November 08, 2021

Urihk Pharmaceutical Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term Limits – Unallocated	28.00	[ICRA]B+ (Stable)/ [ICRA]A4; assigned
Total	**28.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings factor in the extensive experience of the promoters of Urihk Pharmaceutical Private Limited (Urihk/the company) in the pharmaceuticals industry and the need-based funding support provided by the promoters since its inception. ICRA expects the support from the promoters to continue in the near to medium term, should the need arise. The assigned ratings also consider the healthy demand for its key products based on Ulinastatin. In 5M FY2022, Urihk posted revenues of Rs. 31.3 crore (against Rs. 15.3 crore in FY2021) and PBT of Rs. 5.4 crore against a net loss of Rs. 6.4 crore in FY2021. This was primarily driven by higher sales volume of Ulinastatin products that were used in the treatment of Covid-19 (critical care).

The ratings, however, remains constrained by the company's nascent stage of operations characterised by operating and net losses till FY2021 and the stretched credit metrics and liquidity position. The ratings also factor in the various regulatory risks associated with the industry. Additionally, Urihk is 100% promoted by UREKA Hong Kong Ltd. and is exposed to any geopolitical risks arising out of the same. Urihk had also applied for permit for FDI from the Hong Kong-based promoter entity. Going forward, the timely receipt of the FDI permit remains a monitorable.

Given the recent improvement in scale and profit metrics, Urihk's credit metrics improved in 5M FY2022 with gearing and TD/OPBDITA at 2.4 times and 1.1 times, respectively, as on August 31, 2021 (against gearing of 6.7 times and negative TD/OPBDITA as on March 31, 2021).

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that the company will continue to benefit from the experienced track record of its promoters, need-based promoter support and healthy demand for its products.

Key rating drivers and their description

Credit strengths

Longstanding experience of the promoters – Urihk is 100% owned by UREKA Hong Kong which began as a partnership of three companies: Jiangsu Aidea Pharmaceutical Co. Ltd. (Aidea), Joint Force Pharmaceutical Limited (JFPL), and Shenzhen Mellow Hope Pharm Limited (Mellow Hope). The shareholding of Aidea, JFPL and Mellow Hope in UREKA Hong Kong Ltd is in the ratio of 40:30:30, respectively. The co-founders of the company, Dr. Tarun Gupta, Mr. Yuan Shimin and Dr. Fu Heliang, have more than 20 years of experience in the pharmaceutical industry and have founded JFPL, Mellow Hope and Aidea, respectively. The company also enjoys financial flexibility via need-based funding support from its promoters.

Healthy demand for key products in 5M FY2022 resulting in strong revenue growth, healthy margins and improved credit metrics – In 5M FY2022, Urihk posted revenues of Rs. 31.3 crore (against Rs. 15.3 crore in FY2021) and PBT of Rs. 5.4 crore against a net loss of Rs. 6.4 crore in FY2021. This was primarily driven by higher sales volume of Ulinastatin products used in the treatment of Covid-19 (critical care). The company witnessed OPM of 17.7% against operating losses in the previous years, aided by an improved scale. In 5M FY2022 and FY2021, the company derived majority of its revenues from Ulinastatin-based products (Ulinastatin is a type of glucoprotein extracted from human urine and acts as an inhibitor against multiple enzymes, like the sugar and fat hydrolase — trypsin, lipase, chymotrypsin). Given the improvement in scale and profit metrics, Urihk's credit metrics improved in 5M FY2022 with gearing and TD/OPBDITA at 2.4 times and 1.1 times, respectively as on August 31, 2021 (against gearing of 6.7 times and negative TD/OPBDITA as on March 31, 2021). Currently, Ulinastatin-based products have a relatively lower market size. Going forward, the company's ability to derive higher revenues from these products along with the improvement in operating and credit metrics remain key monitorables.

Credit challenges

Nascent stage of operations – Urihk was incorporated in December 2017 and was incurring operating and net losses till FY2021 due to the nascent stage of operations and its dependence on external contract manufacturing for the commercialisation of its products. Urihk's financial profile is characterised by low scale of operations (revenues of Rs. 15.3 crore in FY2021), operating losses and net losses till FY2021. Its credit metrics also remained stretched with negative coverage indicators till FY2021. However, in 5M FY2022, Urihk posted revenues of Rs. 31.3 crore (against Rs. 15.3 crore in FY2021) and PBT of Rs. 5.4 crore against a net loss of Rs. 6.4 crore in FY2021. The company is the midst of setting up its API facility at Rs. 4 crore and expected to commence operations soon. Going forward, the company's efforts to improve its scale while maintaining healthy profit margins remain a key monitorable.

Regulatory and geopolitical risks – In line with the industry, the company faces regulatory risks while operating in various markets. However, an experienced promoter group with more than three decades of experience in the industry supports operational efficiencies. Urihk is 100% held by UREKA Hong Kong and had applied for permit for FDI from the promoter entity located in Hong Kong. Going forward, the timely receipt of the FDI permit remains a monitorable.

Liquidity position: Stretched

The company's liquidity remains stretched on account of the cash losses in the last three years. The working capital utilisation remained high with average utilisation of 88.8% for the 12 months ended March 2021. The limits sanctioned at Urihk is not dependent on the drawing power, rather it is backed by the FD of the parent, UREKA. As on September 30, 2021, the utilisation of its credit facilities has been 50% of the Rs. 3.25-crore OD facilities. The company does not have any repayment on its books. Going forward, ICRA expects the company to meet its near-term requirements using internal accruals and need-based promoter support.

Rating sensitivities

Positive factors – ICRA may upgrade the above ratings if the company demonstrates sustained material improvement in its scale of operations, leading to healthy operating and net profits margins and sustained improvement in credit metrics.

Negative factors – Negative pressure on the ratings could arise if the company sees a sharp decline in its revenues and its profit margins deteriorate on a sustained basis. Negative pressure could also arise if there is a significant deterioration in the company's credit metrics or liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of Urihk

About the company

Urihk, a subsidiary of UREKA Hong Kong Ltd, was incorporated in December 2017. It is involved in the manufacturing, launching, registering and distributing of drugs in the critical care and neuro segments in India. Urihk is 100% owned by UREKA Hong Kong, which began as a partnership of three companies: Jiangsu Aidea Pharmaceutical Co. Ltd. (Aidea), Joint Force Pharmaceutical Limited (JFPL), and Shenzhen Mellow Hope Pharm Limited (Mellow Hope). The shareholding of Aidea, JFPL and Mellow Hope in UREKA Hong Kong Ltd is in the ratio of 40:30:30, respectively. Urihk's API manufacturing facility is under-construction and is expected to commence operations soon. At present, as Urihk does not have its own facility yet, it is outsourcing the manufacturing of its products on a loan-licence basis to other approved manufacturing facilities.

Key financial indicators

Particulars	FY2020	FY2021
Operating Income (Rs. crore)	10.0	15.3
PAT (Rs. crore)	-9.4	-6.4
OPBDIT/OI (%)	-118.4%	-38.7%
PAT/OI (%)	-93.4%	-42.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	11.9
Total Debt/OPBDIT (times)	NM	NM
Interest Coverage (times)	NM	NM

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; All ratios as per ICRA calculations; Note: FY2021 figs. are unaudited, NM – not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Nov 8, 2021	--	--	--
1	Unallocated	Long term/ Short term	28.00	--	[ICRA]B+ (Stable)/ [ICRA]A4	--	--	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short-term limits – Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Unallocated	--	--	--	28.00	[ICRA]B+ (Stable)/ [ICRA]A4

Source: *Company;*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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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.

For more information, visit www.icra.in

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