Press Release

Ultralaboratories Private Limited

D-U-N-S® Number: 67-548-3449

February 15, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' **(read as ACUITE BB minus)** on the Rs. 8.00 crore bank facilities of Ultralaboratories Private Limited. The outlook is **'Stable'**.

Incorporated in 2006, Ultra Laboratories Pvt Ltd (ULPL) is engaged in the business of manufacturing & marketing of generic medicines. The company has its own manufacturing facility located in Hassan, Karnataka which produces tablets, capsules, syrups, injectables, small volume parentals, large volume parentals as per the CGMP norms to comply with WHO and PIC/S requirements.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the ULPL to arrive at this rating.

Key Rating Drivers

Strengths

- **·Experienced management and Local partners**

  The company benefits from the experience of the Directors, Mr. Ramesh Sukumaran Nair, Mrs. ChitraLekha Ramchandran Thampy and Mr. Rajesh Nair who has nearly three decades of experience in the pharma industry. Initially, they started with loan licensing business model; in the year 2016, they ventured into setting up their own manufacturing unit in 3 acres of land at Hasan, State of Karnataka which was built to comply with CGMP norms and WHO standards. ULPL has got 350 products registered and has got marketing and distribution offices globally. It's an export oriented unit; it operates across 15 countries - Uzbekistan, Tajikistan, Georgia, Turkmenistan, Kyrgyzstan, D R Congo among others. ULPL has tie ups with local partners who have wide range of experience in medical field.ULPL has planned to increase the production capacity of large volume parentals to manufacture infusion bottles in the FY 19. Own manufacturing operations, diversified geographies and seasoned team supported in revenue growth at a compound annual growth rate (CAGR) of 55 per cent over the past three years through FY2018. Acuité believes that promoter's experience, improving space for generics is expected to support in improvement of its business risk profile over the medium term

- **Comfortable financial risk profile**

  The financial risk profile is marked by healthy gearing; comfortable debt protection metrics though underpinned by low PAT margins. Gearing has improved from 1.04 times in FY 2017 to 0.88 times in FY 2018 supported by moderate cash accruals and repayment of term loans. The net worth is modest at Rs.13.63 crores in FY 2018 partly declined from Rs.15.58 crores in FY2016 due to depreciation losses in FY2017. ULPL has implemented a large capex of about Rs.31.31 crores for setting up of its own manufacturing unit in FY2016; helped in improving its operating margins to 28.8 per cent in FY 2018 against 21.7 per cent in FY 16. ULPL is planning to implement a moderate debt-funded capex of Rs.4.5 crores, funded out of term loan of Rs.3 crores and rest through internal accruals. Despite the proposed capex, the capital structure is expected to be healthy. Debt protection metrics are comfortable: Interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) have improved to 5.08 and 0.37 times in FY 18 as against 3.53 and 0.26 times in FY 2017; owing to improvement in operating margins and repayment of term loans. ULPL has reported cash accruals of Rs.4.4 crores in FY2018.

Acuité believes that with moderate accruals, modest repayment obligations, the financial risk profile is expected to improve marginally over the medium term.

Weaknesses

- **Working capital intensive operations**

ULPL operations are working capital intensive as evident from gross current assets (GCA) days of 178 as on March 31, 2018. The receivable days are at 73 as on march 31, 2018 which is moderate. Inventory days are high at 116 as on march 31, 2018 as raw materials are procured in advance to execute the orders in 45 days. ULPL enjoys working capital limits of Rs.4.6 crores, which have been highly utilised at about 96 per cent over eight months through November 2018. Acuité believes that working capital nature and improving scale of operations are expected to keep the operations working capital intensive over the medium term.

- **Modest scale of operations, though improving**

ULPL's revenues are at modest level within the pharma industry, though improved at a CAGR of about 56 per cent over the past three years through FY2018 on a low base. ULPL has reported revenues of about Rs.17.8 crores for eight months through November 2018; presence across 15 countries with increasing demand for generics amid expiry of patents, plant expansion, the revenues are expected in the range of Rs.30-45 crores over the medium term though continues to be modest within the highly fragmented and competitive industry.

Liquidity

ULPL has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. It has generated cash accruals of Rs.1.07 crore to Rs.4.38 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.2.5 crore over the same period. The cash accruals of ULPL are estimated in the range of Rs.5 – 8 crores over the medium term, against which its repayment obligation are estimated to be Rs.2.4 – 0.75 crore. ULPL's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 178 lead to high utilization of its working capital lines at about 96 percent. ULPL maintains unencumbered cash and bank balances of Rs.0.40 crore as on March 31, 2018. The current ratio of the ULPL is low at 0.58 times as on March 31, 2018 due to advances from its customers. ULPL plans to implement moderate debt-funded capex of Rs.4.5 crore. Acuité believes that ULPL's liquidity continues to be moderate partly overweighed by incremental requirement for working capital operations and part financing its capex over the medium term.

Outlook: Stable

Acuité believes that ULPL will maintain a 'Stable' outlook over the medium term from its director's industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while maintaining its operating margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or larger-than-expected debt-funded capex leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	19.71	13.62	8.14
EBITDA	Rs. Cr.	5.68	3.86	1.77
PAT	Rs. Cr.	-0.05	-1.89	0.71
EBITDA Margin	(%)	28.82	28.34	21.70
PAT Margin	(%)	-0.25	-13.90	8.78
ROCE	(%)	4.95	-6.13	9.86
Total Debt/Tangible Net Worth	Times	0.88	1.04	0.85
PBDIT/Interest	Times	5.08	3.53	6.01
Total Debt/PBDIT	Times	2.10	3.69	7.47
Gross Current Assets (Days)	Days	178	151	105

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)
Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB- / Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB- / Stable

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