Vivimed Labs Ltd

October 17, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	266.93	**CARE D (Single D)**	Revised from CARE BB; Stable (Double B ; Outlook: Stable)
Short-term Bank Facilities	109.50	**CARE D (Single D)**	Revised from CARE A4 (A Four)
TOTAL	**376.43 (Rupee Three Hundred and Seventy six crore and forty three lakh only)**		

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Vivimed Labs Ltd is primarily of account of deterioration in the liquidity profile of the company at the back of cash flow mismatches resulting in delays in meeting debt obligations.

CARE in its analysis has considered the consolidated business and financial risk profiles of Vivimed Labs Limited and its subsidiaries viz., 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 Farmaceutical S.A.U, Holiday International Ltd, Uquifa Mexico S.A DE C.V, Creative Healthcare Private Ltd, Klarsehen Private Ltd, Finoso Pharma Private Ltd as these entities are linked through parent-subsidiary relationship and collectively have management, business & financial linkages

Detailed description of the key rating drivers

Key rating weakness

Deterioration in the liquidity profile resulting in delays in meeting debt obligations:

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.

Decline in consolidated revenues and cash accruals during FY18:

The total operating income of the company at consolidated level has deteriorated marginally by 4% from Rs.1238.99 crore in FY17 to Rs.1195.27 crore in FY18 primarily due to decline in the revenue from specialty chemical division. The PAT and GCA of the company during FY18 are on a lower side vis-à-vis FY17, primarily on account of additional extraordinary income of around Rs.237 crore received by the company from sale of a unit and certain spec chem products to Clariant during Q4FY17.

Further, the company has registered operating income of around Rs.364.29 crore in Q1FY19.

Elongated operating cycle:

The operating cycle of the company remains elongated at 191 days for FY17 as against 181 days for FY16 primarily on account of high inventory period. The average inventory period has increased from 151 days in FY16 to 168 days in FY17, however the absolute inventory level has remained almost stable at Rs. 483.97 crore as on March 31, 2017 as against Rs. 490.80 crore as on March 31, 2016. On account of large product portfolio, considerable proportion of exports and longer work in progress time, the company needs to maintain the finished goods stock of multiple products at its plant which leads to higher inventory period. The average working capital utilization of the company for the 12 months ended September 2017 was around 86%.

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 as in India; the prices of pharmaceutical products are regulated by government through the drug price control order (DPCO) under price control mechanism. Besides, the pharmaceutical industry is

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications.*

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.

Intense Competition:
The company faces intense competition in the domestic as well as international markets. Pricing pressure, increasing regulation, increased sensitivity towards product performance are the key issues in the pharmaceutical industry. The pharmaceutical industry has been a highly regulated industry worldwide by virtue of its direct bearing on public health. In India too, government policies have played a key role in performance of companies such as explicit control on drug prices in the form of drug price control order (DPCO). Furthermore, the patent laws and related regulations might hamper company's plans to launch new products and cater to new markets.

Key rating strengths
Improved Operating margin during FY18:
Excluding the extraordinary income, the PBILDT, PAT and profitability margins of the company during FY18 witnessed improvement vis-à-vis FY17. The PBILDT margin of the company has improved by 407 bps from 14.47% in FY17 to 18.54% in FY18. However, the PAT margin has declined from 17.90% in FY17 to 6.52% in FY18, as FY17 PAT includes the extraordinary income. Further, during Q1FY19, PBILDT margin of the company is 20.46% and PAT margin was 7.86%.

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 (CEO& MD), a management graduate, is mainly responsible for developing new markets for the company's products. VLL's board is supported by a team of professionals in the areas of finance, marketing, quality control, R&D, material and production.

Track record of operations with a unique diversified portfolio of Pharmaceutical products and Speciality Chemicals:
VLL, established in 1988, is a global player engaged in manufacturing of speciality chemicals and pharmaceutical products. The company has 11 manufacturing facilities and 5 R&D facilities spread across the world. Historically, Speciality Chemical segment was VLL's main revenue contributor. For FY17, pharmaceutical segment accounted 68% of gross sales of FY17, while specialty chemical segment contributed the balance 32%.

Infusion of funds by Orbimed Asia and Strides resulting in improved capital structure:
VLL in order to have a strong footprint in United States (US) has entered into a JV agreement in May 2017, with Strides Shasun Ltd for investment of Rs. 75 crore in its subsidiaries Vivimed Life Sciences Pvt Ltd (VLSPL) and Vivimed Global Generics Pte Ltd. During H1FY18, OrbiMed Asia has invested USD 42.50 million (Rs.278 crore) in the form of Compulsorily Convertible Preference Shares (CCPS) in VLL's subsidiary, Vivimed Labs Mascarene Ltd which is the holding entity of VLL's API business, UQUlFA as per the definitive agreement.
The overall gearing of the company on consolidated level improved to 0.70x as on March 31, 2018 as against 1.48x as on March 31, 2017 at the back of equity infusion, repayment of term debt and plough back of profits.

Unique diversified portfolio of Pharmaceutical products and Speciality Chemicals with strong R&D capabilities:
VLL has 11 manufacturing facilities and 5 R&D facilities spread across the world. VLL manufactures over 50 APIs covering over 15+ therapeutic segments at its three international USFDA facilities in Uquifa Spain and Mexico.Company has exhibited strong R&D over the years. The company has 5 ANDA approvals and 150+ Drug Master Files as on September 30, 2017 Further, the company is actively working on 10 – 12 new products (Formulations) which are set to go off patent from 2018 onwards and are in different stages of filing and are expected to get commercialized over the next 24-36 months.
During FY17, VLL has received ANDA approvals for five products of which the company commercialized four namely Losartan (Antihypertensive- Therapeutic segment), Amlodipine Antihypertensive- Therapeutic segment and Metronidazole (Antibiotics – Therapeutic Segment) and Donepezil (Anti-Alzheimer- Therapeutic segment). The fifth product (Zolpidem – Hypnotic – Therapeutic segment) is expected to be launched in the FY19. The aforementioned products with good market size help the company in increasing the revenue going forward.

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

Applicable Criteria
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings

[Rating Methodology: Pharmaceutical Sector](#)
[Financial ratios – Non-Financial Sector](#)

About the Company

Incorporated in 1988, Vivimed Labs Limited (VLL) is a listed company engaged in the business of manufacturing products (active ingredients, formulations, etc) for pharmaceutical, personal care and colour chemistry industry. VLL (Consolidated) has manufacturing facilities in India and overseas (under subsidiaries). During FY16, VLL divested a part of its Specialty Chemical business (comprising Home and Personal Care segments) to Clariant India Limited for Rs.380 crore. Further, during FY16, the company has received sanctions from courts for the scheme of Amalgamation which provides for the amalgamation of the wholly owned subsidiaries of the company viz., Creative Health Care Private Limited, Octtantis Nobel Labs Private Limited, KlarSehen Private Limited and Vivimed Labs (Alathur) Private Limited.

Consolidated Financials

Brief Financials (Rs. crore)	FY17 (A)	FY18 (P)
Total operating income	1476.00	1195.27
PBILDT	416.25	221.61
PAT	221.74	77.94
Overall gearing (times)	2.21	0.70
Interest coverage (times)	5.94	2.79

A: Audited; P-Published

Status of non-cooperation with previous CRA: NA
Any other information: NA
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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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	-	-	March 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	-	-	-	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 BB; Stable (24-Jul-18) 2)CARE BB; Stable (11-Jul-18)	1)CARE BBB+; Stable (05-Jan-18) 2)CARE BBB-; Stable (10-Apr-17)	-	1)CARE BBB- (07-Mar-16) 2)CARE BB+ (20-Apr-15)
2.	Non-fund-based - ST-Letter of credit	ST	46.00	CARE D	1)CARE A4 (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)
3.	Fund-based - LT-Term Loan	LT	82.43	CARE D	1)CARE BB; Stable (24-Jul-18) 2)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 A4 (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)
5.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	30.00	CARE D	1)CARE A4 (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)
6.	Fund-based - ST-Standby Line of Credit	ST	-	-	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 A4 (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)
8.	Fund-based - LT-External Commercial Borrowings	LT	32.50	CARE D	1)CARE BB; Stable (24-Jul-18) 2)CARE BB; Stable (11-Jul-18)	1)CARE BBB+; Stable (05-Jan-18)	-	-

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CIN - L67190MH1993PLC071691