

Medihauze Healthcare Private Limited

November 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	6.00	CARE A-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the rating assigned to the bank facilities of Medihauze Healthcare Private Limited (MHPL) derives strength from strong parentage of Keimed Private Limited (Keimed), strength from its significant size and established position as a leading wholesale distributor of pharmaceutical products, as result of its consolidated distribution network through the acquisition of regional players in a similar line of business, which provides it a competitive advantage over its peers. Furthermore, the rating also factors in the supply arrangements with the Apollo group of companies, i.e., Apollo Hospitals Enterprise Limited (AHPL) and Apollo Healthco Limited (AHL), which contributed close to 48% of the consolidated revenue of KPL.

Moreover, the rating also considers the improved financial profile, marked by growth in the total operating income (TOI) and operating profit in FY23 at the consolidated level (FY refers to the period from April 01 to March 31), the comfortable operating cycle, the adequate liquidity position, and the experienced promoters and management team. Additionally, the ratings also take into account the group's expansion through the acquisition of new entities during the last fiscal year, FY23.

That said, the above strengths are offset by the decline in net profit in FY23, led by an increase in interest expenses, low profitability margins with moderation in FY23, deterioration in the capital structure due to increased working capital borrowings, increasing exposure to subsidiaries and step-down subsidiaries on a standalone basis in the form of corporate guarantee (CG) being extended for debt, and the high competition from organised and unorganised players.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin over 4% on a sustained basis.
- Improvement in the 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

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

Analytical approach: Standalone analysis of MHPL factoring in linkages with the parent, Keimed Private Limited. MHPL is an indirect subsidiary of Keimed Private Limited, which operates in the same line of business having a common management & operations team along with strong financial linkages.

Outlook: Stable

CARE Ratings believes that the entity will continue to benefit from the strong distribution network across the country and it being a preferred pharmaceutical partner for the Apollo group.

Detailed description of the key rating drivers:

Key strengths

Significant size and established position in wholesale pharma distribution

The existence of strong national and regional trade lobbies like the Indian Retail Druggists and Chemists Association and other Regional Distributors' Association makes it difficult for pharma manufacturers to sell directly to customers and small retailers. At the same time, it makes it difficult for a new distributor to scale up rapidly without opting for the 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.

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

In FY23, as part of the company's growth strategy, KPL has acquired complete ownership in a few companies in Andhra Pradesh and Uttarakhand, strengthening its position in their respective sectors.

Strong track record of KPL

Incorporated in 2000, KPL has been engaged in the distribution of medical, surgical, and other hospital-related materials such as drugs, chemicals, surgical disposables, instruments, and equipment to government and private hospitals and retail pharmacies for nearly two decades. Over the years, KPL has significantly increased its scale of operations by acquiring majority stakes in several regional players and expanded its presence across the country.

KPL distributes products of all the well-known companies in India, which include Sun Pharmaceutical Industries Limited, Cipla Pharmaceuticals Limited, Abbott Healthcare Private Limited, Aventis Pharma Limited, Dr Reddy's Laboratories, Intas Pharmaceutical Limited, GlaxoSmithKline Pharmaceuticals Limited, etc. The same has enabled the company to continuously expand its size and scale of operations over the years.

Largest wholesale trader of pharmaceutical products with diversified geographical presence

The group has a substantial network of 44 partners, serving an active retail customer base of 70,000, along with 45,000 stock keeping units (SKUs) spread across the country. These retail stores are strategically placed in key commercial areas, enhancing the group's brand visibility nationwide. Furthermore, the group maintains a warehouse capacity of nearly 6 lakh square feet (lsf), equipped with cold storage capabilities. It has also established an in-house Information Technology (IT) infrastructure that caters to the operational requirements of all its entities. The expanding scale of operations is expected to maintain with acquisitions taking place based on opportunities.

Preferred partner of Apollo Hospitals, albeit moderate customer concentration risk

KPL holds the position of the preferred pharmaceutical supplier for AHIL. This preference is reinforced by the fact that Shobana Kamineni, a promoter of KPL, also serves as the Executive Vice Chairperson of AHIL. Consequently, AHIL, along with its related entities, has emerged as a significant client for KPL, contributing 48.10% to the group's revenue in FY23 (approximately 47.61% in FY22) on a consolidated basis.

Over the past few years, KPL has followed an aggressive inorganic growth strategy by acquiring majority stakes in several regional pharma distribution players across India. This factor, along with the supply arrangement with AHIL, has resulted in the growing scale of operations of the company. The strong credit profile of AHIL acts as a mitigating factor for KPL's customer concentration risk.

Increase in total operating income (TOI) and operating profit, however, marginal decline witnessed at the net level

At the consolidated level, the group has achieved a top-line of ₹9,541.26 crore during FY23, a growth of 25%. This is on account of the increased sales to the Apollo group (new hospitals and pharmacies) and the increase in customer base in the existing business and through the acquisitions of new entities. The PBILDT increased to ₹335.73 crore in FY23 compared to ₹276.72 crore in FY22 on account of an increase in the scale of operations. However, the profit-after-tax (PAT) slightly declined to ₹123.17 crore in FY23 compared to ₹125.90 crore in FY22.

At the standalone level too, the company reported a top-line of ₹1,027.08 crore during FY23 as against ₹845.16 crore during FY22 (growth of 21.52%).

Satisfactory operating cycle

KPL has a satisfactory operating cycle despite its operations in a working capital-intensive business. Given the company's presence in the wholesale industry, the company has to maintain a relatively large stock of pharmaceutical products to cater to various retail businesses. Nevertheless, the operating cycle has remained stable at 52 days in FY23, compared to 50 days in FY22. Despite the increase in scale of operations, KPL has maintained satisfactory collection and inventory levels – at 39 days and 27 days, respectively, during FY23.

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 the 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 the 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.

Favourable industry outlook

The Indian pharma sector ranks third globally in terms of volume and fourteenth globally in terms of value. By 2030, the Indian pharma industry is anticipated to grow at a CAGR of 9-11% and reach US\$ 130 billion. A growth in the frequency of chronic diseases, increased per capita income, better access to healthcare facilities, and the penetration of health insurance are all factors that have benefited the domestic pharma business. Modern pharma retail has witnessed robust development, owing mostly to the increased demand for over-the-counter (OTC) and prescription drugs, wellness items, and private label products. Pharma retail outlets do, however, also sell a variety of fast-moving consumer goods (FMCG), consumables, and medical equipment, in addition to pharma and related services. Due to a sedentary lifestyle, there is a rising tendency of diseases that are caused by lifestyle. One of the greatest proportions of diabetic patients are seen in India. Obesity and disorders associated with it are becoming more and more common. These trends are causing the customer's medical demands to change, which may make the category the largest.

Key weaknesses

Low profitability margins with moderation in FY23

Owing to the trading nature of operations, the PBILDT margin at the consolidated level stood low at 3.52% during FY23 as against 3.63% during FY22. The PBILDT margin remained stable as the cost of traded goods sold grew in proportion to the improvement in the TOI. However, the gross cash accruals (GCA) remained at a comfortable level and witnessed a substantial year-on-year growth of 11% (to ₹175.13 crore in FY23 from ₹158.04 crore in FY22).

Leveraged capital structure and deterioration in debt coverage indicators

The total debt (TD) of the company increased from ₹948.59 crore as on March 31, 2022, to ₹1,387.86 crore as on March 31, 2023. This rise in debt levels can be attributed to the increase in working capital requirements, resulting from the acquisition of new companies in the last two years ended FY23, and further on account of the increase in the credit period offered to the Apollo group. KPL is currently extending a credit period of 40-45 days as against 30 days up to FY22. Over the past two years, the group acquired 12 companies, which led to increased utilisation of its working capital to support the expanded operations.

Additionally, for the acquisition of five companies in FY23, KPL availed term loans, resulting in a marginal increase in the term debt as on March 31, 2023. The promoters infused unsecured loans during FY23 to meet the promoter contribution. Despite the accumulation of profits contributing to the net worth, the overall gearing ratio deteriorated from 1.58x as on March 31, 2022, to 2.02x as on March 31, 2023. While the interest coverage ratio (ICR) declined to 3.77x in FY23 (from 4.06x in FY22), it still remained at a satisfactory level. However, the TD/PBILDT and TD/GCA increased to 4.13x and 7.92x, respectively in FY23 (PY: TD/PBILDT – 3.43x and TD/GCA – 6x).

Additionally, the standalone debt of the company surged to ₹1,329.21 crore in FY23 from ₹972.46 crore in FY22. This increase can be attributed to the rise in CGs extended to subsidiaries, which reached ₹1,112.68 crore in FY23, up from ₹774.75 crore in FY22.

Presence in a highly fragmented and competitive industry

The company is engaged in the trading of pharma products, which is highly fragmented in nature due to the presence of both, organised and unorganised players in the industry. The potential risk arises out of new competition owing to low entry barriers, with no visible differentiators in product profile. Nevertheless, KPL is a leading wholesale trader with a substantial network of 41,000 partners, serving an active retail customer base of 70,000. However, the competition from unorganised players continues to exist to some extent.

Liquidity: Adequate

The liquidity profile of the group is marked adequate by GCA of ₹175.13 crore in FY23 against the term debt obligations of ₹25.59 crore in FY24. Furthermore, at the group level, the free cash and bank balance stood at ₹67.30 crore as on March 31, 2023 (increased from ₹15.44 crore as on March 31, 2022). The working capital utilisation for the last 12 months ending July 31, 2023, stood at 90%.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Nonfinancial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Pharmaceutical](#)

[Wholesale Trading](#)

[Policy on Withdrawal of Ratings](#)

About the parent company and industry – Keimed Private Limited

Macro-Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

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 twenty subsidiaries and forty-four-one step-down subsidiaries as on March 31, 2023. Keimed group has 44 network partners with active retail store customers of 70,000 along with 45,000 SKU's spread across 20 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 81.32% 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%. 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)	March 31, 2023 (A)
Total operating income	5,937.64	7,626.72	9542.70*
PBILDT	210.74	276.72	335.73
PAT	87.41	125.90	123.17
Overall gearing (times)	1.32	1.58	2.02
Interest coverage (times)	4.07	4.06	3.77

A: Audited UA: Unaudited NA: Not available; Note: 'the above results are latest financial results available', *includes ₹ 1.44 crore of commission income.

About the company – MHPL

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

Medihaxe Healthcare Private Limited (MHPL), incorporated in August 2016 in Kolkata, is engaged in wholesale distributorship of pharmaceutical products for a wide range of medical, surgical, and other hospital related materials such as drugs, chemicals, surgical disposables, instruments, equipment and other related items to hospitals, retail pharmacies, Government, and other private organizations across Kolkata. MHPL is a closely held company with 99.98% shareholding held by Vardhman Pharma Distributors Private Ltd (Vardhman – subsidiary of Keimed), and rest is held by Mahendra Chowhan, who looks after the day-to-day operations of the business.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	39.93	40.22	13.30
PBILDT	1.90	1.90	0.37
PAT	1.05	1.28	0.19
Overall gearing (times)	0.28	0.11	NA
Interest coverage (times)	10.28	16.12	3.70

A: Audited UA: Unaudited NA: Not available; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	6.00	CARE A-; Stable

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	6.00	CARE A-; Stable	-	1)CARE A-; Stable (07-Oct-22)	1)CARE A (CE); Stable (05-Oct-21)	1)CARE A (CE); Stable (01-Oct-20)
2	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	-	1)Withdrawn (07-Oct-22)	1)CARE BBB- (05-Oct-21)	1)CARE BBB- (01-Oct-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the 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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Disclaimer:

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