

IRSL:STEXCH:2021-22:  
11<sup>th</sup> March 2022

Corporate Listing Department  
**National Stock Exchange of India Limited**  
Exchange Plaza, 5<sup>th</sup> Floor,  
Bandra - Kurla Complex,  
Bandra (E), Mumbai - 400 051.  
Thru.: **NEAPS**  
Stock Code NSE: **INDORAMA**

Corporate Relations Department  
**BSE Limited**  
Floor 25, P. J. Towers,  
Dalal Street,  
Mumbai - 400 001.  
Thru.: **BSE Listing Centre**  
Stock Code BSE: **500207**

**ISIN: INE156A01020**

**Indo Rama Synthetics (India) Limited - CIN L17124MH1986PLC166615**

**Sub: Intimation pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.**

Dear Sir,

India Ratings and Research (Ind-Ra) has upgraded Long-Term Issuer Rating of Indo Rama Synthetics (India) Limited to "IND A-"/Stable. Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015, please find enclosed herewith upgraded Credit Rating press release dated 10<sup>th</sup> March 2022, issued by India Ratings and Research Private Limited (A Fitch Group Company).

You are requested to kindly take the same on record.

Thanking you.

Yours faithfully,  
for **Indo Rama Synthetics (India) Limited**

**PAWAN KUMAR  
THAKUR**

**Pawan Kumar Thakur  
Company Secretary and Compliance Officer**

Digitally signed by PAWAN KUMAR THAKUR  
DN: c=IN, o=Personal, postalCode=110055, st=Delhi,  
2.5.4.20=53117643649c954855b7cb197e807d1864b284957d78461283fabd35b6  
2, postalName=PAWAN KUMAR THAKUR, email=PAWAN@INDORAMA.COM, serialNumber=1F3828ACF8E3A3AC7FC25096A01870C83B2C83DE1D31AC66ECD2  
BD57C1278, cn=PAWAN KUMAR THAKUR  
Date: 2022.03.11 23:49:56 +05'30'

Encl.: As above.

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## India Ratings Upgrades Indo Rama Synthetics to 'IND A-/Stable

# 10

MAR 2022

By Ankita Shere

India Ratings and Research (Ind-Ra) has upgraded Indo Rama Synthetics (India) Limited's (IRSL) Long-Term Issuer Rating to 'IND A-' from 'IND BBB+'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Working capital facilities	-	-	-	INR11.05 (increased from INR9)	IND A-/Stable/IND A2+	Upgraded
Term loans	-	-	July 2024	INR2.94 (reduced from INR4.46)	IND A-/Stable	Upgraded

**Analytical Approach:** Ind-Ra continues to take a consolidated approach of IRSL and its two 100% subsidiaries, Indo Rama Yarns Private Limited and Indo Rama Venture Yarn Private Limited. The ratings also continue to factor in the moderate-to-strong operational, financial and strategic linkages between IRSL and its parent, Indo Rama Ventures Public Company Limited (IVL; holds 38.57% stake in the company).

The upgrade reflects the improvement in IRSL's operational performance during 9MFY22, and Ind-Ra's expectation that the capacity utilisation of the four operational continuous polymerisation (CP) plants improved in 4QFY22 (above 80%) would continue to remain high over the long term. The fifth CP plant, and its likely commissioning by FY23-FY24, would aid in the production of bottle grade pet resin, thereby improving the value addition. Additionally, in FY24, the business profile is likely to undergo a change post the completion of the capex on the downstream value-added drawn textured yarn facilities which would ensure a greater proportion of low-value added partially oriented yarn being consumed captive, leading to a higher value addition overall. The abovementioned changes will help strengthen IRSL's business profile and reduce margin volatility over the long term.

## KEY RATING DRIVERS

**Improvement in Operational Performance:** IVL has been offering working capital support to IRSL, in the form of stand by letter of credit (SBLC) of USD75 million, post the acquisition of 38.57% stake in the latter in April 2019. This has enabled IRSL to steadily increase the capacity utilisation of its four CP plants. The capacity utilisation of the four CPs improved to 60% in 9MFY22 (FY21: 50%, FY20: 48%), and the same increased significantly to 85%-90% (1,470 tonnes per day (tpd)) in 4QFY22, thereby ensuring healthy fixed cost absorption. In addition, the operational, financial and management expertise of the IVL group has helped IRSL record a healthy operational performance, better and consistent product quality, lower wastages, rationalisation of interest expenses, and have helped it tie up of capex towards plant refurbishment and downstream integration. The aforementioned factors, along with favourable demand supply dynamics, resulted in the consolidated EBITDA margin rising to 6.6% in 9MFY22 (FY21: 4.6%, FY20: negative 0.9%). The ongoing capex to expand the capacity of CP1, CP2, CP3 and CP4, and the restarting of the CP1 & CP 3 post the modification and capacity increase, will increase the bottle grade resin capacity to 2,37,250tpa from nil, and will also expand the DTY capacity from 120,000tpa to 1,75,000tpa. Ind-Ra expects the EBITDA margin to grow significantly from FY24, with the completion of the capex.

IRSL's revenue increased to INR27.0 billion in 9MFY22 (FY21: INR20.2 billion; FY20: INR21.07 billion) on the back of an increase in sales volume as well as realisations. IRSL's EBITDA also improved to INR1.7 billion in 9MFY22 (FY21: INR0.92 billion; FY20: loss of INR0.19 billion).

**Successful Tie-up of Funding for Capex:** IRSL has been able to tie up debt of INR4.5 billion for the capex of INR6 billion that would be undertaken over FY22-FY24. The entire debt of INR4.5 billion has been backed by the SBLC issued by IVL. IVL's board has provided a SBLC limit of USD75 million for providing comfort to the lenders. The new term loan availed for capex will require USD60 million of SBLC from the provided limit of USD75 million; USD15 million of the SBLC limit will be available for use, if required. However, IRSL has been able to increase its working capital limit without the support of SBLC, reflecting higher financial flexibility.

**Continued Strong Parentage; Operational and Strategic Support:** Ind-Ra considers the linkages between IVL and IRSL to be moderate-to-strong, as reflected through the tangible financial assistance provided by IVL in the form of the SBLC. During 1QFY21, IVL had provided SBLC-backed working capital credit lines of USD60 million to IRSL for the ramp-up of its operations and manage cash flow exigencies amid the COVID-19 outbreak. IVL holds a 38.57% stake in IRSL. Additionally, in line with the investment agreements, IVL has been taking a lead on IRSL's business plan execution, formulations and operations. The linkages are further strengthened by the board composition and appointment of IRSL's key management personnel by IVL. IRSL is also a strategic fit with IVL's global fibre strategy. IVL has an established track record of successfully executing numerous greenfield and brownfield projects globally, mitigating IRSL's capex execution risks. Also, IVL's vertically integrated operations and global presence in the polyester business aid IRSL's operations, and increase its market credibility and bargaining power.

IRSL's lenders have been taking comfort from IVL's capabilities, track record and business strength. In 2021, IVL had a consolidated revenue, core EBITDA, operating cash flows and core net profit of USD14.6 billion, USD1.7 billion, USD1.0 billion and USD0.7 billion (2020: USD10.6.4 billion, USD1.1 billion, USD1.4 billion and USD0.2 billion), respectively. IVL had net debt of USD6.2 billion and net debt to EBITDA of 3.6x in 2021.

**Credit Metrics to Moderate During Capex Phase:** In FY22, Ind-Ra expects IRSL's consolidated gross interest coverage (operating EBITDA/gross interest expense) and consolidated net adjusted leverage (adjusted net debt/operating EBITDA; including acceptances) to remain healthy at 3.5x (FY21: 1.4x) and 4x (10.4x), respectively. In FY23, however, despite a sustained improvement in the EBITDA, IRSL's credit metrics are likely to moderate marginally because of the large debt-led capex undertaken by the company. Ind-Ra expects the net adjusted leverage (including letter of credit acceptances) to exceed 5x during FY23 due to increased debt. In the subsequent period

, the metrics are likely to improve on the back of EBITDA accretion from the ongoing capex, which would accrue partially in FY24 and fully from FY25. IRSL relies on use of acceptances for the procurement of key input raw materials, namely (MEG) and pure terephthalic acid (PTA), from global and domestic suppliers. IRSL gross debt (including acceptances) stood at INR9.6 billion at FYE21 (FYE20: INR9.3 billion), with acceptance of INR5.8 billion (INR4.8 billion) and term loans of INR3.1 billion (INR3.8 billion).

**Liquidity Indicator – Adequate, with Parents’ Support:** IRSL’s average working capital utilisation was 85% during the 12 months ended January 2022. It had unrestricted cash and equivalents (including liquid instruments) of INR193 million at end-9MFY22. IRSL’s liquidity continues to be supported by the parent. The company is likely to have a comfortable debt service coverage ratio of above 1.2x (including goods and service tax (GST)) receipts. IRSL has debt repayments of INR0.74 billion and INR0.98 billion in FY22 and FY23, respectively, of the total gross term debt of INR2.42 billion at end-9MFY22. At end-December 2021, the company’s total working capital limits (fund based+ non fund based) stood at INR10.4 billion, of which INR3.5 billion (about USD40 million) was backed by SBLC from IVL. IRSL is looking at tying up additional working capital limits to retire the SBLC-backed limits of INR3.5 billion (at end-9MFY22) through additional bank loan tie-up of INR3.2 billion, with INR1.2 billion being tied up by FYE22 and the balance over FY23.

IRSL’s liquidity also remains contingent on the timely receipt of GST subsidy from the state government. During 9MFY22, IRSL booked INR0.73 billion as GST subsidy and received INR0.57 billion. At end-9MFY22, the total GST subsidy receivable stood at INR1.70 billion (FY21: INR1.7 billion). Additionally, IRSL had received sanctions of around INR0.9 billion in FY21 for its long-pending GST incentives over FY18-FY20 and expects to receive the cash proceeds latest by 1QFY23. The management expects IRSL to receive its GST incentives of another INR1 billion over 4QFY22-1HFY23. Moreover, the GST receivable cycle is likely to correct to a maximum of one and half year for claims from FY22, enhancing the medium-term cashflow visibility.

IRSL’s cash flow from operations turned positive at around INR1.1 billion in FY21 (FY20: negative INR2.2 billion), led by positive fund flow from operations of INR0.4 billion (negative INR1.18 billion) and working capital release of INR0.7 billion. Ind-Ra expects the cash flow from operations to remain around INR1.3 billion over FY23-FY24. IRSL had negative net working capital of INR3.8 billion at FYE21, as it has been using the same for funding its long outstanding incentive receivables and non-current assets, both of around INR1.9 billion each.

IRSL had a moderate gross working capital cycle of around 99 days in FY21 (FY20: 62), with an inventory period of around 80 days (46 days) and trade receivable period of around 20 days (16 days). The release of SBLC from working capital line will be used in funding the term loan for the capex, thereby enhancing IRSL’s financial flexibility.

**Forex Risk:** IRSL exports finished products and imports raw materials against letters of credit. It had a net unhedged forex exposure of INR3.04 billion as on 31 March 2021 (March 2020: INR1.4 billion), as export trade receivables remain lower than import trade payables. In FY21, IRSL’s exports moderated to INR4.1 billion (FY20: INR5.0 billion), while its imports picked up considerably to INR6.0 billion (INR4.4 billion).

**Industry Constraints:** The ratings continue to be constrained by the risk of higher imports, demand cyclicality, raw material price volatility and moderate supplier concentration. IRSL’s top two suppliers accounted for over 70% of its total raw material cost during FY20-FY21 (FY19: 85%).

## RATING SENSITIVITIES

**Positive:** Timely completion of the capex coupled with volume ramp-up, leading to a rise in revenue and EBITDA margins in line with the company’s expectations, along with maintaining the interest coverage above 3.0x and net leverage below 4x, both on a sustained basis, would lead to a positive rating action.

**Negative:** Developments that could, individually or collectively, lead to a negative rating action include:

-any weakening of IVL’s management control or its overall support

- any delays in the ramp-up of production as expected by Ind-Ra and lower-than-expected profitability, leading to the gross interest coverage not sustaining around or exceeding 2.5x

-any delay in completion of capex, leading to time or cost overruns, thereby impacting the liquidity

## COMPANY PROFILE

Incorporated in 1986, IRSL commenced polyester manufacturing in 1989. The company manufactures a wide range of polyester products including polyester staple fiber, partially oriented yarn, draw texturised yarn, fully drawn yarn and polyester chips. IRSL has an integrated manufacturing complex spread over 250 acres at Butibori, near Nagpur with installed capacity of 6,10,050mtpa of polyester. IRSL has several technical collaborations with companies such as Chemtex Intl. Inc of the US, Toyobo Co. Limited of Japan, Zimmer AG of Germany, among others.

### FINANCIAL SUMMARY (Consolidated)

Particulars	9MFY22	FY21	FY20
Revenue (INR billion)	27	20.2	21.1
Operating EBITDA (INR billion)	1.78	0.9	-0.2
EBITDA margin (%)	6.59	4.46	-0.9
Interest coverage (x)	3.7	1.4	n.m
Net adjusted leverage (x)	2.6	10.4	n.m
Source: IRSL, Ind-Ra			
n.m= not meaningful			

## RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	29 June 2021	29 October 2020	2 August 2019
Issuer rating	Long-term	-	IND A-/Stable	IND BBB+/Stable	IND BBB-/Stable	IND BBB-/Stable
Term loans	Long-term	INR2.94	IND A-/Stable	IND BBB+/Stable	IND BBB-/Stable	IND BBB-/Stable
Working capital limits	Long-term/Short-term	INR11.05	IND A-/Stable/IND A2+	IND BBB+/Stable/IND A2	IND BBB-/Stable/IND A3	IND BBB-/Stable/IND A3

## COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Term loan	Low
Non-fund-based working capital limits	Low

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

## SOLICITATION DISCLOSURES

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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.

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## Applicable Criteria

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[Corporate Rating Methodology](#)  
[Short-Term Ratings Criteria for Non-Financial Corporates](#)

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## Analyst Names

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