Vimta Labs Limited

July 11, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	36.22	CARE A; Stable	Assigned
Long Term / Short Term Bank Facilities	34.00	CARE A; Stable / CARE A1	Assigned
Short Term Bank Facilities	1.78	CARE A1	Assigned

Details of instruments/facilities in Annexure-1

Rationale and key rating drivers

The ratings assigned to the bank facilities of Vimta Labs Limited (Vimta) derive strength from its qualified and four decades experienced management team, long proven track record in contract research and testing (CRT) segment for three decades, diversified revenue stream (that includes pharma analytical, pre-clinical, clinical services, food testing services, diagnostics services, environment and electrical and electronic testing), established clientele, strong PBILDT margins of 30%, comfortable capital structure and debt coverage indicators in absence of any major external debt, and healthy liquidity. The liquidity of the company is supported by cash and bank balance of around ₹ 30 crore in the form of FDR, negligible utilization of its fund-based working capital facilities and negligible scheduled term debt repayment.
The rating strengths are however partially offset by modest scale of operations, company's exposure to inherent regulatory risks associated with GXP (GMP, GCP) pharma contract research and testing services, coupled with challenges in availability of subjects and patients for trials amid increasing competition in the industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- ✓ Notable growth in the total operating income (TOI) by more than 20% y-o-y while achieving return on capital employed (ROCE) of 30% or above on a sustained basis.

Negative factors

- Significant de-growth in TOI or PBILDT margins falling below 20%.
- Deterioration in the overall gearing above 0.5x or considerable weakening of liquidity profile of the company.
- Any unforeseen regulatory hurdles adversely affecting the company's business operations.

Analytical approach: Consolidated

Consolidated financials of Vimta and its 100% subsidiary, viz., Emtac Laboratories Private Limited, have been considered for analysis, as both the entities have common management and demonstrate financial and operational linkages.

Outlook: Stable

CARE Ratings Limited (CARE Ratings) expects that Vimta will continue to benefit from its established business in the industry, will sustain its healthy profitability margins and maintain a comfortable liquidity profile.

Detailed description of the key rating drivers:

Key strengths

Long track record of operation in CRT segment, experienced and qualified management team.
The management is well qualified and experienced in the contract research industry, and the company has an established track record of around four decades. Vimta has an established market position, with a network of 18 laboratories and 3 clinical diagnostics patient services centers and 2 laboratories in alliances, spread across the country. With the establishment of the wholly-owned subsidiary - M/s Emtac Laboratories Private Limited (Emtac), the company plans to take advantage of the growing electrical and electronics industry.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Established track record of operation in clinical research and testing domain with accredited labs.

Vimta is into CRT services with over 3 decades of established track record. Its services include specialized services such as BA & BE studies, pharma analytical, as well as a clinical research including pre-clinical, and related services at its two central laboratories at Hyderabad. It also provides services in Food testing, clinical diagnostics, environment testing and newly launched electrical and electronic testing, which indicates diversification in this services portfolio. Vimta has been inspected by various regulatory authorities like USFDA, UK-MHRA, WHO, ANVISA-Brazil, DCGI-India, and MCC-South Africa. Further, Vimta has been notified by FSSAI for National Reference Laboratory. On a standalone basis, Vimta has multiple laboratories with one Central laboratory at Cherlapally (for Clinical research, clinical reference laboratory-diagnostics, and environmental services). Over the years, Vimta has employed skilled man-power resource to ensure smooth functioning and successful completion of the studies undertaken.

Established relationship with reputed clientele and diversified customer base

With its established operational track record in the industry, Vimta has an established relationship with reputed clients, bo th in domestic as well as overseas markets. Also, it is continuously adding the new customers based on its service offerings. Overall customer base of Vimta remained diversified with presence in pharma, food, environment and electrical & electronic testing. And we expect the company would continue the relationship with its reputed clients.

Healthy growth with strong profit margin and high returns ratio

On a consolidated level, the TOI grew at a healthy compounded annual growth rate (CAGR) of 23% during FY21-FY23 i.e from ₹ 210.68 crore during FY21 to ₹ 319.29 crore in FY23. The improvement was on account of the growth in the revenue from the pharmaceutical services (which includes; which includes; Pre clinical, Analytical and Clinical research services) and non-pharma services (which includes food, environment ,electrical & electronics and diagnostics testing). The company has started electrical and electronic testing services by acquiring Emtac Laboratories Private Limited (wholly-owned subsidiary) from FY20. During FY21, the company booked healthy business from various services. And the momentum continues in FY22 and FY23 on the back of an increase in orders for research and testing services in India and from foreign countries (majorly USA).

With improvement in the scale of operation and better management of fixed costs (majorly chemicals & consumables and employee cost), Vimta's PBILDT margin on a consolidated basis was on an increasing trend during the FY20-FY23 period. The margin increased by nearly 436 bps and stood healthy at 30.54% during FY23 as compared with 26.18% during FY21. Over a period of last two years, the company has focused more on large molecules in the clinical research domain. Considering the large molecules the pricing was on the higher side therefore, resulting a high operating profitability. With the improvement in the profitability, ROCE also improved and stood at around 25% in FY23 as compared with 24% in FY22.

Comfortable capital structure and debt coverage indicators

On a consolidated basis, Vimta has a healthy capital structure during FY20-FY23 period marked by overall gearing of 0.06x against a satisfactory tangible net-worth (TNW) of ₹ 264.01 crore as on March 31, 2023. The debt profile of the company consisted of term loan and working capital limits. The term loan is majorly utilised to procure latest testing and analytical machineries. Furthermore, the total outside liabilities (TOL)/TNW also remains strong during FY20-FY23 period and stood at 0.30x as on March 2023, and is expected to continue at similar levels in the medium-term on the back of its accumulation in net worth base and absence of any significant debt-funded capex. The company has a healthy cash flow generation which indicates less dependency on the external debt, resulting increased net worth base.

The Debt coverage indicators remained comfortable marked by PBILDT interest coverage and TDGCA of 36.87x and 0.20x during FY23. On a standalone basis, the capital and debt coverage indicators remains healthy. We expect the capital structure to be comfortable in the absence of any major debt-funded capex.

Liquidity: Strong

The Liquidity indicators of the company marked by current ratio and quick ratio remained healthy at 2.86x and 2.46x respectively as on the balance sheet of 2023. Further, the liquidity of Vimta remained strong marked by healthy cash accruals along with negligible utilisation against a fund based working capital limits of ₹ 30 crore for past 12 months ended April 2023. Additionally, the company has a free liquidity of approximately around ₹ 30 crore in the form of bank fixed deposit March 31, 2023 at a consolidated level which further supports the liquidity position. The operating cycle of the company has improved to 99 days in FY23 from 122 days in FY21 mainly due to realisation of debtor which was elongated by end-FY21 due to Covid-19.

Key Weaknesses

Moderate scale of operation:
On a consolidated basis, Vimta has registered a CAGR growth of 23% during FY21-FY23 period, yet it operates on a moderate scale with a TOI of ₹ 319 crore during FY23 compared with ₹ 278 crore in FY22. Vimta has diversified revenue streams which protects from inevitable ebbs and flows in a specific industry.

Exposure to high regulatory risk:
The CROs require various approvals, licenses, registrations, and permissions for their routine business activities. The approval process is also complex, lengthy, and expensive. The time taken to obtain approval varies from one country to another and it ranges from a month to a year. CARE Ratings notes that any delay or failure in getting approval can adversely affect the business prospects of the company.

Increasing competition in the Indian CRO industry:
The growth of the Indian CRO industry will be driven by increased outsourcing from pharmaceutical companies. Cost pressures faced by companies are creating the need for pharmaceutical companies to implement cost-cutting measures across operations, including drug development costs. The growth in the outsourcing of clinical trials will be closely paralleled by the growth in the R&D spending of pharmaceutical companies in regulated markets. The CRO industry consists of many players who are compliant with the regulatory authorities. Furthermore, the large pharmaceutical players have their captive resources, which further intensifies the competition. With an increase in competition, CROs also face challenges pertaining to the availability of manpower.

Profitability susceptible to volatility associated with forex rates
The company derives nearly 23%-27% of its standalone revenue from export (around ₹ 80 crore in FY23; 25% of its standalone revenue) on a standalone basis which exposes it to foreign exchange fluctuation risk in absence of any active hedging policy. However, forex risk is partially mitigated through natural hedge as the company imports most of its machineries required for clinical analysis. However, the timing difference may impact the realizable value which in turn impacts the profitability.

Assumptions/Covenants: NA

Environment, social, and governance (ESG) risks: Nil

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

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

Hyderabad based, Vimta Labs Limited (Vimta) was established in 1984, and is a contract research and testing organization (CRTO) with a laboratory covering area of around 4 lakh sq. ft., with latest machineries and infrastructure. Its testing and analytical services caters to pharma, agrochemicals, food and agri products, medical devices, home & personal care products, electrical & electronics, and the environment. Vimta has a network of 18 laboratories and 3 clinical diagnostics patient services centers and 2 laboratories in alliances, spread across the country. The company undergoes regular upgradation of machineries to capture emerging opportunities in the research and testing services business. The company has an employee base of around 1400 people including scientific and technical professionals, the company's expertise and high standards of quality have enabled to partner with global market players. It has food testing laboratories in eight cities across India, which is the largest network in India.

Brief Financials (₹ crore)- Consolidated	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	210.68	278.28	319.29
PBILDT	55.16	81.60	97.52
PAT	21.41	41.33	48.17
Overall gearing (times)	0.16	0.09	0.06
Interest coverage (times)	25.44	54.47	36.87

A: Audited P: Provisional; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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

Complexity level of various instruments rated for this company: 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 (MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	December 2025	36.22	CARE A; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	34.00	CARE A; Stable / CARE A1
Non-fund-based - ST-Loan Equivalent Risk		-	-	-	1.78	CARE A1

Annexure-2: Rating History of 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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	36.22	CARE A; Stable				
2	LT/ST Fund-	LT/ST*	34.00	CARE A;				

	based/Non-fund-based-CC/WCDL/OD/LC/BG			Stable / CARE A1				
3	Non-fund-based - ST-Loan Equivalent Risk	ST	1.78	CARE A1				

*Long term/Short term.

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

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
3	Non-fund-based - ST-Loan Equivalent Risk	Simple

Annexure-5: Lender details

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

Note on complexity levels of the rated instrument: 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.

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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.

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