

February 18, 2025

Unichem Laboratories Limited: Rating upgraded

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term, Fund-based / Non-fund Based Facilities	130.00	150.00	[ICRA]A+(Stable); Upgraded from [ICRA]A (Stable)
Long-term – Unallocated Limits	50.00	30.00	[ICRA]A+(Stable); Upgraded from [ICRA]A (Stable)
Total	180.00	180.00	

*Instrument details are provided in Annexure I

Rationale

The rating upgrade considers Unichem Laboratories Limited's (ULL) healthy improvement in its credit profile in 9M FY2025, marked by a healthy growth in its revenues and a significant improvement in margins. The same are expected to sustain going forward, given its strong business profile. Its revenue growth has been supported by increased offtake from the company's key markets such as the US, backed by healthy demand for its formulations. The company is expected to continue to grow at a fast pace over the medium term, benefitting from favourable demand conditions and increasing capacity utilisation. ULL's operating margin expanded to around 13% in 9M FY2025 from 7.1% in FY2024, largely aided by operational synergies with its parent, IPCA Laboratories Limited (IPCA), which enabled ULL optimise its input and logistics costs. IPCA is expected to provide operational and financial support to ULL, if required. Going forward, the company's margins are expected to be supported by its improved cost structure, and further backward integration on the back of expansion in the Active Pharmaceutical Ingredient (API) manufacturing capacity, which is likely to commence operations in Q2 FY2026. Improved revenues and earnings are expected to strengthen the debt metrics, going forward.

Following the divestment of its core domestic formulations business, which contributed 55% to the consolidated revenues in FY2017, ULL has focused on expanding its presence in the US market. This shift has been supported by capacity expansions at its manufacturing facilities and an increasing number of Abbreviated New Drug Application (ANDA) filings. ULL's manufacturing facilities are approved by the United States Food and Drug Administration (USFDA).

The rating is, however, constrained by high share of revenues from the generic formulations segment, which is characterised by intense competition, with the pricing pressure limiting margin expansion. The rating also considers ULL's relatively high therapeutic segment concentration, with the top 3 segments contributing 72% to the company's revenues. Moreover, the company has high working capital intensity owing to the elongated receivable cycle and high inventory holding period. This apart, considering its strong presence in regulated markets, including North America, the company continues to be exposed to regulatory risks arising out of scrutiny from regulatory agencies like the United States Food and Drug Administration (US FDA).

ICRA also notes that ULL's appeal against the European Commission's fine of EUR 13.9 million imposed on the company and its UK subsidiary was rejected by the General Court of the EU in FY2019, and the fine was subsequently upheld. In July 2024, ULL lost its final appeal before the EU Court of Justice. The company has deposited 2.09 million euro towards this fine, leaving a remaining potential liability of 11.87 million euro (Rs. 108 crore), excluding related legal charges. Nevertheless, the company has adequate liquidity with cash and liquid investments of ~Rs. 100 crore and buffer of ~Rs. 125 crore fund-based limits as of December 2024. ULL had already made a provision of Rs. 125.6 crore in FY2024.

The Stable outlook on the long-term rating factors in the expected growth in the company's revenues and earnings, backed by healthy demand from its customers, integration and synergies from being a subsidiary of the IPCA Group, and deeper backward integration.

Key rating drivers and their description

Credit strengths

Support from well-established and diversified pharmaceutical company, IPCA – ULL benefits from the backing of its parent, IPCA, a well-established and diversified pharmaceutical company with presence in both branded and generic formulations, as well as Active Pharmaceutical Ingredients (APIs). Prior to its acquisition, ULL was managed by Dr. Prakash Amrut Mody. In August 2023, IPCA acquired a 52.65% stake in ULL, making it a subsidiary. IPCA is expected to provide operational and financial support to ULL, if required. The integration into IPCA provides ULL with strategic advantages, operational synergies, and access to IPCA's established distribution network.

Synergies for being a part of IPCA Group support operational as well as credit profiles – IPCA has a strong API franchise with backward integration that will enable ULL to scale up its global generic portfolio and increase its market share with cost efficiency and competitiveness. ULL has benefited from the operational synergies with IPCA, which helped it optimise its input costs through centralised raw material procurement and lower logistics costs. As IPCA is present in 45 countries with close to 1,200 personnel working on the field in branded formulations, ULL will be able to expand to new geographies, especially in the rest of the world (RoW) markets, aiding its revenue growth in the medium term. Further, IPCA is expected to provide operational as well as financial support on a need basis and leverage the financial flexibility IPCA enjoys in the banking and financial channels.

Backward integrated capabilities to support in-house formulations manufacturing – Following the sale of its domestic formulations business in FY2017, the company focused on scaling up its international formulations business, especially in the US, which has been growing at a healthy rate over the past few years. ULL's extensive experience in APIs and formulations as well as its cost advantage from backward integration is a positive factor. Accordingly, the company has invested in capacity expansion of its API facilities, and it continues to enhance its capacities in API, which is expected to augment growth in the medium term. ICRA also notes the company's clean track record with respect to regulatory inspections.

Credit challenges

Intense competition in the formulations industry, especially in the generic formulations, limits the company's margins – The company derives most of its revenues (74% in FY2024) from generic formulation sales, which are characterised by stiff competition, especially for its exports to the US market, from numerous contract manufacturers, multinational companies as well as established Indian pharmaceutical brands. The intense competition keeps revenue growth and margins under check.

Inherent regulatory risk associated with pharmaceutical industry – Like its peers in the pharmaceutical industry, ULL's operations remain exposed to the regulatory risks, including scrutiny by regulatory agencies like USFDA. As ULL is solely focused on exports, ICRA notes that timely product launches in various regulated and semi-regulated markets, along with a stable socio-political environment, remain critical for its revenue growth.

Working capital-intensive nature of operations – ULL's operations are working capital intensive, as depicted by NWC/OI of 60% in FY2024 (74% in FY2023). The high working capital requirements stem from its export-driven revenue model, which entails extended credit periods and significant inventory holdings as ULL's subsidiaries primarily serve as front offices without manufacturing capacities. The working capital intensity is expected to remain in the range of 60-65% over the medium term. However, this is partly mitigated by the company's adequate liquidity position, allowing it to manage operations with moderate reliance on fund-based working capital limits.

Environmental and social risks

Environmental considerations – The company does not face any major physical climate risk. However, it remains exposed to tightening environmental regulations on breach of waste and pollution norms, which can lead to an increase in operating costs and new capacity installation costs. This may also require continued capital investments to update its effluent treatment infrastructure to reduce carbon footprint and waste generation. The company has undertaken various initiatives to ensure compliance with applicable regulations. The waste generated in the company’s operations is either recycled or disposed of safely. It has effluent treatment plants, which ensure that the discharge of treated effluent is within the limits stipulated by the respective pollution control boards. To conserve water, the company has devised various water saving methods.

Social considerations – The industry faces social risks related to product safety and associated litigation risks, access to qualified personnel for R&D and process engineering, and maintenance of high manufacturing compliance standards. Quality and safety have been implemented across the value chain, from raw materials procurement to product delivery. Further, intervention from the government and the regulator related to price caps/control also remains a social risk faced by entities in the pharmaceutical industry.

Liquidity position: Adequate

The liquidity position remains adequate with investments and free cash and equivalents of ~Rs. 100 crore as of December 2024 on a consolidated basis. It also had an undrawn working capital limit of Rs. 125-130 crore as of December 2024. The company is expected to generate retained cash flows of Rs. 50-60 crore in FY2025. Against this, the company has repayment obligations of Rs. 26-31 crore p.a. during FY2025 and FY2026 and capex plans of Rs. 120-130 crore per annum. The company availed an ECB loan of \$6 million towards the capex, which has also provided comfort to the liquidity. The company needs to pay ~ 11.87 million euro towards the penalty levied by EU, excluding legal charges, if any. Additionally, the company’s US subsidiary is obligated to pay the remaining consideration of ~\$3 million for the acquisition of Bayshore Pharmaceuticals.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if a healthy growth in its scale of operations and improvement in its profit margins results in a strong liquidity profile and comfortable debt metrics. Improvement in the credit profile of the parent company could also be a positive rating trigger.

Negative factors – The ratings could be downgraded if a material decline in revenues or earnings impacts its debt metrics on a sustained basis. Any adverse regulatory development, impacting the company’s operations or a deterioration in the company’s liquidity position on a sustained basis would also be a negative trigger. Moderation in the parent company’s credit profile or weakening in linkages with the parent company could also put pressure on the ratings.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Pharmaceuticals
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 and one associate, which are enlisted in Annexure-II.

About the company

Unichem Laboratories Limited (ULL) is an integrated pharmaceutical company, founded by Late Amrut Mody in 1944. ULL manufactures and markets a large basket of APIs as well as pharmaceutical formulations as branded and simple 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, anti-bacterial, anti-infective and pain management. Historically, ULL has focused on its domestic formulations business, which drove almost 55% of its total consolidated revenues in FY2017. In November 2017, it entered an agreement with Torrent Pharmaceuticals Limited for sale of its formulations business in India and Nepal through a slump sale, for a total consideration of Rs. 3,600 crore. The company took its first major step towards entering the regulated markets in 2002, following its acquisition of an equity stake in Niche Generics Limited, UK. Further, in August 2023, IPCA Laboratories Limited picked up a 52.65% stake in ULL, effectively making it a subsidiary of IPCA. As on date, the company has formulations manufacturing facilities in Goa, Baddi (Himachal Pradesh), and Ghaziabad (Uttar Pradesh), while its API manufacturing facilities are in Pithampur (Madhya Pradesh), Roha, and Kolhapur (Maharashtra).

Key financial indicators (audited)

ULL (consolidated)	FY2023	FY2024
Operating income	1,370.3	1727.3
PAT	-202.2	-70.5
OPBDIT/OI	-1.1%	7.1%
PAT/OI	-14.8%	-4.1%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	-21.2	2.0
Interest coverage (times)	-0.9	5.4

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

Current (FY2025)				Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Feb 18, 2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based / Non-fund Based Facilities	Long-term	150.00	[ICRA]A+ (Stable)	Jul-05-2024	[ICRA]A (Stable)	Dec-14-2023	[ICRA]A (Stable)	Mar-22-2023	[ICRA]A- (Stable)	Nov-25-2021	[ICRA]A (Negative)
	-	-	-	-	-	May-03-2023	[ICRA]A-@	Sept-16-2022	[ICRA]A- (Stable)	-	-
Unallocated Limits	Long-term	30.00	[ICRA]A+ (Stable)	Jul-05-2024	[ICRA]A (Stable)	Dec-14-2023	[ICRA]A (Stable)	-	-	-	-

@: Rating Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term, Fund-based / Non-fund Based Facilities	Simple
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	150.00	[ICRA]A+ (Stable)
NA	Unallocated Limits	NA	NA	NA	30.00	[ICRA]A+ (Stable)

Source: Company

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Annexure II: List of entities considered for consolidated analysis

Company name	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, China	100.00%	Full consolidation
Synchron Research Services Private Limited	32.11%	Equity Method

Source: ULL

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