

July 05, 2024

Unichem Laboratories Limited: Update on material event

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Long-term, Fund-based/ Non-fund Based Facilities	130.00	130.00	[ICRA]A (Stable); Outstanding
Long-term – Unallocated Limits	50.00	50.00	[ICRA]A (Stable); Outstanding
Total	180.00	180.00	

*Instrument details are provided in Annexure-I

Rationale

Material Event

On June 27, 2024, Unichem Laboratories Limited (ULL) informed the stock exchange about the verdict pronounced by the Court of Justice of the EU, which had upheld the fine of Euro 13.96 million (~Rs. 126 crore) imposed on its wholly-owned subsidiary, Niche Generics Ltd, UK (Niche). This pertains to a patent dispute settlement agreement for the drug, Perindopril, with the French company, Servier Group.

Impact of Material Event

ICRA has noted the event, and the rating remains unchanged at [ICRA]A with a Stable outlook. In July 2014, the European Commission imposed a fine of EUR 13.96 million on ULL and its subsidiary, Niche, alleging that they had breached European Union (EU) competition law. The contention arose from events in early 2005, when Niche, then partly owned and financially backed by ULL, agreed to settle a patent dispute with Laboratories Servier. Servier had reached various settlement agreements with several generic companies, including ULL and Niche, to resolve the patent litigation. According to Article 101 of the Treaty on the Functioning of the European Union (TFEU), it was alleged that these settlements had breached the EU competition law. ULL denied any wrongdoing by itself or Niche. In September 2014, both ULL and Niche appealed to the General Court of the EU for relief. However, the General Court rejected their appeals on December 12, 2018, upholding the fine of EUR 13.96 million. Following legal advice, the company and its subsidiary appealed to the Court of Justice of the EU. On June 27, 2024, the Court of Justice upheld the fine of EUR 13.96 million.

ICRA notes that the company has already deposited EUR 2.09 million in the past against this fine, hence the remaining liability will amount to EUR 11.87 million (~Rs. 107 crore) apart from the related legal charges. Further, it is noted that the company has adequate liquidity with cash and liquid investments of ~Rs. 200 crore and sizeable buffer in the fund-based limits worth Rs. 160 crore as of June 2024 in the standalone entity. The same collectively is likely to cover the liability arising out of the imposed fine. It is also noted that ULL had already provided Rs. 125.6 crore in its financials for FY2024. ICRA, however, will continue to monitor the developments related to the total amount payable, the schedule of payment and its impact on the overall credit profile, if any.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Liquidity position, Rating sensitivities: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group support	Parent: IPCA Laboratories Limited IPCA is expected to provide need-based funding as well as operational support to ULL.
Consolidation/Standalone	The rating is based on the consolidated financial profile of the company. As on March 31, 2024, ULL had six subsidiaries, which are enlisted in Annexure-II.

About the company

Unichem Laboratories Limited (ULL) is an integrated pharmaceutical company, headed by Dr. Prakash Mody. It was founded by Dr. Prakash Mody's father, Late Amrut Mody, in 1944. ULL manufactures and markets a large basket of APIs as well as pharmaceutical formulations as branded generics and generics in several regulated and unregulated markets around the world. The company's products cater to a diverse range of therapeutic areas such as cardiology, gastroenterology, diabetology, psychiatry, neurology, antibacterial, anti-infective and pain management.

Historically, ULL was focused on its domestic formulations business, which drove almost 55% of its total consolidated revenues in FY2017. The company took its first major step towards entering the regulated markets in 2002, following its acquisition of a 60% equity stake in Niche Generics Limited, UK. Subsequently, in FY2007, ULL acquired the balance 40% stake by buying out the stake of its two partners. In November 2017, ULL entered into an agreement for sale of its formulations business in India and Nepal to Torrent Pharmaceuticals Limited through a slump sale, for a total consideration of Rs. 3,600 crore. Following the above business sale, ULL now has formulations manufacturing facilities in Goa, Baddi (Himachal Pradesh) and Ghaziabad (Uttar Pradesh), while its API manufacturing facilities are in Roha (Maharashtra), Pithampur (Madhya Pradesh) and Kolhapur (Maharashtra). In FY2023, the promoter, Mr. Mody sold a 33.38% stake to IPCA Laboratories Limited (IPCA), post which through an open offer, IPCA bought a 19.29% stake of ULL. As of June 2024, IPCA owned a 52.67% stake in ULL and thus the latter is now a subsidiary of IPCA.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	1,343.0	1,704.9
PAT	-202.2	-70.5
OPBDIT/OI	-3.1%	5.9%
PAT/OI	-15.1%	-4.1%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	-7.5	2.5
Interest coverage (times)	-2.4	4.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022
			Jul 5, 2024	Dec 14, 2023	May 03, 2023	Mar 22, 2023	Sept 16, 2022	Nov 25, 2021
1 Fund based/ Non fund based	Long-term	130.0	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- Rating Watch with Developing Implications	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A (Negative)
2 Unallocated limits	Long-term	50.0	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term, Fund-based/ Non-fund Based Facilities	Simple
Long-term – Unallocated Limits	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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term, Fund-based / Non-fund Based Facilities	NA	NA	NA	130.00	[ICRA]A (Stable)
NA	Unallocated limits	NA	NA	NA	50.00	[ICRA]A (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Unichem Ownership	Consolidation Approach
Niche Generics Ltd, UK	100.00%	Full Consolidation
Unichem S.A. Proprietary, SA	100.00%	Full Consolidation
Unichem Farmaceutica Do Brasil Ltda, Brazil	100.00%	Full Consolidation
Unichem Pharmaceuticals (USA) Inc, USA	100.00%	Full Consolidation
Unichem Laboratories Limited, Ireland	100.00%	Full Consolidation
Unichem (China) Pvt. Ltd.	100.00%	Full Consolidation

Source: Unichem Laboratories Limited

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