Unipath Specialty Laboratory Limited

April 05, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	6.00	CARE BBB+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Unipath Specialty Laboratory Limited (USLL) continues to derive strength from its experienced and resourceful promoter group who have demonstrated their financial support to it via infusion of equity capital and unsecured loans. The rating also takes cognizance of USLL's established track record in diagnostic lab service business with growing scale of operations, strengthening of net worth base due to accretion of significant profits during FY21 (FY; refers to period April 01 to March 31) and FY22 and its adequate liquidity.

The rating, however, continues to remain constrained by its moderate scale of operations, its relatively low profitability margin compared to industry peers, high revenue dependency on Business to Business (B2B) segment, geographically concentrated operations in the state of Gujarat, low entry barriers resulting in stiff competition in the healthcare diagnostic industry and need for regular investment to upgrade technology. The rating also takes cognizance of company's plans to grow in-organically in coming years which may restrict the improvement in its profitability and return ratio till the time these investments generate meaningful increase in its scale of operations as there is relatively long gestation period associated with USLL's non-Covid diagnostic business. The rating also takes note of moderation in operating profitability during 9MFY23 and expectation of company incurring net loss during FY23.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in its scale of operations through greater geographical and revenue diversification along with generating envisaged returns from its newly commissioned pathology labs.
- Earning PBILDT margin and ROCE of around 15% on a sustained basis

Negative factors

- Any large debt funded capex leading to deterioration in overall gearing above 1.5 times.
- Lower than envisaged need-based financial support from its promoters.

Outlook: Stable

CARE Ratings believes that USLL shall continue to benefit from strong promoter group and is likely to maintain a its financial and business risk profile on the back of its reputed brand presence in Gujarat.

Analytical approach: Consolidated along with group support. USLL is owned by one of the promoters of Intas Pharmaceuticals Limited (IPL; rated: CARE AA+; Stable/ CARE A1+). Furthermore, Accord Healthcare Limited and Intas Welfare Trust, group companies of IPL, have invested in USLL through preference shares which are subordinated to bank loans. Further, the promoters have also infused unsecured loan for expansion and to support the operations of USLL thereby demonstrating financial support to USLL. The list of entities whose financials have been consolidated in USLL is mentioned in **annexure 6**.

Key strengths

Experienced and resourceful promoters along with their demonstrated financial support from promoters

USLL is promoted by Dr. Urmish Chudgar, who is one of the members of the promoter family of IPL. Dr. Urmish Chudgar is also the Jt. MD of IPL. IPL, the flagship entity of the group, is one of the large Indian pharmaceutical companies globally. The promoters have significant experience in the pharmaceutical and healthcare industry and USLL is also supported by a qualified and experienced senior management team with well-defined organization structure and strong information systems. The major shareholder of USLL include Dr. Urmish Chudgar and his wife Mrs Parul Chudgar who together hold 94% stake in the company. Both these promoters of USLL also hold nearly 18% equity stake in IPL.

The promoters have been infusing equity and unsecured loans to support the growth of the company. Apart from equity and quasi equity, the promoters have infused interest-free unsecured loan for the expansion of its operations in new geography by way of setting up pathology labs on its own or based on partnership/ LLP structure with local doctors. The unsecured loan from the promoter stood at Rs.25.47 crore as on March 31, 2022. As articulated by the company management, the promoter shall infuse further unsecured loan in USLL for driving its future expansion and there will not be any major reliance on external debt.

Established market position in the diagnostic services industry in Gujarat, albeit a meagre presence in other states
USLL has an established track record of over a decade in the diagnostic services industry. It offers a wide array of diagnostic tests viz. Bio-chemistry, molecular diagnostics, cytopathology, histopathology, clinical chemistry, serology, hematopathology, cytogenetic and microbiology. Biochemistry is the major source of revenue for USLL which accounted for around 44% of its total operating income in FY22. During FY21 and FY22, there was significant growth in the revenue from molecular diagnostic aided by increased Covid-19 tests during the period. Further, the entity has been incurring various R&D to develop various validation methods. The entity had also invested nearly Rs.10-12 crore towards the capex to carry out tests related to Next-Generation Sequences (NGS). The entity expects to generate good revenue and profitability from NGS related test in the medium term.
The company has gradually expanded its operations in different regions of Gujarat as well as outside Gujarat. USLL operates 19 pathology labs on its own and jointly operates another 17 pathology labs under the co-owned model as on December 31, 2022. Majority of these are in Gujarat region at, Ahmedabad (7 labs), Anand (2), Surat (1), Jamnagar (2), Bhavnagar (4) apart from labs at Siliguri, West Bengal (1), Kolkata, West Bengal (1) and Hyderabad, Telangana (1). Additionally, USLL has 60 collection centres and has also tied up with more than 5,000 clinical labs as on December 31, 2022, at many places in Gujarat and outside Gujarat.

Growing scale of operations albeit at moderate level
On a consolidated basis, USLL's total operating income (TOI) grew by CAGR of 24% over a period of last 5 years ended FY22 albeit on low base. TOI of the entity grew at around 15% in FY22 supported by Covid-19 tailwinds in Q1FY22. Apart from that, the growth in TOI was also attributed to in-organic expansion under LLP structure with local doctors in newer geographies. The entity had a relatively high revenue of around Rs.40 crore from Covid-19 tests in Q1FY22. In the absence of Covid-19 revenue during FY23, the TOI of the entity is likely to grow at around 8-10%. Despite continuous growth in TOI, it continued to remain at a moderate level compared to its much larger peers in the industry who have pan-India presence.

Comfortable capital structure and debt coverage indicators
Capital structure of the entity improved marked by an overall gearing of 0.53 times and TOL/TNW of 1.00 times as on March 31, 2022, on account of healthy accretion of profit to reserve. Debt profile of the entity includes term debt of Rs.0.38 crore and unsecured loan from the promoters of Rs.25.47 crore as on March 31, 2022. As articulated by the management, the entity has plans to expand its geographical reach by establishing 3-4 new pathology lab every year at different states in India under the LLP structure with local partners/ doctors over a period of next 2-3 years. The aforesaid expansion will be funded by internal accruals and infusion of additional unsecured loan from the promoters and there will be no reliance on external debt. Hence, going forward the capital structure of the entity is expected to remain comfortable over FY23-FY25.
With low reliance on external debt along with healthy profitability and cash accruals, the debt coverage indicators remained comfortable, total debt to GCA of 1.44 times (P.Y.:1.68 times) and PBILDT interest coverage of 32.81 times (P.Y.:18.65 times) in FY22.

Industry outlook
The diagnostic healthcare industry is gaining momentum with a thrust on evidence-based treatment since diagnosis helps in identifying the correct therapy. The spending on overall healthcare industry is increasing with rising disposable income and literacy rate. Further, increase in lifestyle diseases such as heart disease, diabetes, hypertension etc. also increase the prospects of healthcare industry in India. Unpredictable instances like the Covid-19 outbreak further boost the importance of diagnostics as an integral part of healthcare and the awareness among people regarding preventive testing for lifestyle and chronic diseases. Therefore, sustainable growth in the industry is likely. At present, the diagnostic healthcare services industry in India is not subject to extensive government regulations. However, the government could introduce 'price lists' for diagnostic services to make these tests more affordable and accessible which may adversely impact the profitability of the companies. Recently, the government introduced 'price list' for Covid-19 test. Historically also, the industry has witnessed capping for instances of Swine Flu, Dengue and Chikungunya. Any such development would be a key rating monitorable.

Liquidity: Adequate
Liquidity of the company is supported by need-based support from its promoters. Also, absence of fixed debt repayment obligation also provides cushion to liquidity. Current ratio of the entity also remained healthy 1.30 times as on March 31, 2022. Entity had a cash & bank balance of Rs.4.10 crore as on March 31, 2022. Additionally, these business operations required comparatively very small external working capital requirement. Working capital requirement is low as reflected by operating cycle of 25 days in FY22 (P.Y.: 20 days). USLL's collection period remains around 40-45 days on account of credit period it offers to its B2B customers;

however, it also avails a credit period of around 40-45 days from its suppliers. It also maintains low inventory of consumables of around 15-20 days. The average utilization of its fund-based limits stood at 52% over the last 12 months ended January 2023.

Key weaknesses

Expectation of weak profitability in FY23 which is likely recover in FY24 and FY25

Despite growth in revenue, the entity's profitability remains weak compared to its peers. The entity in the past had an average operating profitability margin of only around 9% (period FY17-20). Historically, PBILDT margins of USLL remained low as compared to peers majorly due to high share of revenue from B2B segment. Entity generates nearly 70-72% of its consolidated revenue from B2B segment where the margins are low. Higher dependency on B2B segment results in some stretch in collection. During FY21 and FY22, the entity had written-off debtors of Rs.2.71 crore and Rs.1.27 crore respectively.

PBILDT got impacted majorly in 9MFY23 due to gestation losses of recently started labs apart from pre-operating cost associated with niche and high-end specialised test like NGS (DNA) testing. NGS requires investment in latest technology machines, skilled manpower and marketing initiatives. Entity expects to generate better return on these investments over next 2-3 years. With these organic and in-organic opportunities, entity expects to grow its revenue at a CAGR of 15% with PBILDT margin of 8-10% in FY24-FY25. Temporarily, entity expects impact on its profitability in FY23 till the time these investments start generating adequate returns. As informed by the management, company is trying to improve its share of retail customers through various branding and marketing arrangement which should reach to nearly 50% of its total revenue in medium term. USLL's ability to increase the share of retail customers coupled with faster ramp-up in the scale of its newly set-up pathology labs could lead to a more sustainable improvement in its PBILDT margin over the medium term.

Geographical concentration and higher revenue contribution from the B2B segment

USLL's operations remain geographically concentrated with major portion of the revenue coming from its labs located at Gujarat which accounted for 96% of its total consolidated revenue in FY22. The entity started its first centre in Ahmedabad, Gujarat which remains its flagship centre and reference laboratory constituting around 27% and 33% of consolidated revenue in FY22 and 9MFY23 respectively.

Fragmented nature of healthcare industry and increasing competition due to moderate entry barriers

The diagnostic services industry has numerous players, big and small, offering similar services, resulting in intense competition. The laboratories within hospitals also increase competition for organized standalone diagnostic service players. To maintain market share in a competitive landscape, the company also faces pressure on service charges. In addition, the entry of online aggregators that offer discounts to attract customers has put pressure on pricing which may restrict earnings of incumbent players, going forward. Additionally, any price caps by regulators could lower the pricing power which may have an impact on sector's profitability. Further, diagnostic centres have to continuously upgrade its technology in a competitive environment, which also involves significant investment in medical equipment constraining free cash flows. However, for organized players like USLL, most of the equipment are available on rental and reagent basis which does not require huge cash outflow thereby providing financial flexibility to some extent.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Service Sector Companies
Policy on Withdrawal of Ratings

About the company and industry

Incorporated in 2009, USLL is a diagnostic lab promoted by Dr. Urmish Chudgar, who is one of the members of the promoter family of IPL. USLL offers a wide range of diagnostic and prognostic testing menu using state-of-the-art knowledge and medical technology. It has a total of 36 pathology labs on its own & partnership basis as on December 31, 2022 which offers services in hematopathology, histopathology, cytopathology, molecular diagnostics etc. USLL is accredited by state and central licensing authorities wherein its laboratory services are internally monitored to assure quality services using the principles of total quality management and application of quality systems. USLL has been awarded accreditation by National Accreditation Board for Testing and Calibration Laboratories (NABL) and is ISO 9001:2015 certified which specifies requirement for a quality management system.

Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Healthcare Services	Healthcare Service Provider

Brief Financials-Consolidated (₹ crore)	FY21 (A)	FY22 (A)	9MFY23 (Prov.)
Total operating income	148.41	169.98	118.28
PBILDT	28.65	27.13	3.94
PAT	12.92	16.15	(0.62)
Overall gearing (times)	0.70	0.53	NA
PBILDT Interest coverage (times)	18.66	32.97	4.02

A: Audited, Prov.: Provisional; Note: 'the above results are latest financial results available'; NA: Not Available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	6.00	CARE BBB+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	6.00	CARE BBB+; Stable	-	CARE BBB+; Stable (30-Mar-22)	CARE BBB+; Stable (03-Mar-21)	CARE BBB+; Stable (04-Dec-19)
2	Fund-based - LT-Term Loan	LT	-	-	-	Withdrawn (30-Mar-22)	CARE BBB+; Stable (03-Mar-21)	CARE BBB+; Stable (04-Dec-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	NA
B. Non-financial covenants	NA

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of subsidiaries consolidated

Sr. No.	Name of the entities	Relationship	% Equity stake of USLL as on Mar. 31, 2022
1	Unipath Specialty Laboratory (Baroda) LLP	Subsidiary	54%
2	Unipath Specialty Laboratory (Mehsana) LLP	Subsidiary	51%
3	Unipath Specialty Laboratory (Indore) LLP	Subsidiary	51%
4	Vidhi Unipath Specialty Laboratory LLP	Subsidiary	51%
5	Unipath Specialty Laboratory (Vizag) LLP	Subsidiary	51%
6	Unipath Specialty Laboratory (Gota) LLP	Subsidiary	51%
7	Unipath Specialty Laboratory (Gujarat) LLP	Subsidiary	99%
8	Unipath Specialty Laboratory (Himatnagar) LLP	Subsidiary	51%
9	Unipath DRG Speciality Laboratory LLP	Subsidiary	51%
10	Unipath Turquaise Speciality Laboratory LLP	Subsidiary	99%
11	Baroda Diagnostics LLP	Subsidiary	99.6%
12	Kansagara Unipath Speciality Laboratory LLP	Subsidiary	25%
13	Unipath Specialty Laboratory (Rajkot) LLP	JV	50%
14	River Unipath Speciality Laboratory LLP	Associates	40%
15	Neugen Unipath Diagnostic Laboratories LLP	Associates	25%

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact	Analytical Contacts
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Name: Hardik Shah Director **CARE Ratings Limited** Phone: +91-79-4026 5620 E-mail: hardik.shah@careedge.in
Relationship Contact Name: Deepak Purshottambhai Prajapati Senior Director **CARE Ratings Limited** Phone: +91-79-4026 5656 E-mail: deepak.prajapati@careedge.in	Name: Krunal Pankajkumar Modi Associate Director **CARE Ratings Limited** Phone: +91-79-4026 5614 E-mail: krunal.modi@careedge.in Name: Yash Bhura Lead Analyst **CARE Ratings Limited** E-mail: yash.bhura@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in