Unipath Specialty Laboratory Limited (Revised)

February 10, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	5.00 (Reduced from 6.00)	CARE BBB+; Stable	Reaffirmed
Long-term bank facilities	13.00	CARE BBB+; Stable	Assigned
Long-term/Short-term bank facilities	27.00	CARE BBB+; Stable/ CARE A2	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Unipath Specialty Laboratory Limited (USLL) continue to derive strength from its experienced and resourceful promoter group and demonstrated financial support via continuous infusion of funds and USLL's established track record in diagnostic lab service business. Ratings favourably factor in growing scale of operation and its comfortable capital structure and adequate debt coverage indicators on the back relatively lower reliance on external debt. Majority of the debt comprises interest-free unsecured loans from promoters.

However, ratings continue to remain constrained due to its low profitability and return ratio compared to industry peers, due to its high revenue dependency on Business to Business (B2B) segment, geographically concentrated operations in Gujarat, and low entry barriers resulting in stiff competition in the healthcare diagnostic industry. CARE Ratings Limited (CARE Ratings) also takes cognisance of weaker-than-envisaged profitability and cash accruals in FY24 (refers to period April 01 to March 31), although the liquidity of the company is adequately supported by timely fund infusion by promoters. CARE Ratings takes cognisance of the company's plans to grow inorganically in coming years, funded by a mix of promoter funding/internal accruals and external borrowing. Extent of reliance on the external borrowing and contribution by the acquired/to be acquired entities in the consolidated profitability will be key rating monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly growing scale of operations through greater geographical and revenue diversification and generating envisaged returns from its newly commissioned pathology labs.
- Earning profit before interest, lease rentals, depreciation and taxation (PBILDT) margin and return on capital employed (ROCE) of ~15% on a sustained basis.

Negative factors

- Large debt-funded capex leading to deteriorating overall gearing above 1.5x.
- Lower-than-envisaged need-based financial support from its promoters.

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

Outlook: Stable

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

Detailed description of key rating drivers:

Key strengths

Experienced and resourceful promoters and their demonstrated financial support from promoters

USLL is promoted by Dr Urmish Chudgar, one of the members of IPL's promoter family. He is also IPL's Joint Managing Director, which is the flagship entity of the group, and one of the largest 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 organisation structure and strong information systems. The major shareholders of USLL include Dr Urmish Chudgar and his wife, Parul Chudgar, together holding 94% stake in the company and nearly 18% equity

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

stake in IPL. The promoters have been infusing equity and unsecured loans to support the company's growth. Apart from equity and quasi equity, the promoters have infused interest-free unsecured loan for the expansion of its operations in new geography through setting up pathology labs on its own or based on partnership/ LLP structure with local doctors. The preference shares and unsecured loan from the promoter stood at ~₹61 crore as on March 31, 2024, including quasi equity of ~₹54 crore. As articulated by the company management, the promoter shall infuse further unsecured loan in USLL for driving its future expansion. The promoters are also expected to infuse unsecured loan to support USLL's overall operations, if needed.

Established market position in the diagnostic services industry in Gujarat
USLL has an established track record of over a decade in the diagnostic services industry. It offers a wide array of diagnostic tests, including biochemistry, molecular diagnostics, cytopathology, histopathology, clinical chemistry, serology, hematopathology, cytogenetic, and microbiology. The entity has been incurring research and development (R&D) cost to develop validation methods. In the last 2-3 years, it has made sizable investment towards capex and opex to carry out tests related to Next-Generation Sequences (NGS) and expects to generate healthy revenue and profitability from NGS-related test in the medium term. The company has gradually expanded its operations both within different regions of Gujarat and in others regions outside the state. USLL operates 20 pathology labs on its own and jointly operates another 21 pathology labs under the co-owned model as on September 30, 2024. Majority of these are in Gujarat (33 labs) apart from two labs each in Madhya Pradesh and West Bengal and one lab each in Rajasthan, Maharashtra, Telangana, and Jammu Kashmir. USLL also has 91 collection centres and has tied up with over 5,000 clinical labs as on September 30, 2024, at many places in and outside Gujarat.

Growing scale of operations
On a consolidated basis, USLL's total operating income (TOI) had grown by compounded annual growth rate (CAGR) of ~21% in the last five years ended FY24. TOI grew by ~23% in FY24 (y-o-y). The growth in its TOI is mainly due to USLL's organic and inorganic expansion, resultant increase in patient volumes, and new initiatives like NGS. USLL continues to expand its presence in various geographies through organic and inorganic acquisitions. In FY24, USLL acquired 35% equity stake in Simira Diagnostics Private Limited. It also acquired 49% equity stake in SJM Centre in FY25. USLL will continue to look for acquisition opportunities and gradually increasing its ownership in existing partnerships/subsidiaries/associates. Its revenue from Molecular and NGS testing grew by over 200% in FY24 (Y-o-Y) and expected to grow by ~30% to 40% p.a. in near term. New laboratories (established in the last 2-3 years) are also expected to contribute to USLL's revenue growth as it approaches maturity. CARE Ratings expects USLL's consolidated TOI to grow by 15% to 20% p.a. in near-to-medium term.
USLL's consolidated PBILDT improved to ~₹4.56 crore in FY24 against operating loss of ~₹1 crore in FY23 considering economies of scale and better revenue mix. However, the improvement in operating profitability was restricted and remained lower-than-envisaged considering writes-off related to its Vizag partnership, which was dissolved in FY24. USLL also dissolved its Delhi partnership in FY25, which reported losses in its course of operations (net loss of ₹4.72 crore in FY23 and ₹2.49 crore in FY24). On a standalone basis, USLL reported PBILDT of ₹3.81 crore in 9MFY25 (₹3.60 crore in 9MFY24). CARE Ratings expects USLL's operating profitability to materially improve in near-to-medium term considering economies of scale, better revenue mix and better profitability profile of acquisition/acquisition targets.

Comfortable capital structure and adequate debt coverage indicators due to lower reliance on external debt
As per the terms of the new sanction letter, entire unsecured loans from the promoters are subordinated to bank finance and hence the same were considered as quasi equity as on March 31, 2024. This led to significant improvement in USLL's capital structure marked by overall gearing of 0.29x as on March 31, 2024 (0.85x as on March 31, 2023). USLL's is expected to spend ~₹50 crore to ~₹70 crore on organic and inorganic expansion in FY25 and FY26. The same shall partially be funded by infusion of unsecured loans from promoters and partially from term debt. Hence, USLL's total debt is expected to increase in near-to-medium term with ~30% to 50% debt being unsecured loan or preference shares from the promoter group. However, its overall gearing ratio is expected to remain below 1x.
CARE Ratings observes, with expected improvement in USLL's profitability, its debt coverage indicators are also expected to remain adequate marked by interest coverage of above 3.5x and total debt/PBILDT below 6x in FY25 to FY27 period, which has remained weak in the last two years ended FY24 on the back of low profitability.

Favourable outlook for the Indian diagnostic sector
CARE Ratings expects the diagnostic industry to witness stable double-digit revenue growth, ranging from 12% to 14%, driven by both organic and inorganic expansion of the players and paradigm shift in the consumers towards preventive healthcare. The growth in the diagnostic sector is supported by an increase in healthcare spending by ageing population, rising income levels, rising awareness for preventive testing, advanced healthcare diagnostic tests offerings, market penetration of healthcare insurance, and healthcare measures by the central government. Owing to the sedentary lifestyle, chronic diseases such as obesity, diabetes, and hypertension among others have been on an increasing trend. There has been a rise in the number of people suffering from non-communicable diseases, which is expected to jump from 19% in 2008 to 28% in 2030. The cost of diagnostic

services in India is generally more affordable compared to many countries. Consequently, India is fast emerging as a medical tourism hub, witnessing a surge in patients from across the world for cost-effective and quality treatment options, which is expected to boost the demand for the Indian diagnostic services for next few years.

Liquidity: Adequate

The average utilisation of its fund-based limits stood moderate at 79% over the last 12 months ended September 2024 (54% over the last 12 months ended January 2023). USLL's business operations required smaller external working capital requirement, which is low as reflected by operating cycle of 37 days in FY24 (PY: 36 days). USLL's collection period remains ~50-55 days due to the credit period it offers to its B2B customers. USLL's cash accruals are expected to remain adequate to meet its term-debt repayment obligation and additional working capital requirements. The company's liquidity is also supported by need-based support from its promoters.

Key weaknesses

Lower-than-envisaged profitability margins

Despite ~300 bps improvement in its PBILDT margin in FY24 (y-o-y), it remains weak compared to USLL's larger peers due to high share of revenue from B2B segment. USLL generates nearly 65% of its consolidated revenue from B2B segment where the margins are low. Higher dependency on B2B segment results in some stretch in collection. PBILDT margin also gets impacted due to gestation losses of recently started labs apart from pre-operating cost associated with niche and high-end specialised test such as NGS (DNA) testing. NGS test requires investment in latest technology machines, skilled manpower, and marketing initiatives. The entity expects to generate better return on these investments over next 2-3 years. With these organic and in-organic opportunities, CARE Ratings expects USLL's PBILDT margin to improve to ~5% in FY25 and ~9% to 12% in FY26-FY27. As informed by the management, the company is trying to improve its share of retail customers through 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 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. USLL's ROCE remained negative in FY23 and FY24 due to its weaker profitability. CARE Rating expects USLL's ROCE to improve to ~10% to 12% in FY26-FY27.

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 at Gujarat, which accounted for 79% of its total consolidated revenue in FY24. The entity started its first centre in Ahmedabad, Gujarat. The city constitutes ~33% of USLL's consolidated revenue in FY24. However, USLL has collection centres at many places outside Gujarat, including Aurangabad, Ranchi, Lucknow, and Coimbatore, among others, which are then tested at its labs. USLL is planning to reduce its dependency on Gujarat region through gradual diversification in other states. The recent acquisitions of the company have been outside Gujarat, which will help it to achieve more diversification in medium term.

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 organised standalone diagnostic service players. To maintain market share in a competitive landscape, the company also faces pressure on service charges. The entry of online aggregators offering discounts to attract customers pressurises 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. Diagnostic centres must continuously upgrade their technology in a competitive environment, which also involves significant investment in medical equipment constraining free cash flows.

Applicable criteria

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

About the company and industry

Industry classification

Macroeconomic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Healthcare services	Healthcare services providers

Incorporated in 2009, USLL is a diagnostic lab promoted by Dr Urmish Chudgar, who is one of the members of IPL's promoter family. USLL offers a wide range of diagnostic and prognostic testing menu using state-of-the-art knowledge and medical technology. It has 41 pathology labs on its own and partnership basis as on September 30, 2024, offering services in hematopathology, histopathology, cytopathology, and molecular diagnostics among others. 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.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	9MFY25 (UA)
	Consolidated	Consolidated	Standalone
Total operating income	148.30	182.37	113.53
PBILDT	-0.96	4.56	3.81
PAT	-7.72	-3.28	0.31
Overall gearing (times)	0.85*	0.29*	NA
Interest coverage (times)	-ve	2.52	1.76

A: Audited; UA: Unaudited; NA: Not available; Note: these are latest available financial results. *Total quasi equity, per the terms of the sanction letter has been revised to ₹53.91 crore as on March 31, 2024 (PY: ₹15.44 crore).

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash credit		-	-	-	5.00	CARE BBB+; Stable
Fund-based - LT-Term loan		-	-	31-03-2029	13.00	CARE BBB+; Stable
Fund-based - LT/ ST-Bank overdraft		-	-	-	27.00	CARE BBB+; Stable / CARE A2

Annexure-2: Rating history for 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	-	-	-	-	-	1)Withdrawn (30-Mar-22)

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
2	Fund-based - LT-Cash credit	LT	5.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (19-Mar-24) 2)CARE BBB+; Stable (05-Apr-23)	-	1)CARE BBB+; Stable (30-Mar-22)
3	Fund-based - LT-Term loan	LT	13.00	CARE BBB+; Stable				
4	Fund-based - LT/ ST-Bank overdraft	LT/ST	27.00	CARE BBB+; Stable / CARE A2				

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

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Fund-based - LT/ ST-Bank overdraft	Simple

Annexure-5: Lender details

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

Annexure 6: List of entities consolidated in USLL as on March 31, 2024

Sr. No.	Name of the entities	Extent of Consolidation	Rationale for consolidation
1	Unipath Specialty Laboratory (Baroda) LLP	Full	Subsidiary
2	Unipath Specialty Laboratory (Mehsana) LLP	Full	Subsidiary
3	Unipath Specialty Laboratory (Indore) LLP	Full	Subsidiary
4	Vidhi Unipath Specialty Laboratory LLP	Full	Subsidiary
5	Shraddha Unipath Specialty Laboratory LLP	Full	Subsidiary
6	Unipath Specialty Laboratory (Gota) LLP	Full	Subsidiary
7	Unipath Specialty Laboratory (Gujarat) LLP	Full	Subsidiary
8	Unipath Specialty Laboratory (Himatnagar) LLP	Full	Subsidiary
9	Unipath DRG Speciality Laboratory LLP	Full	Subsidiary
10	Unipath Turquaise Speciality Laboratory LLP	Full	Subsidiary
11	Baroda Diagnostics LLP	Full	Subsidiary
12	Kansagara Unipath Speciality Laboratory LLP	Full	Subsidiary
13	Unipath Specialty Laboratory (Rajkot) LLP	Moderate	Joint Venture
14	River Unipath Speciality Laboratory LLP	Moderate	Associate
15	Neugen Unipath Diagnostic Laboratories LLP	Moderate	Associate

Sr. No.	Name of the entities	Extent of Consolidation	Rationale for consolidation
16	Unipath Specialty Laboratory (J&K) LLP	Moderate	Associate
17	Simira Diagnostics Private Limited	Moderate	Associate

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

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About us:
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