Vimta Labs Limited

July 29, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	51.62	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 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), and established clientele. Although the profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin declined slightly primarily due to higher employee expenses, constituting the company's major costs, it continued to remain strong at 28% in FY24.

Ratings further remain underpinned by Vimta's comfortable capital structure, healthy coverage indicators in absence of major external debts, and adequate liquidity indicated by sparingly utilised working capital lines (average utilisation remains at less than 10%) and free cash and bank balance of around ₹21 crore as on March 31, 2024.
However, rating strengths are partially offset by modest scale of operations, exposure to inherent regulatory risks associated with Good Practice (GXP) [includes GMP-Good manufacturing practice, GCP-Good clinical practice, GLP-Good laboratory practice] pharma contract research and testing services necessitating significant and regular investment on modern equipment, 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

- Notably growing total operating income (TOI) by over 20% y-o-y, while achieving return on capital employed (ROCE) of 30% or above on a sustained basis.

Negative Factors

- Significantly declining TOI or PBILDT margins, falling below 20% on a sustained basis.
- Declining overall gearing above 0.35x or considerable weakening liquidity profile.
- Unforeseen regulatory hurdles adversely affecting business operations.

Analytical approach: Standalone

Outlook: Stable

The business operations of Vimta are expected to continue to benefit from its established presence in the industry, sustained healthy profitability margins and a conservative capital structure.

Detailed description of the key rating drivers:

Key Strengths

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

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 and is present in 15 locations (including laboratories and testing centres) across the country. The company has plans to expand its electronic testing business unit and take advantage of the growing electrical and electronics industry.

Proven 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 specialised services such as bioavailability/bioequivalence (BA/BE) studies, pharma analytical, and clinical research including pre-clinical, and related services (analytical drug development and discovery 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 its services portfolio. Vimta has been inspected by regulatory authorities including USFDA, UK-MHRA, WHO, ANVISA-Brazil, DCGI-India, and MCC-South Africa. Vimta has also been notified by FSSAI as a National Reference Laboratory. Over the years, Vimta has employed skilled man-power resource to ensure smooth functioning and successful completion of 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 and overseas markets. It is continuously adding new customers, based on its service offerings. Overall, Vimta's customer base 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.

Stable-yet-modest scale of operations with strong profit margin and satisfactory returns ratio
The TOI remained at the same level at ₹318 crore in FY24 from ₹319 crore in FY23. Stable TOI was achieved by providing continuous services to the pharmaceutical and non-pharmaceuticals companies, which includes pre-clinical, analytical and clinical research services and non-pharma services including food, environment, electrical and electronics, and diagnostics services. In H1FY24 the company's order flow was lower than expected in analytical/research services because of reduced research spending by pharmaceutical companies in the US and Europe countries. However, demand picked up in H2FY24, leading to increase in orders flow, resulting TOI maintained in-line with FY23. The company also provides electrical and electronic testing services.

Despite steady TOI, PBILDT margin declined yet remained strong at 28% in FY24 compared to 31% in FY23, majorly due to increase in employee cost backed by fresh hiring and annual salary hike to existing employees. The company hired additional employees anticipating higher analytical/research services to pharma companies, however, due to lower-than-expected orders from its existing and new clients, the company incurred fixed employee cost, resulting in lower PBILDT margin. The company's margin is also determined by the complexity of studies in its analytical services—the more complex the study, the higher the margin, and vice versa. ROCE declined yet remained satisfactory at 18% in FY24 from 25% in FY23.

In Q1FY25 (UA) the company earned revenue of ₹82.44 crore with improved PBILDT margin of 30.58%.

Comfortable capital structure and debt coverage indicators
Vimta maintained its healthy capital structure marked by overall gearing of 0.06x against a satisfactory tangible net worth (TNW) of ₹305 crore as on March 31, 2024. The company's debt profile consisted of term loan and working capital limits. Term loan is majorly utilised to procure latest testing and analytical machineries. Total outside liabilities (TOL) to TNW also remained strong at 0.26x as on March 2024 as against 0.30x as on March 2023. It is expected to continue at similar levels in the medium-term considering its accumulation in net worth base and absence of significant debt-funded capex. The company has a healthy cash flow, indicating less dependency on external debt, resulting in increased net worth base.

Debt coverage indicators remained comfortable marked by PBILDT interest coverage and total debt to gross cash accruals (TD/GCA) of 41.43x and 0.27x in FY24. CARE Ratings expect the capital structure to be comfortable in the absence of major debt-funded capex.

The company is expected to avail equipment loan for its new and existing facility in Hyderabad, leading to decline in its capital structure as on March 31, 2025, although would continue to stay comfortable. Debt coverage indicators would marginally decline but would remain comfortable in the projected period of FY25-FY26.

Advanced stage of completion of its new facility at Genome Valley, Hyderabad

The company is at the advanced stage for starting its new facility of ~200,000 sq ft in Genome Valley, Hyderabad. This expansion will help provide additional infrastructure to scale up capacities for the company's key growth driving services catering to bio-pharmaceutical, food and electronics industries, which will further facilitate company to increase its TOI and its profitability going forward. The facility is expected to be operational in Q2FY25, against the initially planned March 2024. Food testing services in the new facility will start post accreditation from National Accreditation Board for Testing and Calibration Laboratories (NABL). The project was majorly funded internally, with additional equipment funding from Axis Bank. Achieving a positive Return on Capital Employed (ROCE) from this project is crucial from the rating perspective.

Liquidity: Adequate

The company's liquidity indicators marked by current ratio and quick ratio remained healthy at 2.60x and 2.19x respectively as on March 31, 2024. Vimta's liquidity remains adequate marked by expected healthy GCA of ₹~92 crore against a small repayment of ₹~11 crore in FY25. The company has free liquidity of around ₹21 crore in the form of bank fixed deposit. The company's operating cycle stood satisfactory at 115 days in FY24 from 102 days in FY23.

Key Weaknesses

Moderate scale of operation

Vimta registered a CAGR of 15% from FY21-FY24, yet it operated on a moderate scale with a TOI of ₹318 crore in FY24 compared to ₹211 crore in FY21. 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 delays or failures in getting approvals can adversely affect the company's business prospects.

Increasing competition in 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 from pharmaceutical companies in regulated markets. The CRO industry comprises players, who are compliant with 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 revenue from export (around ₹87 crore in FY24; 27% of its revenue), 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 machinery required for clinical analysis. However, timing difference may impact realisable value, which in turn, impacts profitability.

Assumptions/Covenants: Not applicable

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

Applicable Criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Pharmaceuticals
Financial Ratios – Non financial Sector
Service Sector Companies
Short Term Instruments

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Pharmaceuticals & biotechnology	Pharmaceuticals

Hyderabad-based, Vimta was established in 1984 and is a contract research and testing organisation (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 is present in 15 locations (including laboratories and testing centres) 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 1,428 people including scientific and technical professionals, its expertise and high standards of quality have enabled partnerships with global market players. It has food testing laboratories in seven cities, which is one of the largest network in India. The company has closed two diagnostics centers, initially opened for COVID-19 vaccine studies and rapid testing. This closure will not impact TOI, as these centers only contributed majorly during pandemic.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	319.29	318.44	82.44
PBILDT	97.52	87.91	25.21
PAT	48.17	41.01	12.28
Overall gearing (times)	0.06	0.06	NA
Interest coverage (times)	36.87	41.43	NA

A: Audited UA: Unaudited; NA: Not Available, 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: 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	51.62	CARE A; Stable	-	1)CARE A; Stable (22-Jan-24) 2)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 (22-Jan-24) 2)CARE A; Stable / CARE A1 (11-Jul-23)	-	-
3	Non-fund-based - ST-Loan Equivalent Risk	ST	1.78	CARE A1	-	1)CARE A1 (22-Jan-24) 2)CARE A1 (11-Jul-23)	-	-

LT: Long term; ST: Short term; LT/ST: 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.

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Karthik Raj K Director **CARE Ratings Limited** Phone: 080- 46625555 E-mail: karthik.raj@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Nivedita Anirudh Ghayal Associate Director **CARE Ratings Limited** Phone: 040-40102030 E-mail: nivedita.ghayal@careedge.in Mohammed Javed Ansari Assistant Director **CARE Ratings Limited** E-mail: Mohammed.A@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.

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