Uni Medicolabs

August 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	41.00	CARE BB+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Uni Medicolabs (UM) factors in modest scales of operations with fluctuating and range bound profitability margins inherent in contract manufacturing undertaken for some of the reputed pharmaceutical companies, concentrated client base, exposure to raw material price volatility and foreign currency fluctuations risk. The ratings are further constrained by constitution of the entity being a partnership firm and highly competitive and fragmented nature of the industry with inherent regulatory risk.

However, the rating continues to draw comfort from experienced management coupled with long track record of operations, fluctuating, albeit growing scale of operations, moderate capital structure and debt coverage indicators with stable cash flow from operations over the past few fiscals.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations as marked by total operating income of above Rs.200.00 crore and ROCE above 10% on sustained basis.
- Improvement in Debt to PBILDT below 2.5 times on sustained basis

Negative factors

- Sustained decline in scale of operations and PBILDT margin below 6.00%
- Deterioration in the capital structure as marked by overall gearing ratio of above 1.50x on sustained basis

Analytical approach:

Standalone

Outlook: Stable

The 'Stable' outlook reflects that the entity will continue to benefit from the extensive experience of the management in the industry along with its established relationship with the customers. Further, CARE Ratings believes the sustainability of its moderate financial risk profile over the medium term.

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

Detailed description of the key rating drivers:

Key weaknesses

Fluctuating profitability margins

The scale of operations of the firm stood modest with fluctuating and range bound profitability margins inherent in contract manufacturing undertaken for some of the reputed pharmaceutical companies. The profit margins are vulnerable to any negative changes in the cost of raw materials. The PBILDT margin declined to 9.35% in FY24 (refers to the period from Apr'23-Mar'24), as compared to 11.24% in the previous year, due to the rise in the cost of the firm's raw material (API). However, the current year has seen a reduction in the prices of some key APIs, such as Paracetamol, which has dropped to Rs.250/kg from Rs.600/kg, and this is expected to enhance margins in the near term. The firm operates in two segments of contract manufacturing: Loan Licensing, where the model principal provides the raw material to the manufacturer (~10% of sales), and the transfer pricing model, where the firm needs to procure raw material and is therefore exposed to raw material fluctuation risk. The profitability margins are largely dependent on the type of products being manufactured, with medicines containing complex molecules having relatively better profitability margins.

The PAT margin for FY24 was consistent with the previous year at 3.11% (PY: 2.57%). In the future, the firm plans to shift its focus towards exports, which offer better margins compared to the domestic market. The export sales for FY24 constituted ~35% of total sales, and the firm anticipates this to increase to 45% in FY25, thereby improving gross margins over the years, which have been in the range of 25% to 28% for the last three years (FY22-FY24).

As we look forward to the upcoming audit by the European Union, the firm shall get an opportunity to enter the regulated market which may witness growth in scale and profitability going forward. Additionally, the introduction of a liquid segment (syrups) is expected to contribute to the firm's future growth.

Reputed though concentrated client base

Since 2006, the firm has been involved in the contract manufacturing of pharmaceutical formulations, establishing strong ties with its customers and suppliers. It produces formulations for a number of prominent domestic pharmaceutical companies, including Torrent Pharmaceuticals Limited, Cipla Limited (CARE AAA; Stable / CARE A1+), and Glenmark Pharmaceuticals Limited. The firm also exports its own branded products to unregulated markets including Philippines, Srilanka, Vietnam and African countries which accounted for approximately 30% of its total income in FY24.

In FY24 (April 01, 2023 to March 31,2024), the firm's top ten clients contributed to about 65% of the Total Operating Income (TOI). Torrent Pharmaceuticals Limited, the firm's largest client, contributed 23% to the total income in FY24. Despite the revenue concentration, the risk associated with client concentration is offset by the firm's long-standing relationships and recurring orders from its clients.

Constitution of the entity being a partnership firm

UM's constitution being a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of partner. However there has been constant infusion by the partners time to time for the past few years reflecting moderate net worth. Partnership firms have restricted access to external borrowing as credit worthiness of partners would be the key factors affecting credit decision for the lenders.

Exposure to raw material price volatility and foreign currency fluctuations risk

The raw materials, majorly APIs, are being sourced from domestic suppliers in Dehradun, Delhi, Haryana, Hyderabad, etc. Some portion is imported from foreign countries (mainly China) which contributes around 9-11% of total raw material consumption. The raw material constituted around ~70% of total sales during FY24 (PY: ~68%). Although most of the sales of the firm are order backed wherein it can pass on the increase in costs to the customers to some extent, the profitability margins are exposed to any adverse fluctuation in raw material prices for rest of the sales owing to the intense competition in the pharmaceutical industry.

The firm has been increasing its focus on exports. Export income formed ~30% of the total income in FY24 (valuing Rs. 39.37 Cr.). In absence of any hedging mechanism, Uni Medicolabs therefore remains susceptible to a forex risk. The firm booked an income of Rs. 0.29 Cr in FY24 (PY: Income of Rs. 0.24 crore) from forex fluctuations.

Highly competitive and fragmented nature of the industry with inherent regulatory risk

The firm is engaged in the manufacturing of contract based pharmaceutical formulations. The industry is characterized by a high level of competition with presence of a large number of small and big players. Pharmaceutical industry is a closely monitored and regulated industry and as such there are inherent risks and liabilities associated with the products and their manufacturing. Regular compliance with product and manufacturing quality standards of regulatory authorities is critical for selling products across various geographies.

Key strengths

Experienced management coupled with long track record of operations
The firm is currently managed by Mr. Harshad Vaid, Mr. Samir Vaid and Mr. Siddharth Vaid. All the partners collectively look after the overall operations of the firm. Furthermore, the partners of the firm are resourceful and have extended continuous financial support to the firm in the past by infusing additional funds of around Rs.10 crores for last 2 years (FY23 and FY24) in the form of unsecured loans to fund various business requirements.

Fluctuating, albeit growing scale of operations
The firm's operational scale has experienced modest yet inconsistent fluctuations over the past four years. The pandemic initially sparked an increase in the demand for antibiotic drugs in both domestic and international markets as a treatment for Covid-19. However, post-pandemic recovery in FY23 saw a plateau in drug demand due to the high base effect from the previous year. This was followed by healthy demand in FY24, resulting in considerable growth of 35% over FY23. Consequently, the total operating income rose to Rs.125.52 crores in FY24, up from Rs.92.63 crores in FY23. This revenue boost can be attributed to the sale of higher quantities to existing customers, coupled with the industry's growing demand prospects. Further in Q1FY25, the sales stood Rs.21.93 crores and is expecting to achieve sales upto Rs.140 crores for FY25.

Moderate capital structure and debt coverage indicators
The capital structure of the firm stood moderate for the past 3 years (2022-2024) on account of no withdrawals, profits being ploughed back in the business and additional funds have been infused to cater to the firm's growth and business requirements. reveals a trend of steady improvement. This is evidenced by the improvement in the overall gearing ratio from 0.61x in the previous year to 0.47x in FY24. The primary driver of this improvement has been the low debt level, accretion of profits and healthy net worth base of the firm.
The interest coverage and total debt to Gross Cash Accruals (GCA) ratios stood at 2.72x and 5.32x respectively in FY24, up from 2.30x and 7.59x in FY23. This improvement can be attributed to increased profitability and gross cash accruals, coupled with a reduced reliance on external borrowings.

Moderate working capital cycle
The operating cycle of the firm stood moderate at 63 days for FY24 (PY: 84 days) mainly on account of improvement in the collection period. The inventory holding period of the firm stood moderate at 63 days in FY24. This is in line with the nature of the firm's business, which necessitates maintaining 1-2 months inventory of raw material (API). This API has a specific shelf life and requires lab testing, both of which are crucial for order fulfilment. Owing to highly competitive industry, the firm has to offer liberal credit period of around 2-3 months to its customers resulting in an average collection period of 72 days for FY24. Also, the firm receives payable period of around 1-2 months from its suppliers. Further, the working capital borrowings of the firm remained almost 80% to 85% utilized during the past 12 months ending June 30, 2024.

Liquidity: Adequate

The liquidity position of the firm remained adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The firm has reported net cash accruals (NCA) to the extent of Rs.7.49 crore during FY24 and is expected to generate NCA of ~Rs.7.89 crore for FY25 against repayment obligations of ~Rs.6.08 crore in same year. However, the average utilization of working capital limits remained almost ~80%-85% for the past 12 month's period ending May 31, 2024. With a gearing of 0.47 times as of March 31, 2024, the issuer has sufficient gearing headroom, to raise additional debt for its capex. However no major capex is envisaged by the firm in near term.

Applicable criteria

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

About the company and industry

Industry classification

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

Incorporated in 2006, Uni Medicolabs (UM) has been in operations for more than 15 years in pharmaceutical industry in association with the firm and is currently being managed by Mr. Harshad Vaid, Mr. Samir Vaid and Mr. Siddharth Vaid. The firm is engaged into contract manufacturing of pharmaceutical products like antibiotics, capsules, tablets, injectables, etc for reputed companies catering to domestic market. The firm has one Beta-Lactum and 2 general manufacturing units located in Pharma city, Dehradun. The firm also has sister concern 'Uni Agencies Chemicals Private Limited' managed by Mr. Harshad Vaid which is engaged in trading of Active Pharmaceutical Ingredient (API) constitutes around 10% of the UM's purchases for FY24.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)	Q1FY25 (P)
Total operating income	92.63	125.52	21.93
PBILDT	10.41	11.73	NA
PAT	2.38	3.90	NA
Overall gearing (times)	0.61	0.47	NA
Interest coverage (times)	2.30	2.72	NA

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

Status of non-cooperation with previous CRA: Infomerics has migrated the ratings assigned to the bank facilities of Uni Medicolabs to the "Issuer Not-Cooperating" category vide its press release dated March 06, 2024 on account of its inability to carryout review in the absence of requisite information from the firm.

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: 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		-	-	-	29.26	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	January 2027	11.74	CARE BB+; 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 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	11.74	CARE BB+; Stable				
2	Fund-based - LT-Cash Credit	LT	29.26	CARE BB+; Stable				

LT: Long term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

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 clarif

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Sajan Goyal Director **CARE Ratings Limited** Phone: 91-120-4452017 E-mail: sajan.goyal@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Sachin Mathur Associate Director **CARE Ratings Limited** Phone: 91-120-4452054 E-mail: sachin.mathur@careedge.in Smidha Sharma Lead Analyst **CARE Ratings Limited** E-mail: smidha.sharma@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**