ICRA

September 07, 2017

Unique Biotech Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long Term Fund Based Limits	11.37	[ICRA]BBB(Stable) upgraded from [ICRA]BBB-(Stable)
Short Term Non-Fund Based Limits	2.50	[ICRA]A3+ upgraded from [ICRA]A3
Unallocated limits	8.35	[ICRA]BBB(Stable)/[ICRA]A3+ upgraded from [ICRA]BBB-(Stable)/[ICRA]A3
Total	**22.22**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating to [ICRA]BBB (pronounced ICRA triple B) from [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 11.37 crore[1] fund based limits of Unique Biotech Limited (UBL)[2]. ICRA has also upgraded the short term rating to [ICRA]A3+ (pronounced ICRA A three plus) from [ICRA]A3 (pronounced ICRA A three) to the Rs. 2.50 crore non-fund based limits of UBL. ICRA has also upgraded the ratings to [ICRA]BBB/[ICRA]A3+ from [ICRA]BBB-/[ICRA]A3 to the Rs. 8.35 crore unallocated limits of UBL. The outlook on the long term rating is 'Stable'.

Rationale

The upgrade in ratings factors in healthy growth in operating income at a CAGR of 19% during FY2014-FY2017 backed by increased demand for the company's probiotic products in the export market and addition of liquid probiotic vials in its portfolio from FY2017; and improved financial risk profile with gearing of 0.21 times as on March 31, 2017 and interest coverage at 27.91 times, NCA/Debt at 139% for FY2017. ICRA also notes that the increase in capacity of liquid vials and capsules in FY2018 will support the revenue growth in the medium term. The ratings also positively consider over fifteen years of experience of the promoters in the pharmaceutical industry; and niche probiotics product profile with forward integration in the formulation and liquid vials segment resulting in healthy operating profit margins of more than 30% in the past four years.

However, the ratings are constrained by modest scale of operations of UBL with revenues of Rs. 72.35 crore in FY2017; moderate working capital intensity of the business owing to high debtor levels; and moderate customer concentration with top 5 customers contributing 42% of total sales in FY2017. The company has also incurred capex of ~Rs.43 crore during the last 3 years and plans to incur ~Rs. 20 crore in FY2018 to increase the manufacturing capacity of probiotics and liquid vials however majority of the capex was funded by way of internal accruals with company taking Rs.12.00 crore term loan. Also, the profitability is exposed to forex risk on account of no defined hedging policy in place with the company deriving around 50% of revenues from exports.

Going forward, ability of the company to ramp up operations from its vials and capsules division, maintaining current profitability levels and effectively manage its working capital requirements would remain the key rating sensitivities from credit perspective.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Key rating drivers

Credit strengths

- **Experience of promoters in the pharmaceutical industry** – The promoters of UBL have been in the pharmaceutical business for more than 15 years. The company is promoted by Dr. M.Ratna Sudha and Dr.R.V.S.K Chakravarthy who have doctorate in bio-chemistry and are involved in Research and development of new products. The company has good relations with its customers and distributors leading to repeated orders over the years.
- **Established presence in probiotics and forward integration into formulations provides operational efficiency –** Since inception, the company has been involved in R&D and sale of bulk probiotics products over the years. It has forward integrated into manufacturing of formulations (capsules and vials) leading to healthy profitability levels of more than 30% in the past four years.
- **Healthy growth in operating income –** The revenues of the company grew at a CAGR of 19% from Rs. 43.41 crore in FY2014 to Rs. 72.35 crore in FY2017 backed by increased demand for the company's probiotic products in the export market and addition of liquid probiotic vials in its portfolio during FY2017.
- **Comfortable financial profile of the company as on March 31, 2017 –** The financial profile of the company remained healthy with improvement in operating and net margins backed by launch of new products and comfortable capital structure with low gearing of 0.21 times, interest coverage of 27.91 times and Total Debt/ OPBDITA at 0.50 times as on March 31, 2017.

Credit weaknesses

- **Moderate scale of operations in the pharmaceutical industry –** The scale of operations of the company remained moderate with revenues of Rs. 72.35 crore as on March 31, 2017. However the scale of operations is expected to increase on the back of increase in production capacity and planned launch of new products in the medium term.
- **Moderate working capital intensity as on March 31, 2017 –** The working capital intensity remained moderate at 21.57% as on March 31, 2017 which however improved from 26.13% as on March 31, 2016 owing to reduction in debtor days; however the debtor days still remain high as the company provides upto 90 days of credit period to its customers.
- **Moderate customer concentration risk for top five customers –** The customer concentration risk for the company remained moderate with top five customers contributing to 42% of total sales in FY2017. However the company has established relationships with its customers which have resulted in repeated orders over the last five years.
- **Exposed to foreign currency risk** – The profitability of the company is exposed to forex risk as over 50% of revenues are by way of exports and the company does not hedge its receivables. The company has foreign currency term loans which mitigates the risk to a certain extent.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Corporate Credit Rating Methodology

About the company:
Incorporated in December 2000, Unique Biotech Ltd (UBL) is primarily involved in the manufacturing and marketing of probiotics as individual cultures, blends, finished formulations and vials. Although the company is focused on human healthcare, it also manufactures some probiotic strains for poultry, pet animals and livestock in bulk as well as finished formulations. The company markets its products to

domestic pharmaceutical companies besides exporting to more than 30 countries like the US, Europe, Japan, Switzerland, Korea etc. The company is promoted by Dr. M. Ratna Sudha and Dr. R.V.S.K Chakravarthy having more than 15 years of experience in the pharmaceutical industry. UBL is WHO-GMP, ISO 9001: 2008 certified company and its R & D is recognized by DSIR[3], Government of India.

In FY2017, on a provisional basis, the company reported a operating profit of Rs. 27.19 crore on an operating income of Rs. 72.35 crore as compared to an operating profit of Rs. 20.23 crore on an operating income of Rs. 61.57 crore in the previous year.

Key Financial Indicators (Audited)

	FY2016	**FY2017***
Operating Income (Rs. crore)	61.57	72.35
PAT (Rs. crore)	12.01	14.95
OPBDITA/ OI (%)	32.86%	37.59%
RoCE (%)	32.72%	33.54%
Total Debt/ TNW (times)	0.26	0.21
Total Debt/ OPBDIT (times)	0.64	0.50
Interest coverage (times)	18.66	27.91
NWC/ OI (%)	26.13%	21.57%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

[3] *DSIR: Department of Scientific and Industrial Research*

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				September 2017	September 2016	February 2016	August 2014
1	Cash Credit	Long Term	6.00	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB- (Stable)
2	Term Loans	Long Term	5.37	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB- (Stable)
3	Bill Discounting	Short Term	2.50	[ICRA]A3+	[ICRA]A3	[ICRA]A4+	[ICRA]A4
4	Unallocated Limits	Long Term	8.35	[ICRA]BBB (Stable) / [ICRA]A3+	[ICRA]BBB- (Stable) / [ICRA]A3	[ICRA]BB+ (Stable) / [ICRA]A4+	[ICRA]BB- (Stable) / [ICRA]A4

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
<u>Instrument Details</u>

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	6.00	[ICRA]BBB (Stable)
Term Loans	August 2015	-	August 2019	5.37	[ICRA]BBB (Stable)
Bill Discounting	-	-	-	2.50	[ICRA]A3+
Unallocated	-	-	-	8.35	[ICRA]BBB (Stable) / [ICRA]A3+

Source: UBL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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