

IOL Chemicals & Pharma

₹ 77

Creating healthier World...!!!

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Mar 23, 2018

Company Background

IOL Chemicals & Pharmaceuticals is a leading organic chemicals manufacturer and supplier in India, company was incorporated in the year 1986. Company manufactures & supplies industrial chemicals and bulk drugs for use in various pharmaceutical applications. Portfolio includes industrial chemicals, industrial organic chemicals and bulk drugs. IOL has two segments namely chemicals and pharmaceuticals. Under chemical division, manufacturing bulk chemicals, such as acetic acid and specialty chemicals, including ethyl acetate and acetic anhydride. Under pharma division, company manufactures active pharmaceutical ingredient, Ibuprofen. It has two manufacturing units namely API Unit and Chemical Unit located in Punjab. API Unit produces Ibuprofen with the installed capacity of 10 MTPD. Chemical Unit manufactures organic chemicals such as Glacial Acetic Acid, Ethyl Acetate, Acetic Anhydride, Mono chloro acetic Acid, Acetyl Chloride and Iso butyl Benzene. Company is having its presence in over 40 countries across the world; includes Bangladesh, Thailand, UAE, Syria, Singapore, Hong Kong, Pakistan, Egypt, and others. IOL has strong business relationships with a number of prestigious clients such as Ranbaxy Labs, Dr Reddy, DS Group, Cipla, Uflex Industries, ITC Ltd, ICI Paints, Asian Paints, Pidillite, Rallis India, Hindustan Polymide, Gujarat Super Phosphate and Avon Organics Ltd etc.

Key Highlights

- ➔ For 2016-17 sales were posted by 22.4% growth at ₹ 7,106.6 mn, operating profit was improved by 95.5% to ₹ 1028.5 mn and net profit was ₹ 42.3 mn on yearly basis.
- ➔ Recently company has successfully started the production of Metformin, an anti-diabetic drug with annual capacity of 3000 MT.
- ➔ Company is planning to invest ₹ 200 cr to expand its existing manufacturing capacities over the next 2 years including its flagship product, Ibuprofen from 7200 tpa to 12000 tpa.
- ➔ During the current FY IOL has received EUGMP Certification from National Institute of Pharmacy and Nutrition, Hungary.

Key Financials

Year Ended 31 st	Mar 15	Mar 16	Mar 17
Revenue (INR mn)	4,270.2	6,454.4	7,743.7
Rev. growth (%)	(31.79)	51.15	19.98
EBITDA (INR mn)	970.5	125.8	526.1
Net profit (INR mn)	(666.5)	(400.3)	42.3
Shares outstanding (mn)	47.7	56.2	56.2
EPS (INR)	0.0	0.0	0.8
EPS growth (%)	(100.00)	0.00	0.00
P/E (x)	0.00	0.00	84.20
RONW (%)	0.00	0.00	1.97
ROCE (%)	0.00	0.00	10.81

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Info Codes

Reuters	: IOLC.BO
Bloomberg	: ICP IN
NSE	: IOLCP
BSE	: 524164

Market Data

52 Wk Range (₹)	: 42/93
Shares in Issue (mn)	: 56.2
Market. Cap (bn)	: 4.33
BSE 2 Wk Avg Vol	: 64000

Share Holding Pattern (%)

Promoters Holding	: 41.19
Public & Others	: 26.62
Corporate Holding	: 31.49
Foreign Institution	: 00.62
Institutions	: 00.08

Investment Theme

India's chemical sector is expected to double its size at \$ 300 bn by 2025, clocking an annual growth rate of 8-10 %. Government also announced plans to bring a new policy to promote the domestic industry and curb imports. Sub-sectors like speciality chemicals and agro- chemicals are growing at a higher pace. Indian pharma industry, which is expected to grow over 15 % per annum between 2015 and 2020. India has the 2nd largest number of USFDA-approved manufacturing plants outside the US. Labour costs are 50-55 % cheaper than in Western countries. The cost of setting up a production plant in India is 40 % lower than in Western countries. Company is doing capacity expansion in Drug business of Ibuprofen and Metformin Hydrochloride. Operations are broadly classified as Bulk Drugs and speciality industrial chemicals.

Indian chemical industry is the 3rd largest producer in asia...!!!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 15	Mar 16	% Chg	Mar 17	% Chg
Net Sales	3,847.2	5,804.2	50.9	7,106.6	22.4
Other Income	13.4	12.3	(8.2)	11.8	(4.1)
Change in Stocks	216.2	212.0	(1.9)	169.6	(20.0)
Raw Material Con.	3,008.5	4,348.0	44.5	4,963.5	14.2
Employee Exp.	247.2	351.3	42.1	437.2	24.5
Indirect Taxes	409.8	637.9	55.7	625.3	(2.0)
Other Exp.	285.4	165.2	(42.1)	233.5	41.3
Operating Exp.	3,950.9	5,502.4	39.3	6,259.5	13.8
Operating Profit	125.9	526.1	317.9	1,028.5	95.5
Total Interest	591.1	614.7	4.0	674.2	9.7
Gross Profit	(465.2)	(88.6)	(81.0)	354.3	(499.9)
Net Dep.	289.1	296.9	2.7	299.5	0.9
Total Taxation	(87.8)	14.8	(116.9)	12.5	(15.5)
Net Profit/Loss	(666.5)	(400.3)	(39.9)	42.3	(110.6)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 14	Mar 15	Mar 16	Mar 17
SOURCES OF FUNDS	5,891.4	6,160.8	6,402.9	6,530.3
Equity Share capital	488.3	476.6	562.1	562.1
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	59.9	0.0	0.0
Reserves & Surplus	1,604.2	1,535.6	1,289.2	1,331.5
Secured Loans	2,979.6	3,769.6	4,333.4	4,241.9
Unsecured Loans	819.3	319.1	218.2	394.8
USES OF FUNDS	5,891.4	6,160.8	6,402.9	6,530.3
Gross Block	5,694.7	5,942.9	6,199.6	6,246.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	1,588.6	1,914.7	2,204.7	2,498.0
Net Block	4,106.1	4,028.2	3,994.9	3,748.0
Capital Work in Progress	330.6	42.1	43.1	212.6
Investments	0.0	0.5	0.9	0.9
Current Assets	2,807.2	2,834.8	3,568.1	4,125.2
Less : Current Liabilities	1,398.2	851.6	1,321.8	1,650.7
Total Net Current Assets	1,409.0	1,983.2	2,246.3	2,474.5
Misc. Expenses not writtenoff	45.7	106.8	117.7	94.3
NOTE				
Book Value of Unquoted Investments	0.0	0.0	0.0	0.0
Market Value of Quoted Investments	0.0	0.5	0.9	1.0
Contingent Liabilities	88.7	16.6	27.2	86.5
Dividend (%)	0.0	0.0	0.0	0.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 17	Jun 17	Sep 17	Dec 17
Net Sales	1,932.9	2,153.1	2,177.9	2,626.8
Cost Of Sales	1,676.5	1,880.2	1,881.2	2,302.4
Operating Profit	256.4	272.9	296.7	324.4
Other Income	3.4	3.3	3.5	3.4
Adjusted PBDIT	259.8	276.2	300.2	327.8
Financial Expenses	168.2	171.4	166.1	155.8
Depreciation	73.5	73.1	75.7	76.4
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	18.1	31.7	58.4	95.6
Tax Charges	3.1	1.9	14.1	7.6
Reported Profit	15.0	29.8	44.3	88.0
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	15.0	29.8	44.3	88.0

52 Week Index Relative Percentage Appreciation

IOL Chemicals vs SENSEX
Risks Associated

- ➔ Indian approvals are very slow to patents and trade marks, while in developed countries is much faster. In India it will take 6-8 years to get patent approvals, but in Developed countries it is with in 2-3 years. This is the challenge in pharma sector.
- ➔ The approval of USFDA is important because the largest consumer of pharma products is the USA and India is a major exporter. The opinion of the USFDA is considered to be the standard in the sector as well.
- ➔ As the company has operation in various countries, there will be a chance to get impact company's revenue if there is any changes in Foreign exchange rates.
- ➔ Drug Price Control Order is major issue for Indian pharma sector, as it reduces the profits of the company.
- ➔ Developed countries, especially the US, have been pushing for a tighter patents authorities in India in favour of their own MNCs.

Scope of Growth

- ➔ FDI permitted 100 % through automatic route and also chemicals sector is delicensed except for few hazardous chemicals. De-licenced is boost up for the sector.
- ➔ A large population, huge domestic market dependence on agriculture and strong exports are the key growth drivers for the industry.
- ➔ India's per capita consumption of chemicals in India is lower as compared to western countries, which creates immense scope and opportunities for new investments.

In a Nutshell

IOL Chemicals is a leading organic chemicals manufacturer and supplier in India. It deals with Bulk Drugs and specialty industrial chemicals. Under API division in Pain Management & its derivative and salts are developed for commercial distribution across the globe. Ibuprofen, Metformin Hydrochloride, Lamotrigine, Fenofibrate and clopidogrel Bi sulphate are the products under drug segment. Specialty chemicals are used as end product in packing, Pharma, textiles, food procession, pesticides, paint etc. Ethyl Acetate, Iso Butyl Benzene, Acetyl chloride and Mono Chloro acetic Acid are producing by the company under Chemical segment. It has its presence in more than 40 countries in the world. Company increasing its APIs product portfolio and improving cost competitiveness through efficient manufacturing processes and systems and expanding relationships with major Indian and foreign generic companies for sale of its APIs. APIs are exported world wide, IOL markets are Europe, Latin America, Africa, and the Middle East. Key markets in chemicals are African countries, Middle East, SAARC Countries and Russia. Since inception, it has been gradually enhancing its manufacturing capacities. Moreover, other chemicals produced by the company such as Iso Butyl Benzene, Mono Chloro Acetic Acid and Acetyl Chloride are used in manufacturing of Ibuprofen. Bulk drugs segment contributed nearly 56% of total revenue for the FY 2017 against 53% in FY 2016 and Chemical segment contributed 44% for the FY 2017 against 47% for the FY 2016. Recently company expand its production capacity to 3000 MT of Metformin, an anti-diabetic drug. And also company planning to Ibuprofen from 7200 tpa to 12000 tpa. This developments are positive sign for growth.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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