Neelkanth Drugs Private Limited

October 05, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	60.00	CARE A (CE); Stable [Single A (Credit Enhancement); Outlook: Stable]	Reaffirmed
Total Bank Facilities	**60.00 (Rs. Sixty Crore Only)**		

Details of instruments/facilities in Annexure-1

@backed by the unconditional and irrevocable corporate guarantee provided by Keimed Private Limited (rated 'CARE A; Stable')

Unsupported Rating [2]	**CARE BBB [Reaffirmed]**

Note: Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers for the credit enhanced debt:

The rating assigned to the bank facility of Neelkanth Drugs Private Limited (NDPL) is based on credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by Keimed Private Limited (Keimed).

Detailed Rationale & Key Rating Drivers – Keimed Private Limited

The reaffirmation of the ratings assigned to the bank facilities of Keimed Private Limited (Keimed) considers the stable financial performance at consolidated level during FY21 (refers to the period April 01 to March 31) and adequate liquidity position. The rating continues to draw strength from experienced promoters and management team, established track record in wholesale pharmaceutical distribution segment, first mover advantage in consolidation of pharmaceutical distribution network through acquisition of large regional players, supply arrangements with Apollo Hospitals Enterprise Hospitals (AEHL), satisfactory operating cycle and stable industry outlook.

The rating however continues to remain constrained by the leveraged capital structure with increasing debt level, growing exposure to subsidiaries / step-down subsidiaries on a standalone basis in the form of corporate guarantee being extended for debt and low profitability margins on account of trading nature of operations.

Key Rating Drivers- Neelkanth Drugs Private Limited

The rating assigned to the bank facility of NDPL factors the support of strong parentage, Keimed, experienced promoter group and strong management team, strong track record of the group, sale arrangement with Apollo Hospital, growing scale of operations and modest growth in revenue during FY21. The rating, however, is constrained by client concentration risk of revenue from Apollo Hospitals during FY21, low profitability margins due to trading nature of operations, leveraged capital structure and high competition from many organized and unorganized players.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in PBILDT margins over 4% on a sustainable basis
- Improvement in capital structure with overall gearing remaining below 0.9x on a sustainable basis
- Reduced reliance on working capital limits and moderate utilization levels of about 65% providing sufficient liquidity cushion

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Overall gearing beyond 1.5x
- Any un-envisaged aggressive debt funded acquisition/capex with subsequent impact on the financial and liquidity profile

Detailed description of the key rating drivers – Keimed Private Limited

Key Rating Strengths

Strong track record of Keimed: Existence of strong national and regional trade lobbies like Indian Retail Druggists and Chemists Association and other Regional Distributors' Association makes it difficult for pharma manufacturers to sell directly to customers/small retailers. At the same time, it makes it difficult for a new distributor to scale up rapidly without opting for acquisition of existing regional players. In this regard, the company's first-mover advantage in acquiring large regional players to scale up nationally has enhanced its bargaining power with drug manufacturers. The company distributes products of many well-known companies which include Sun Pharma Industries Ltd, Cipla Pharmaceuticals Ltd, Abbott Healthcare Private Ltd, Aventis Pharma Ltd, Dr. Reddy's Laboratories, Intas Pharmaceutical Ltd, GlaxoSmithKline Pharmaceuticals Ltd, etc. The same has enabled the company to continuously expand the size and scale of operation over the years.

First mover advantage in consolidation of pharma distribution network through acquisition of large regional players: Incorporated in 2000, Keimed is engaged in distribution of medical, surgical and other hospital related materials such as drugs, chemicals, surgical disposables, instruments and equipment to government & private hospitals and retail pharmacies for nearly

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

[2] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).*

two decades. Over the years, Keimed has significantly increased its scale of operations by acquiring majority stake in many regional players and expanded its presence across the country. During FY20, two companies were acquired by Keimed and its subsidiaries; with Excelsior Softwares Private Limited being acquired by Keimed and ATC Pharma Private Limited being acquired by Dhruvi Pharma Private Limited. Further in FY21, the company acquired 2 more companies with 70% stake in Singla medicos Pharma Private Limited for Rs. 7.70 Cr and 51% stake in Shree Datta Agencies Private Limited for Rs. 1.55 Cr, thus continuing the trend of consolidation of smaller players in the pharma distribution space. During FY22, the company has obtained term loan Rs. 95 Cr to acquire 9% additional stake in 8 existing subsidiaries and 4 potential acquisitions with 51% shareholding in each.

Sale arrangement with Apollo Hospitals albeit high customer concentration risk: Keimed has a sale arrangement with Apollo Hospitals Enterprise Ltd (AHEL) as Keimed's promoter, Ms. Shobana Kamineni, also serves as the Executive Director of AHEL. This has resulted in AHEL being the major client for Keimed over the last few years and contributing about 63% to the company's revenues in FY21 (about 49% in FY20) at consolidated level. While there is no agreement in place with AHEL, Keimed gets business from AHEL by virtue of common management team. Despite fall in sales from 3rd parties on account of the impact of Covid-19, the total revenues have increased primarily on account of higher sales to Apollo, which has created higher concentration risk for the company. However, this is also off-set by the fact that Apollo Hospitals has a strong credit profile.

Stable financial performance during FY21 despite impact of Covid-19: On a consolidated basis, Keimed registered a y-o-y growth of 0.20% in total operating income during FY21 to Rs.5938.28 crore as against Rs.5926.03 crore during FY20 indicating stable level of operations despite Covid-19 impact. This modest increase in operations is primarily backed by 2 factors. First, the increase in revenues from Apollo Hospitals whose share of total revenues on a consolidated basis has increased from 51% to 63%, which has resulted in off-setting of decline in revenues from third-parties. Second, the revenues of newly acquired subsidiaries have also been consolidated, accounting for Rs. 40.41 Cr. The PBILDT has remained stable at Rs. 211.39 Cr in FY21 against 210.45 Cr in FY20. On accoutn of stable revenues, the PBILDT margin has also remained stable at 3.56% for FY21 against 3.55% for FY20. GCA has also remained stable at Rs. 118.04 Cr in FY21 against 115.87 Cr in FY20.

Satisfactory operating cycle: Keimed has a satisfactory operating cycle despite its operation in working capital intensive business. Given the company's presence in wholesale industry, the company has to maintain relatively large stock of pharmaceutical products to cater to various retail businesses. Nevertheless, the operating cycle has been around 52 days in FY21, which has increased by 7 days from FY20 & FY19 levels on account of increased debtor collection period, with receivables increasing from Rs.563.73 Cr for FY20 to Rs.690.59 Cr in FY21 at same level of revenues. The inventory holding period has remained satisfactory at below 30 days over the last 3-year period.

Industry Risk – Stable industry outlook with negligible impact of Covid-19 on the operations of the business: The operations of pharma industry being considered Essential, came under the ambit of essential manufacturing during the lockdown induced by Covid-19. This had kept production activities at many pharma companies largely unaffected. Also easing of restrictions in different phases of lockdown is believed to have supported the operations of pharma companies. During this period, while the domestic market for antibiotics, cold and cough gained traction, demand from segments like women healthcare and orthopaedic were impacted as the treatment for such ailments were believed to be kept on hold. Also, inbound logistics constraints restricted the movement in exports to an extent during lockdown. With relief in various restrictions, the industry is expected to see pent up demand for treatments that were postponed which will support the demand for drugs. Moreover, the demand for medicines will increase during the monsoon season as the distributors and retailers normally stock drugs for the season. These parameters will augur well for pharma industry. In addition to this, the industry will continue to see demand from the domestic as well as international markets for some of the antivirals, antimalarials and antibiotics given the spread of Covid-19. Apart from this, the huge population of the India combined with rise in medical problems, greater insurance coverage, enhanced medical treatment facilities to treat both acute and chronic diseases and government raising the health care spending automatically provides further significant growth opportunities for retail chain pharmacies. Apart from above increase in health care spending, change in consumer attitude, etc., has significantly contributed in rapid growth of this segment.

Key Rating Weaknesses

Moderately leveraged capital structure: The capital structure of the company at consolidated level has remained stable as on March 31, 2021 on account of as compared to March 31, 2020. The overall gearing remained stable at 1.34x as on March 31, 2020 and 1.33x in March 31, 2021. This was despite the increase in total debt from Rs. 596.25 Cr in FY20 to 695.77 Cr in FY21 on account of accretion of profits resulting in net-worth increasing from Rs.269.47 Cr in FY20 to Rs.352.03 Cr in FY21. During FY21, Keimed and its subsidiary has acquired assets of two subsidiaries at a total purchase consideration of Rs. 9.25 crore and the same was funded through unsecured loans infused by promoters to the extent of Rs.8.26 crore. The other debt coverage indicators viz. interest coverage represented by PBILDT/interest improved from 3.71x in FY20 to 4.08 in FY21 on account of lower interest cost during the year.

Low profitability margins: Owing to the trading nature of operations, PBILDT margins remain low. At a consolidated level, the PBILDT has remained stable at Rs. 211.39 Cr in FY21 against 210.45 Cr in FY20, primarily on account of similar revenue level for FY20 & FY21. The PBILDT margin has remained stable at 3.56% for FY21 against 3.55% for FY20. GCA has also remained stable at Rs. 118.04 Cr in FY21 against 115.87 Cr in FY20.

Liquidity- Adequate: The adequate liquidity position of Keimed is characterized by availability of Rs.168.59 Cr unutilized working capital facilities at consolidated level for August-2021, together with a comfortable average of monthly maximum utilization levels of 71% during the last 12-month period. Further, the group is expected to generate GCA of Rs.162.86 Cr in FY22 against a debt servicing obligation of Rs.18.49 Cr.

Analytical approach:
CARE in its analysis has considered the consolidated business and financial risk profiles of Keimed Private Limited and its seventeen subsidiaries along with twelve step-down subsidiaries, which are all engaged in the same business activity - distribution of pharmaceutical products across India and thus have management & financial linkages. The list of subsidiaries and step-down subsidiaries is provided in Annexure-6.
Further, Unsupported rating is based on standalone financials of NDPL while factoring the linkages and corporate guarantee extended by Keimed Private Limited.

Applicable Criteria
Criteria on assigning Outlook and Credit Ratings
CARE's policy on Default Recognition
CARE's methodology: Consolidation
Criteria for Rating Credit Enhanced Debt
CARE's methodology for Wholesale Trading
Rating Methodology: Factoring Linkages in Ratings
Liquidity Analysis of Non-Financial Sector Entities
Financial Ratios – Non-Financial Sector

About the Company – Keimed Private Limited
Keimed Private Limited, promoted by Kamineni family was incorporated in March 2000 in Hyderabad, Telangana. The company was incorporated as 'Keimed.com Limited' to carry on trading in pharma and hospital consumables with offices across India. Subsequently, the name of the company was changed to 'Keimed Limited' in May 2001 and was again changed to 'Keimed Private Limited' in July 2012. The company is currently engaged in the business of wholesale trading of pharmaceutical products for a wide range of medical goods, consumables, drugs, surgical, health and personal care products, through its branches across India. The company has seventeen subsidiaries and twelve step-down subsidiaries as on March 31, 2021. The promoter group (Kamineni family) holds equity shareholding of 61.38% followed by Family health Plan Insurance TPA Ltd, which is an associate company of Apollo Hospitals Enterprise Limited having shareholding of 18.62% and balance 20% of shareholding is held by Mitsui & Co. (Asia Pacific) Pte Limited. Keimed derives about 63% of the total revenue at consolidated level from Apollo Hospital Group for FY21.

Brief Financials (Rs. crore) – Keimed (Consolidated)	FY20 (A)	FY21 (A)
Total operating income	5,926.03	5,938.28
PBILDT	210.45	211.39
PAT	87.80	87.41
Overall gearing (times)	1.34	1.33
Interest coverage (times)	3.71	4.08

A: Audited

About the Company – Neelkanth Drugs Private Limited
Neelkanth Drugs Private Limited (NDPL), incorporated in 1999, is engaged in the business of wholesale distributorship of pharmaceutical products for a wide range of medical, surgical, and other hospital related materials to hospitals, retail pharmacies, Government and other private organizations. NDPL is a closely held company with 51% stake being held by Keimed Private Ltd (Keimed) and the rest being held by the promoters and directors.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	502.61	518.17
PBILDT	11.77	12.87
PAT	3.88	4.87
Overall gearing (times)	2.77	2.85
Interest coverage (times)	2.26	2.38

A: Audited

Status of non-cooperation with previous CRA: Not Applicable.
Any other information: Not Applicable.
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3.

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities:

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	60.00	CARE A (CE); Stable
Un Supported Rating-Un Supported Rating (Long Term)	-	-	-	-	0.00	CARE BBB

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type 2021-2022	Amount Outstanding (Rs. crore) 2021-2022	Rating 2021-2022	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	60.00	CARE A (CE); Stable	-	1)CARE A (CE); Stable (09-Nov-20) 2)CARE A (CE); Stable (01-Oct-20)	1)CARE A (CE); Stable (27-Sep-19)	1)CARE A-(SO); Stable (05-Oct-18)
2	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE BBB	-	1)CARE BBB (09-Nov-20) 2)CARE BBB (01-Oct-20)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable.

Annexure 4: Complexity level of various instruments rated for this company:

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Un Supported Rating-Un Supported Rating (Long Term)	Simple

Annexure 5: Bank Lender Details for this Company: Not Applicable.

Annexure -6: List of subsidiaries and step-down subsidiaries used for consolidation:

S. No	Name of the company	Relationship with Keimed Private Limited
1	Palepu Pharma Private Limited	Subsidiary
2	Sanjeevani Pharma Distributors P. Ltd	Subsidiary
3	Medihauxe Pharma P. Ltd	Subsidiary
4	Dhruvi Pharma P. Ltd	Subsidiary
5	Lucky Pharmaceuticals P. Ltd	Subsidiary
6	Adeline Pharma P. Ltd	Subsidiary
7	Meher Distributors P. Ltd	Subsidiary
8	Lifeline Pharmaceuticals P. Ltd	Subsidiary
9	Shri Datta Agencies P. Ltd	Subsidiary
10	Singla Medicos Pharma P. Ltd	Subsidiary
11	Neelkanth Drugs P. Ltd	Subsidiary
12	Vardhman Pharma Distributors P. Ltd	Subsidiary
13	Vasu Agencies Hyd P. Ltd.	Subsidiary
14	Vasu Pharma Distributors Hyd P. Ltd.	Subsidiary
15	Vasu Vaccines & Specialty Drugs P. Ltd.	Subsidiary
16	Venkata Sai Agencies Hyd P. Ltd.	Subsidiary
17	Excelsior Softwares P. Ltd.	Subsidiary
18	Srinivasa Medisales P. Ltd	Step-down subsidiary
19	Focus Medisales P. Ltd	Step-down subsidiary
20	Medihauxe Healthcare P. Ltd	Step-down subsidiary
21	LPH Pharma P. Ltd	Step-down subsidiary
22	Medihauxe International P. Ltd	Step-down subsidiary
23	Dhanvanthri Pharma Distributors P. Ltd	Step-down subsidiary
24	Shanbalaji Pharma P. Ltd.	Step-down subsidiary
25	Shree Amman Pharma Private Limited	Step-down subsidiary
26	Kamal Distributors P. Ltd	Step-down subsidiary
27	SSND Medimart P. Ltd	Step-down subsidiary
28	ATC Pharma P. Ltd.	Step-down subsidiary
29	Yashvi Pharma Private Limited	Step-down subsidiary

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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