted to final rating as per India Ratings' updated policy. This is because the agency notes that debt seniority and general terms and conditions of the proposed limits tend to be uniform across lenders, and are not a rating driver.

**Unallocated

KEY RATING DRIVERS

Diversified Business Profile: The affirmation reflects IGL's diversified product mix, comprising industrial chemicals such as mono-ethylene glycol (MEG, 14.5% of FY20 revenue), ethylene oxide derivatives (EOD; 29%) and other speciality chemicals including power alcohol (14%), liquor (15%) and nutraceuticals (5%). While the key user segments for MEG are textile and packaging (pet bottles and films), EOD is supplied to agrochemicals, personal care, textile, paint and other industries. The nutraceutical segment caters to pharmaceutical companies. In addition to power alcohol, the company launched two Indian made foreign liquor brands in tetra pack in Uttar Pradesh (UP) in FY20 and forayed into alcohol-based hand sanitisers in FY21. The limited correlation among the various segments cushions the company against volatility in individual segments, the benefit of which cushioned the fall in revenue in the COVID-19 affected 1HFY21.

Bio-MEG Segment Provides an Edge: In India, IGL is the only manufacturer of bio-MEG (made from ethanol), which is considered to be environmental-friendly, and hence, commands higher and more stable realisations in the international market than petroleum MEG. Bio-MEG exports accounted around 79% of the company's total MEG sales in 1HFY21 (FY20: 59%, FY19: 49%). Besides, IGL has a contract with The Coca Cola Company for the supply of bio-MEG (around 46% of MEG sales as of FY20), which fetches stable margins and protects the former from fluctuations in raw material costs.

IGL benefits from the flexibility to change the mix of MEG and EOD on the basis of demand and profitability, which provide some cushion against volatility in any one segment. The low profitability in the domestic MEG has prompted the company to increase its focus on the more profitable EOD business since FY20, which witnessed a 15% yoy increase in volumes.

The company aims to further increase its business by developing new products and applications, especially in textile chemicals, oil field chemicals, paper chemicals, among others, to maximise profit from the EOD business.

Robust Market Position in Alcohol: IGL remained the largest country liquor supplier in UP with a market share of about 26% in 1HFY21 according to the management. IGL's liquor sales grew 42%yoy to 163.2 million litres in FY20; the company is increasing its production capacity to 2.5 million cases over the next three-to-six months (FY20: 1.5 million cases) and further to 4 million cases by FY23, which will strengthen its market position.

Liquor Segment Resilient; Chemicals to Recover 2HFY21 Onwards: IGL's manufacturing units were shut during the end of March to April 2020, owing to the COVID-19 led nationwide lockdown, leading to a 56% yoy decline in the revenue to INR3.9 billion in 1QFY21. However, the liquor segment bounced back in 2QFY21, registering a 16% yoy growth in sales volumes to 47.8 million litres. While the EOD volumes also recovered in 2QFY21 (down 8% yoy, 1QFY21: 10,753 metric tonnes), the MEG business was significantly hit (down 48% yoy), due to lower demand from the domestic market. As a result, the company's total revenue declined 15% yoy to INR7.2 billion in 2QFY21 and EBITDA fell 25% yoy to INR0.9 billion. Apart from the domestic MEG sales that are likely to remain affected, Ind-Ra expects the other segments to recover in 2HFY21. While all the segments could witness growth in FY22, on a low base, growth, thereafter, is likely to be driven by the liquor segment which had been the growth engine even in FY20. IGL's net revenue grew marginally 3.4% yoy to INR34.7 billion in FY20, supported by the growth in the liquor segment, partly offset by the decline in the chemical segment.

Comfortable Credit Metrics: Despite a reduction in the EBITDA to INR3.9 billion in FY20 (FY19: INR4.2 billion), IGL's credit metrics remained almost stable owing to a 6.4% yoy reduction in the overall debt levels to INR13.1 billion. The gross interest coverage (operating EBITDA/gross interest expense) and the net adjusted leverage (total adjusted net debt/operating EBITDAR) were almost flat at 2.8x in FY20 (FY19: 3x) and 3.3x (3.3x), respectively. IGL is likely to incur a capex of around INR3 billion over FY21-FY22, which is likely to be partly debt funded. During FY21, Ind-Ra expects the net leverage to hover around 4.0x due to an increase in the debt levels to fund the capex and working capital requirements, and lower earnings during the lockdown phase (TTM 1HFY21: about 4.2x), before reducing below 3.0x in FY22 on the back of a likely improvement in the overall operating performance and scheduled debt repayments. IGL's gross interest coverage improved to 3.0x in 2QFY21 (1QFY21: 2.1x) owing to the improvement in the EBITDA.

Liquidity Indicator - Adequate: IGL's cash flow from operations (computed as per Ind-Ra's Corporate Rating Methodology criteria) surged to INR2.1 billion in FY20 (FY19: INR0.1 billion), led by higher customer advances for the orders that remained unexecuted due to the lockdown in March 2020. During FY21, IGL refinanced a couple of high-cost loans, resulting in around 200bp savings on interest cost along with extending the repayment schedule by almost two years. However, despite the refinancing, IGL's debt service coverage ratio is likely to remain modest at around 1.25x for the next couple of years with repayment obligations of around INR1.8 billion and INR1.9 billion for FY22 and FY23, respectively. The maximum combined utilisation of the fund-based and the non-fund-based working capital limits was above 90% during the 12 months ended November 2020, indicating a low cushion. The company was able to interchange the non-fund-based limits to the fund-based limits (of INR1.25 billion) during the lockdown to support the liquidity, which is valid till end-March 2021. Moreover, IGL had availed first tranche of moratorium on its loans and interest payment on part of its bank limits. The company is likely to receive additional sanctions of INR2 billion of corporate loans before FYE21, which will support the liquidity.

Increasing Reliance on Liquor Segment: With continued growth in liquor volumes post the revision of the state's liquor policy effective 1 April 2018, IGL's reliance on the segment continues to increase. The segment's margins remained stable at 27% in FY20 (FY19: 26.4%) with operational efficiencies and scale benefits offsetting the increase in raw material prices. The margins remained resilient at 24.5% in 1HFY21, despite lower sales in 1QFY21. IGL's margins are linked to prices of molasses that form around 40% of the realisations.

The company maintains 15-16 months of stock of molasses to ensure no disruption in the production; post which, it avails molasses on commencement of the crushing season in November. The UP government's move to increase the reservation of molasses for liquor manufacturing to 18% in sugar season (SS)20-SS21 (SS19-20: 16%) provides raw material security for IGL's country liquor business. While price for free molasses has increased in the last one year, the price for the reserved quantity remained substantially lower at a fixed rate of INR70/quintal. The segment's profitability continues to benefit from the company's cost reduction measures such as increasing of bottling capacity, automating of bottling lines and reducing packaging cost in addition to the operating leverage from the high-volume growth.

With a healthy profitability, the liquor segment's contribution to the total EBITDA rose to about 48% in 1HFY21 (FY20: 37%, FY19: 23%) owing to the growth in revenue to INR2.8 billion (INR5.3 billion, INR3.6 billion), as the other segments declined due to the COVID-19 impact. While some moderation is likely 2HFY21 onwards with the recovery in the other segments, IGL's expansion plans in the liquor segment would result in lower EBITDA contribution of 35%-40% in the near term. However, the company's increasing reliance on the liquor segment exposes it to regulatory risks arising from change in policies, particularly in UP, which accounts majority of the company's liquor revenue.

Ongoing Capex: The company expects to incur INR1.5 billion of capex in FY21 (1HFY21: INR0.7 billion) already incurred) towards its liquor business. For this, it secured INR1 billion of term loans, of which INR0.6 billion was availed as of December 2020. IGL also expect to incur a further INR1.4 billion of capex, which will be funded in debt/equity mix of 70%:30% in FY22, largely to increase the production capacity in its liquor segment.

Susceptibility to Volatility in Spreads: IGL's EBITDA margin declined to 11.3% in FY20 (FY19: 12.5%), due to a fall in profitability in the chemical segment as a combination of a decline in realisations and an increase in raw material prices, which shrunk the spreads. IGL's chemical segment profitability remains susceptible to volatility in the spread between MEG and IGL's raw material ethyl alcohol, since the two may not move in tandem.

The chemical segment's EBITDA margin declined to about 9.8% in FY20 (FY19: 12.3%), mainly due to an increase in raw material costs. The segment margins were further declined to about 7% in 1HFY21, on account of the plant closure due to lockdown/maintenance purpose. However, Ind-Ra expects some recovery to happen in 2HFY21, owing to the growth in volumes.

The EBITDA margin of the nutraceutical segment also remains susceptible to the volatility in raw material prices. However, during 1HFY21, the segment reported healthy margins of 42.5% (1HFY20: 32.8%).

Business Reorganisation: In September 2020, IGL announced its plan to transfer the specialty chemicals (about 13% of 9MFY20 revenue) and nutraceutical businesses (around 3%) to two separate newly formed subsidiaries.

RATING SENSITIVITIES

Positive: A reduction in the gross debt, along with a fall in the inherent business volatility, leading to the net adjusted leverage reducing below 1.5x on a sustained basis, would result in a positive rating action.

Negative: Any unexpected volatility in the EBITDA and/or any unexpected debt-led capex, resulting in the gross interest coverage reducing below 3.0x on a sustained basis, could lead to a negative rating action.

COMPANY PROFILE

IGL manufactures green technology-based bulk, specialty and performance chemicals, natural gums, spirits, industrial gases and nutraceuticals. Its product offerings include glycols, ethoxylates, glycol ethers and acetates, and various performance chemicals. The company is listed on BSE Ltd and National Stock Exchange Limited.

FINANCIAL SUMMARY

Particulars	**1HFY21**	**FY20**	**FY19**
Net revenue (INR billion)	11.1	34.7	33.6
EBITDA (INR billion)	1.4	3.9	4.2
EBITDA margin (%)	12.9	11.3	12.5
EBITDAR interest coverage (x)	2.5	2.8	3
Net adjusted leverage (x)	-	3.3	3.3
Source: IGL; Ind-Ra			

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	15 October 2019	18 January 2019	18 August 2017
Issuer rating	Long-term	-	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND BBB/Positive
Term loans	Long-term	INR6,524.30	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND BBB/Positive
Fund-based limits	Long-term/Short-term	INR4,150	IND A-/Stable/IND A2+	IND A-/Stable/IND A2+	IND A-/Stable/IND A2+	IND BBB/Positive/IND A3+
Non-fund-based limits	Long-term/Short-term	INR11,533.45	IND A-/Stable/IND A2+	IND A-/Stable/IND A2+	IND A2+	IND A3+

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Corporate Rating Methodology
Short-Term Ratings Criteria for Non-Financial Corporates

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