

January 27, 2017

Uni Medicolabs

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based Limits	25.00	[ICRA]BB+ (Stable); assigned
Total	25.00	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has assigned the long-term rating of [ICRA]BB+ (pronounced ICRA Double B Plus)¹ on the Rs. 25.00-crore fund-based facilities of Uni Medicolabs (UML). The outlook on the long-term rating is 'Stable'.

Rationale

The assigned rating takes into account the long experience of the promoters in the pharmaceutical business by virtue of being the Active Pharmaceutical Ingredient (API) distributor and supplier and having established relationship with key pharmaceutical companies in the domestic market. The rating takes into consideration the healthy growth in the operating income as the company benefitted from the shift of business from loan license to Principal-to-Principal (P2P) model and the expansion of the customer base and geographies. ICRA also takes note of the successful completion of the non-beta lactum plant in FY2017, which is expected to aid revenue growth in future.

However, the rating has been constrained by the moderate financial risk profile of the entity as reflected by the moderate scale of operations, the moderate net worth base and the declining operating margins on account of high industry competition and high registration fees paid for expansion to various countries. ICRA also takes cognizance of the concentrated customer base, as more than 80% of the revenue is derived from the top three customers. However, the increase in focus on the international market would mitigate this risk to some extent. The rating further takes into account the high utilisation of bank limits in the recent past as well as the high repayment obligation towards the debt-funded capex incurred in the past few years, which might put pressure on the liquidity in the near to medium term. Furthermore, the optimisation of the expanded capacity remains susceptible to the receipt of healthy export orders and the availability of enhanced bank limits to meet the increased working capital requirements. ICRA also takes note of the partnership constitution of the firm, which exposes it to risks such as dissolution and capital withdrawal.

Going forward, the firm's ability to achieve the desired operating parameters in the new plant, improve the scale along with the operating profit margins, maintain a healthy capital structure and ensure optimal working capital intensity will be the key rating sensitivity.

Key rating drivers

Credit Strengths

- Long experience of the promoters in the pharmaceutical business
- Strong relationship of the group with Unichem Laboratories, a key domestic pharmaceutical player
- Strong relationship with reputed customers such as Cipla Limited and Lupin Limited; increased focus on international markets to augur well for the top line and profitability
- Support from the group company UPCL in terms of raw material availability as the latter has a wide distribution network in the API segment

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Credit Weakness

- Moderate scale of current operations
- Sales concentration risk as more than 80% of the total sales are directed to top three customers; however, the increase in orders from new clients in the Indian and export markets would lower the dependence in future
- Significant debt repayments scheduled towards capital expenditure is likely to put the liquidity under pressure in the near to medium term

Description of key rating drivers highlighted above:

UML started operations as a contract manufacturer for Unichem Laboratories in January 2009. Over the last few years, with the ramp up in production, addition of new clients and shift from loan license to P2P model, the operating income has grown from Rs. 8.47 crore in FY2012 to Rs. 32.56 crore in FY2016.

However, there has been a marginal deterioration in the capital structure as external loans were taken to fund the ongoing capital expenditure towards the non-beta lactum medicine unit. Furthermore, the high repayment obligation towards this capex is likely to keep the entity's liquidity under pressure in the future. With the start of non-beta lactum facility, UML's focus has increased towards international markets mainly African and South East Asian markets. The firm started the export business in FY2016 and export turnover accounted for around 11% of the total revenue. However, the optimisation of the capacity expansion undertaken towards the new unit remains to be seen.

In the domestic market, UML has a strong relationship with Unichem Laboratories by virtue of the long business relationship between Unichem Laboratories and the promoter group. It has also developed healthy relationship with Cipla and Lupin over the years, ensuring stable orders from them, although the overall customer base remains concentrated.

Analytical approach: Not Applicable

Links to applicable Criteria

Corporate Credit Ratings: A Note on Methodology
Rating Methodology for Pharmaceutical Companies

About the Firm:

Uni Medico Labs (UML) is a pharmaceutical contract manufacturer based in Dehradun, Uttarakhand, and became operational in 2009. The firm was started by Mr. Harshad Vaid, who has been in the pharmaceutical distribution business since 1945 through Uni Agencies. Along with Uni Agencies, Mr. Harshad Vaid also manages Uni Agencies Chemicals Private Limited (UCPL), an API distributor set up in 1982. UML manufactures capsules, tablets, injectibles and syrup for pharmaceutical companies, which include Cipla Limited, Lupin Limited and Unichem Laboratories.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2016	Month- year & Rating in FY2015	Month-year & Rating in FY2014	Month-year & Rating in FY2013
				January 2017	April 2016	September 2014	-	-
1	Cash Credit	Long Term	9.00					
				[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable) Suspended	[ICRA]BB+ (Stable)	-	-
2	Term Loan	Long Term	16.00					
				[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable) Suspended	[ICRA]BB+ (Stable)	-	-

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

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	9.00	[ICRA]BB+ (Stable)
Term Loan I	March 2013	BR+3%+0.25%	March 2020	4.43	[ICRA]BB+ (Stable)
Term Loan II	October 2014	BR+3%+0.25%	September 2021	11.57	[ICRA]BB+ (Stable)

Source: UML's sanction letter.

Name and Contact Details of the Rating Analyst(s):

Sabyasachi Majumdar
+124-4545 304
sabyasachi@icraindia.com

Gaurav Singla
+124-4545 366
gaurav.singla@icraindia.com

Manish Ballabh
+124-4545 812
manish.ballabh@icraindia.com

Rashmi Agarwal
+124- 4545 871
rashmi.agarwal@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

About ICRA Limited:

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500