

Vivimed Labs Limited

April 01, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	266.93 (Rs. 266.93 crore)	CARE D (Single D)	Reaffirmed
Short Term Bank Facilities	109.50 (Rs. 109.50 crore)	CARE D (Single D)	Reaffirmed
Total facilities	Rs. 376.43 crore (Rupees three hundred and seventy six crore and forty three lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of Vivimed Labs Limited (VLL) is primarily due to continued delays in the company's ability to meet debt obligations accruing owing to cash flow mismatches and deterioration in the liquidity profile.

Detailed description of the key rating drivers

Key Rating Weaknesses

Cash flow mismatches and stretched liquidity resulting in ongoing delays in debt servicing: The liquidity profile of VLL deteriorated on account of cash flow mismatches. The same has resulted in delays with respect to debt servicing of the company. VLL has divested its non-core businesses in Finished Dosage Formulations (FDF) and specialty chemicals in a bid to generate revenue for facilitating debt servicing.

Decline in consolidated revenue and financial performance in FY18: The company's total operating income (TOI) (standalone) declined by 54.42% in FY18 to Rs. 262.66 crore from Rs. 576.25 crore in FY17 while, TOI (consolidated) declined by 17.93% from Rs. 1,461.94 crore in FY17 to Rs. 1,199.85 crore in FY18 since FY18 was the first year of operations post divestment of VLL's non-focus areas in the FDF and specialty chemicals businesses to Exeltis and Clariant India Limited, respectively in FY17. The PBILDT margin declined significantly by 976 bps from 27.85% in FY17 to 18.09% in FY18 due to higher input costs of raw materials sourced from China which impacted the company's API business. Consequently, the PAT margin declined by 830 bps from 14.64% in FY17 to 6.34% in FY18.

Foreign exchange fluctuation risk: Substantial portion of VLL's (consolidated) sales revenue is the form of exports. Exports generally, at standalone level, constitute around 50-60% of the company's sales. The company has also exposure of foreign currency loans. Therefore, the company is subjected to the risk on account of foreign exchange fluctuations.

Exposure to regulatory risk: The company is exposed to regulatory risk in India, as the prices of pharmaceutical products are regulated by the government through the drug price control order (DPCO) under price control mechanism. Besides, the pharmaceutical industry is highly regulated in many other countries and requires various approvals, licenses, registrations and permissions for business activities. The approval process for a new product registration is complex, lengthy and expensive.

Key Rating Strengths

Proposed infusion of funds from stake sale in 50:50 JV with Strides Shasun Limited (Strides): On January 29, 2019; VLL received approval from its board to sell its stake in 50:50 JVs with strides for a consideration of Rs. 75 crore (out of valuation of Rs. 150 crore for the JV in 2017) in a bid to augment the management's focus on the growing FDF portfolio in India, Commonwealth of Independent States (CIS) and Rest of the world (RoW) markets and to improve the company's financial flexibility for the domestic finished dosage business and resultantly, reducing the long-term leverage in the Indian operations. Consequently, VLL would sell 50% stake in Vivimed Life Sciences Private Limited, India to Strides Pharma Science Limited and 50% stake in Strides Vivimed PTE Limited, Singapore to Strides Pharma Global PTE, Singapore.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Experienced & qualified promoters and management team: The promoters of VLL have over two decades of experience in the pharmaceutical and chemical business. Mr. Santosh Varalwar (Managing Director), a management graduate, is primarily responsible for developing new markets for the company's products. VLL's board is ably supported by a team of professionals in the areas of finance, marketing, quality control, R&D, material and production.

Long-track record of operations with a unique diversified product portfolio backed by marquee clientele: VLL, established in 1988, is a global player engaged in manufacturing of speciality chemicals and pharmaceutical products. The company has 12 manufacturing facilities and 6 R&D facilities spread across the globe. For FY18, the pharmaceutical segment accounted for 83% of gross sales of FY18 vis-à-vis 70% of gross sales of FY17, while specialty chemical segment contributed less than 17% of gross sales in FY18 (31% of gross sales in FY17). For the formulation segment, the company's clientele includes Abbott, Wockhardt, Cipla, Dr.Reddys and MerckSerono among others.

Stable Industry Prospects: The credit profile of most of the Indian pharmaceutical companies is expected to remain stable over the medium term in light of healthy prospects for the domestic although the growth towards export markets remains challenged. The domestic market is expected to grow steadily, albeit at a lower rate due to many drugs coming under the ambit of price regulator National Pharmaceutical Pricing Authority (NPPA).

Analytical approach: For arriving at the rating of Vivimed Labs Limited (VLL), CARE has considered the consolidated financials and business profile of VLL and its subsidiaries.

CARE in its analysis has considered the consolidated business and financial risk profiles of VLL and its subsidiaries viz., Vivimed Holdings Limited, Vivimed Life Sciences Private Ltd, Vivimed Global Generics Pte. Ltd, Vivimed Speciality Chemicals Pvt. Ltd, Vivimed Labs Europe Ltd, Vivimed Labs USA Inc, Vivimed Labs Mauritius Ltd, Vivimed Labs UK Ltd, Vivimed Labs Spain S.L, Union Quimico Farmaceutica S.A.U, Holiday International Ltd, Uquifa Mexico S.A DE C.V, Vivimed Labs (Mascarene) Limited, UQUIFA India Private Limited , Creative Healthcare Private Ltd, Klarsehen Private Ltd, Finoso Pharma Private Ltd, UQUIFA India Private Limited as these entities are linked through parent-subsidiary relationship and collectively have management, business & financial linkages.

Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology: Pharmaceutical Sector](#)

About the Company

Vivimed Labs Limited (VLL) incorporated in 1988 is a Hyderabad-based listed company engaged in manufacturing of pharmaceuticals (APIs and formulations for various therapeutic segments), personal care and colour chemistry industrial products. VLL has manufacturing facilities in India and Overseas (under subsidiaries). Within the FDF business, it provides contract manufacturing services to some of its marquee clients in the pharmaceuticals space, namely Novartis International AG, Glenmark Pharmaceuticals, Lupin, GlaxoSmithKline Pharmaceuticals Ltd. (GSK Pharmaceuticals), Dr. Reddy's Laboratories, Cipla, Abbott Laboratories, Merck Serono, Wockhardt, and so on. VLL has 12 manufacturing facilities, 6 R&D centres and global support offices in India, China, Europe and the US which adhere to the highest levels of compliance and manufacture high-quality products.

Brief Financials (Rs. crore)	FY17 (Audited)	FY18 (Audited)
Total operating income	1461.95	1199.85
PBILD	407.11	217.00
PAT	213.98	76.09
Overall gearing (times)	2.15	0.91
Interest coverage (times)	5.78	2.57

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	152.00	CARE D
Non-fund-based - ST-Letter of credit	-	-	-	46.00	CARE D
Fund-based - LT-Term Loan	-	-	July, 2021	82.43	CARE D
Fund-based - ST-EPC/PSC	-	-	-	32.50	CARE D
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	30.00	CARE D
Non-fund-based - ST-Bank Guarantees	-	-	-	1.00	CARE D
Fund-based - LT-External Commercial Borrowings	-	-	March, 2019	32.50	CARE D

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	152.00	CARE D	1)CARE D (17-Oct-18) 2)CARE BB;	1)CARE BBB+; Stable (05-Jan-18)	-	1)CARE BBB- (07-Mar-16) 2)CARE BB+

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					Stable (24-Jul-18) 3)CARE BB; Stable (11-Jul-18)	2)CARE BBB-; Stable (10-Apr-17)		(20-Apr-15)
2.	Non-fund-based - ST-Letter of credit	ST	46.00	CARE D	1)CARE D (17-Oct-18) 2)CARE A4 (24-Jul-18) 3)CARE A4 (11-Jul-18)	1)CARE A3+ (05-Jan-18) 2)CARE A3 (10-Apr-17)	-	1)CARE A3 (07-Mar-16) 2)CARE A4+ (20-Apr-15)
3.	Fund-based - LT-Term Loan	LT	82.43	CARE D	1)CARE D (17-Oct-18) 2)CARE BB; Stable (24-Jul-18) 3)CARE BB; Stable (11-Jul-18)	1)CARE BBB+; Stable (05-Jan-18) 2)CARE BBB- (10-Apr-17)	-	1)CARE BBB- (07-Mar-16) 2)CARE BB+ (20-Apr-15)
4.	Fund-based - ST-EPC/PSC	ST	32.50	CARE D	1)CARE D (17-Oct-18) 2)CARE A4 (24-Jul-18) 3)CARE A4 (11-Jul-18)	1)CARE A3+ (05-Jan-18) 2)CARE A3 (10-Apr-17)	-	1)CARE A3 (07-Mar-16) 2)CARE A4+ (20-Apr-15)
5.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	30.00	CARE D	1)CARE D (17-Oct-18) 2)CARE A4 (24-Jul-18) 3)CARE A4 (11-Jul-18)	1)CARE A3+ (05-Jan-18) 2)CARE A3 (10-Apr-17)	-	1)CARE A3 (07-Mar-16) 2)CARE A4+ (20-Apr-15)
6.	Fund-based - ST- Standby Line of Credit	ST	5.00	CARE A4	1)Withdrawn (24-Jul-18) 2)CARE A4 (11-Jul-18)	1)CARE A3+ (05-Jan-18) 2)CARE A3 (10-Apr-17)	-	1)CARE A3 (07-Mar-16) 2)CARE A4+ (20-Apr-15)
7.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE D	1)CARE D (17-Oct-18) 2)CARE A4 (24-Jul-18) 3)CARE A4 (11-Jul-18)	1)CARE A3+ (05-Jan-18) 2)CARE A3 (10-Apr-17)	-	1)CARE A3 (07-Mar-16) 2)CARE A4+ (20-Apr-15)
8.	Fund-based - LT- External Commercial Borrowings	LT	32.50	CARE D	1)CARE D (17-Oct-18) 2)CARE BB; Stable (24-Jul-18) 3)CARE BB; Stable (11-Jul-18)	1)CARE BBB+; Stable (05-Jan-18)	-	-

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