Vimta Labs Limited

January 22, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	51.62 (Enhanced from 36.22)	CARE A; Stable	Reaffirmed
Long-term / Short-term bank facilities	34.00	CARE A; Stable / CARE A1	Reaffirmed
Short-term bank facilities	1.78	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1

Rationale and key rating drivers

Ratings assigned to enhanced bank facilities of Vimta Labs Limited (Vimta) continue to derive strength from experienced management team with long proven track record in contract research and testing (CRT) segment for over three decades, diversified revenue stream (including pharma analytical, pre-clinical, clinical services, food testing services, diagnostics services, environment, and electrical and electronic testing), established clientele, strong PBILDT margins of around 30%, comfortable capital structure and debt coverage indicators in absence of major external debt, and healthy liquidity. Liquidity of the company is supported by cash and bank balance of around ₹19 crore in the form of fixed deposits and negligible utilization of its fund-based working capital facilities.

However, the rating strengths are 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, and 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 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 decline in TOI or PBILDT margins, falling below 20% on a sustained basis.
- Decline in overall gearing above 0.35x or considerable weakening of liquidity profile of the company.
- Unforeseen regulatory hurdles adversely affecting business operations.

Analytical approach: Consolidated

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

Outlook: Stable

CARE Ratings Limited (CARE Ratings) expects Vimta to continue benefitting from its established business in the industry, sustain 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 17 laboratories, two clinical diagnostics patient services centers, and two laboratories in alliances, spread across the country. With 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 three decades of established track record. It offers specialized services such as Bioavailability/Bioequivalence (BA/BE) studies, pharma analytical, as well as 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, diversifying the services portfolio. Vimta has been inspected by various regulatory authorities including USFDA, UK-MHRA, WHO, ANVISA-Brazil, DCGI-India, and MCC-South Africa. Vimta has also 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, in domestic as well as overseas markets. It is continuously adding new customers, based on its service offerings. Overall, the customer base of Vimta remained diversified with presence in pharma, food, environment, and electrical and electronic testing. CARE Ratings expect the company to continue 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% from FY21-FY23, from ₹ 210.68 crore in FY21 to ₹ 319.29 crore in FY23. The improvement was due to growth in revenue from pharmaceutical services, which includes pre-clinical, analytical and clinical research services and non-pharma services including food, environment, electrical and electronics, and diagnostics testing). The company has started electrical and electronic testing services by acquiring Emtac Laboratories Private Limited (wholly owned subsidiary) from FY20. In 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 the USA).

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

In H1FY24 (UA) the company achieved a revenue of ₹159.51 crore with a PBILDT of 27.10%.

Comfortable capital structure and debt coverage indicators

On a consolidated basis, Vimta has a healthy capital structure from FY20-FY23, 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. Term loan is majorly utilised to procure latest testing and analytical machineries. Furthermore, total outside liabilities (TOL)/TNW also remains strong from FY20-FY23 and stood at 0.30x as on March 2023. It 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, indicating less dependency on external debt, resulting in increased net worth base.

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

The company has availed equipment loan for its existing facility in Shamirpet, leading to decline in its capital structure as on March 31, 2024, although would continue to stay comfortable. The debt coverage indicators would also decline but would remain comfortable in the projected period of FY24-FY25.

Liquidity: Strong

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

Key Weaknesses

Moderate scale of operation

On a consolidated basis, Vimta registered a CAGR of 23% from FY21-FY23, yet it operated on a moderate scale with a TOI of ₹319 crore in FY23 compared to ₹278 crore in FY22. Vimta has diversified revenue streams, which protects from inevitable ebbs and flows in the industry.

Exposure to high regulatory risk

Contract Research Organization (CROs) require approvals, licenses, registrations, and permissions for routine business activities. The approval process is complex, lengthy, and expensive. Approval time varies across countries, ranging from a month to a year. CARE Ratings notes that delay or failure in getting approvals can adversely affect business prospects of the company.

Increasing competition in the Indian CRO industry

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. Growth in outsourcing clinical trials will be closely paralleled by growth in R&D spending of pharmaceutical companies in regulated markets. The CRO industry comprises players who are compliant with the regulatory authorities. Large pharmaceutical players have their captive resources, which further intensifies competition. With an increase in competition, CROs also face challenges in 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 active hedging policy. However, forex risk is partially mitigated through natural hedge, as the company imports most of its machinery required for clinical analysis. However, the timing difference may impact realizable value, which in turn, impacts profitability.

Assumptions/Covenants: Not Applicable

Applicable Criteria

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

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 ~4 lakh sq. ft. laboratory, latest machineries, and infrastructure. Its testing and analytical services caters to pharma, agrochemicals, food and agri products, medical devices, home and personal care products, electrical and electronics, and the environment. Vimta has a network of 17 laboratories, two clinical diagnostics patient services centers, and two laboratories in alliances, spread across the country. The company regularly upgrades its machinery to capture opportunities in the research and testing services business. The company has an employee base of around 1,400 people including scientific and technical professionals, the company's expertise and high standards of quality have enabled it to partner with global market players. It has food testing laboratories in eight cities, which is the largest network in India.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	278.28	319.29	159.51
PBILDT	81.60	97.52	43.15
PAT	41.33	48.17	18.53
Overall gearing (times)	0.09	0.06	0.07
Interest coverage (times)	54.47	36.87	41.10

A: Audited UA: Unaudited; 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 to 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 (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2028	51.62	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	51.62	CARE A; Stable	1)CARE A; Stable (11-Jul-23)	-	-	-
2	LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	34.00	CARE A; Stable / CARE A1	1)CARE A; Stable / CARE A1 (11-Jul-23)	-	-	-
3	Non-fund-based - ST-Loan Equivalent Risk	ST	1.78	CARE A1	1)CARE A1 (11-Jul-23)	-	-	-

*Long Term/Short term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

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 Ltd. 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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