Medihauxe International Private Limited

October 07, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	12.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB+ (CE); Stable [Triple B Plus (Credit Enhancement); Outlook: Stable]
Total Bank Facilities	**12.00 (₹ Twelve Crore Only)**		

Details of instruments/facilities in Annexure-1

Unsupported Rating	**Withdrawn [Withdrawn]**

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

Detailed rationale and key rating drivers

The revision in ratings assigned to the bank facilities of Medihauxe International Private Limited (MIPL) is on account of change in analytical approach from credit enhancement in the form of corporate guarantee to standalone analysis of MIPL factoring in linkages with the ultimate parent, Keimed Private Limited. The rating derives strength from the first mover advantage in consolidation of pharmaceutical distribution network through acquisition of large regional players by Keimed (refers to Keimed Private Limited and its subsidiaries & step-down subsidiaries on a consolidated basis) and Keimed being a preferred partner for supply of pharmaceuticals to Apollo Hospitals Enterprise Limited (AHEL). The ratings also consider the robust growth in revenue during FY22 & satisfactory operating cycle (on a consolidated basis), experienced promoters & management team and long track record of operations of Keimed. MIPL, will continue to accrue benefits from the common management & financial linkages with Keimed.

The rating, however, remains tempered on account of leveraged capital structure with significant increase in debt levels on a and lower operating profitability margins due to the trading nature of business on a consolidated basis.

Rating sensitivities

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

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

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

- Any un-envisaged aggressive debt funded acquisition/capex with subsequent impact on the financial and liquidity profile.

Detailed description of the key rating drivers

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 (CARE AAA; Stable / CARE A1+), Abbott Healthcare Private Ltd, Aventis Pharma Ltd, Dr. Reddy's Laboratories, Intas Pharmaceutical Ltd (CARE AA+; Stable / CARE A1+), 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 two decades. Over the years, Keimed has significantly increased its scale of operations by acquiring majority stake in

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

many regional players and expanded its presence across the country. During FY21, the Keimed 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. Further in FY22, the group has acquired 10 companies during FY22 directly via the parent or through its subsidiaries, thus continuing the trend of consolidation of smaller players in the pharma distribution space. The acquisition was funded by debt and internal accruals. As a result of the acquisitions, the company was able to improve its scale of operations.

Preferred partner of Apollo Hospitals albeit moderate customer concentration risk - Keimed is the preferred partner to supply pharmaceuticals to Apollo Hospitals Enterprise Ltd (AHEL) as Keimed's promoter, Ms. Shobana Kamineni, also serves as the Executive Vice Chairperson of AHEL. This has resulted in AHEL (and other related entities) being the major client for Keimed over the last few years and contributing 48.5% to the group's revenues in FY22 (about 52.75% in FY21) at consolidated level. AHEL has a strong credit profile, which mitigates the concentration risk to an extent.

Robust growth in scale of operations during FY22– At the consolidated level, the group has achieved topline of Rs 7626.72 crore during FY22, growth of 28.4%. This is on account of increased sales to Apollo (new hospitals & pharmacies) and increase in customer base and acquisitions. At the standalone level, too the company reported topline of Rs 845.15 crore during FY22 as against Rs 702.88 crore during FY21 (growth of 20%).

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 remained stable at 50 days in FY22, compared to 52 days in FY21. Despite increase in scale of operations, the company has maintained satisfactory collection and inventory levels – at 36 days and 26 days respectively during FY22.

Experienced promoter group and strong management team - The promoters of the company have been in the pharmaceutical industry for more than three decades. The group is headed by Shobana Kamineni, who is a member of the founder family of Apollo Group and daughter of Dr. Prathap C Reddy, Founder & Chairman of Apollo Hospitals. She has been associated with the Apollo group since 1982 and also spearheads Apollo Pharmacy division. The business operations of the company have benefited from her long-established track record in the business and the vast industry network developed over the years. She is well supported by a team of experienced professionals, having considerable experience in the segment, to look after the day to day operations.

Stable Industry Outlook - With a market size of around USD 47-49 billion in FY22 (April 1 to March 31), the Indian pharmaceutical industry globally ranks third in terms of volume and thirteenth in terms of value. The industry has exhibited compounded annual growth rate (CAGR) of 8-9% during last five years i.e. FY17-FY22 while registering a y-o-y growth of 5-7% in FY22, largely driven by higher domestic consumption, even as the exports value was stable at USD 24.60 billion in FY22. With the easing of travel restrictions, the US Food and Drug Administration (USFDA) has ramped up its regulatory inspection rates of pharmaceutical manufacturing facilities. Rising instances of audit observation by USFDA impacts the compliance cost and in turn hurts the profitability of the pharma sector. PBILDT margin of the Indian pharmaceutical sector to decline both on Y-o-Y basis and Q-o-Q basis to 19-20% during H1FY23 due to an increase in the cost of APIs and Key Starting Materials (KSMs) apart from increase in the cost of packing material, freight and compliance cost. It is expected that the PBILDT margin should rebound in H2FY23. Further, rupee depreciation will have a positive impact of nearly 100-150 bps on the PBILDT margin during FY23. On a full year basis, the PBILDT margin is expected to shrink by 200-250 bps during FY23 over FY22 after considering the positive impact of rupee depreciation. Despite expected moderation in operating profitability in near to medium term, the credit profile of pharmaceutical companies is expected to remain strong due to their low reliance on external debt.

Key rating weaknesses
Low profitability margins - Due to the trading nature of the business, PBILDT margins remain thin in the range of 3.5% - 3.7% during the period FY18 – FY22. For FY22, PBILDT margin stands at 3.63% compared to 3.55% in FY21. However, at the absolute level, PBILDT has improved to Rs 276.72 crore in FY22 (PY: 210.74 crore) due to improvement in scale of operations.

Leveraged capital structure - Total debt has increased from Rs 695.77 crore in FY21 to Rs 948.6 crore in FY22, due to increase in working capital utilisation to support the scale of operations, infusion of unsecured loans from directors and term loan availed for acquisition. As a result, overall gearing stands at 1.58x as on March 31, 2022 (PY: 1.32x). Further, Total Debt/EBITA stands at 3.43x as on March 31, 2022.

Liquidity: Adequate

The liquidity profile of the group is marked adequate by gross cash accruals of Rs 158.0 crore in FY22 against the expected term debt obligations of Rs 26.12 crore in FY23. Further at the group level, the free cash and bank balance stands at Rs 15.44 crore as on March 31, 2022. This apart the company is in the process of enhancement in working capital limits to support its growing scale of operations.

Analytical approach – Change in analytical approach from credit enhancement in the form of corporate guarantee to standalone analysis of MIPL factoring in linkages with the ultimate parent, Keimed Private Limited. MIPL is a step-down subsidiary of Keimed Private Limited, which operates in same line of business having common management & operations team along with strong financial linkages.

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Wholesale Trading
Policy on Withdrawal of Ratings

About the company

Keimed Private Limited, promoted by Kamineni family was incorporated in March 2000 in Hyderabad, Telangana. 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 eighteen subsidiaries and twenty-one step-down subsidiaries as on March 31, 2022. Keimed group has 41,000 network partners with active retail store customers of 70,000 along with 40,000 SKU's spread across 19 states. The group also has warehouse space of 6 lsf with cold storage facilities and in-house IT infrastructure to take care of its operational needs, which has been implemented across all the entities of the Keimed group. The promoter group (Kamineni family) holds equity shareholding of 61.38% in Keimed 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. AHEL holds 49% in Family health Plan Insurance TPA Ltd and balance is held by promoters' group.

Brief Financials - Consolidated (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	5,937.64	7,626.72	NA
PBILDT	210.74	276.72	NA
PAT	87.41	125.90	NA
Overall gearing (times)	1.32	1.58	NA
Interest coverage (times)	4.07	4.06	NA

A: Audited; UA: Un-audited; NA: Not available

About the company - MIPL

Medihauxe International Private Limited (MIPL) incorporated on October 01, 2009 in Chennai, Tamil Nadu is one of the prominent and longstanding distributors of wide range of pharmaceutical products in Chennai dealing with about 350 manufacturers both Indian drug manufacturers and multinational manufacturers. The company is into wholesale distribution of pharmaceutical products for a wide range of medical, surgical and other hospital related materials to hospitals, retail pharmacies, Government and other private organizations.
This company is promoted by Mr. Manjunath K Adiga, Managing Director & Mr. P. S. Gopal, Director and is a closely held company with 51% shareholding being held by Palepu Pharma Private Limited, 25% by Keimed Private Limited and balance held by promoter, Mr. Manjunath K Adiga and family. However, Keimed holds 60% equity stake in PPPL.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23(UA)
Total operating income	142.48	215.20	59.31
PBILDT	7.24	13.72	3.97
PAT	4.75	10.64	3.69
Overall gearing (times)	0.07	0.19	0.44
Interest coverage (times)	11.98	22.52	16.54

A: Audited; UA: Un-audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating history for the last three years: Please refer Annexure-2
Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	12.00	CARE BBB+; Stable
Un Supported Rating-Un Supported Rating (Long Term)		-	-	-	0.00	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	-	-	-				
2	Fund-based - LT-Cash Credit	LT	12.00	CARE BBB+; Stable	-	1)CARE BBB+ (CE); Stable (02-Mar-22)	-	-
3	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	-	1)CARE BBB- (02-Mar-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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

To view the lender wise details of bank facilities please click here

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

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About us:
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