

ATC Medicare Private Limited (Revised)

May 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	39.00	CARE A (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has placed the rating of ATC Medicare Private Limited (AMPL) on 'Rating watch with developing implications' following the announcement by Apollo Hospitals Enterprise Limited (AHEL) on April 26, 2024, of a proposed scheme of amalgamation for merging its parent company Keimed Private Limited (KPL) with Apollo Healthco Limited (AHL, a subsidiary of AHEL), with the latter as the surviving entity. Transaction is likely to be completed in the next 24-30 months, subject to approvals.

AHL proposes to raise equity capital of ₹2475 crore (US\$ 300 million) from Advent International (AI), a global private equity firm. This is proposed to be infused in two tranches, tranche 1 investment of ₹1732 crore and tranche 2 investment of ₹743 crore. Of the said proceeds, AHL will utilise ₹725 crore to acquire 11.1% stake in KPL, which is expected to complete in 12 months from initiating the transaction. Prior to the merger of KPL with AHL, as part of internal restructuring, all subsidiaries of KPL will be consolidated. Post merger of KPL with AHL, AI will hold a stake of 12.1% while AHEL will hold 59.2%, KPL's shareholders will hold 25.7% and balance 3% in the form of Employee Stock Option Plan (ESOP).

The combined entity will be an integrated pharmacy distribution setup with large network of retail presence pan-India and a growing omni-channel digital health business. With an end-to-end supply chain capabilities and broader channel for private label push, the company is expecting to demonstrate sustained and stronger growth. For 9-months ended December 2023, combined total operating income (TOI) of KPL and AHL stood at around ₹10,208 crore with an operating profit of ₹154 crore and margin of 1.5%.

However, CARE Ratings has limited clarity on AHL's current financial and business profile and the management's plan on investment in digital business and expansion. Specifically, there is limited clarity on end-use of proceeds by KPL, the timeline for turnaround of the digital business, and overall impact of the merger on KPL. CARE Ratings will continue to monitor developments pertaining to the merger and assess its impact to resolve the rating on watch.

The rating assigned to bank facilities of AMPL continues to derive strength from strong parentage of KPL and its significant size and established position as a leading wholesale distributor of pharmaceutical products, as result of its consolidated distribution network by acquiring regional players in a similar line of business, which provides it a competitive advantage over its peers. Furthermore, the rating also factors in supply arrangements with the Apollo group of companies, AHEL and AHL, which contributed close to 48% of KPL's consolidated revenue.

The rating also considers improved financial profile, marked by growth in TOI and operating profit in FY23 at the consolidated level (FY refers to April 01 to March 31), comfortable operating cycle, adequate liquidity position, and experienced promoters and management team. The rating also considers the group's expansion through acquiring new entities in the last fiscal, FY23.

These strengths are offset by the decline in net profit in FY23, led by an increase in interest expenses, low profitability margins moderating in FY23, deteriorating 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 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

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

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

Analytical approach: CARE Ratings has carried out Standalone analysis of AMPL factoring in linkages with the parent, KPL. AMPL is a step-down subsidiary of KPL, which operates in same line of business having common management and operations team, and strong financial linkages.

Outlook: Not applicable

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 such as 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. It is also difficult for a new distributor to scale up rapidly without opting for acquiring 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.

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

Strong track record of KPL

Incorporated in 2000, KPL is engaged in distributing 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 well-known companies in India, including Sun Pharmaceutical Industries Limited, Cipla Pharmaceuticals Limited, Abbott Healthcare Private Limited, Aventis Pharma Limited, Dr Reddy's Laboratories, Intas Pharmaceutical Limited, GlaxoSmithKline Pharmaceuticals Limited, among others. This 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, and 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. The group maintains a warehouse capacity of nearly six lakh square feet (lsf), equipped with cold storage capabilities. It has also established an in-house Information Technology (IT) infrastructure that caters to operational requirements of all its entities. The expanding scale of operations is expected to continue with acquisitions based on opportunities.

Preferred partner of Apollo Hospitals, despite moderate customer concentration risk

KPL is the preferred pharmaceutical supplier for AHEL. This preference is reinforced by Shobana Kamineni, a promoter of KPL, who also serves as the Executive Vice Chairperson of AHEL. Consequently, AHEL, and its related entities 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, and the supply arrangement with AHEL, resulted in growing scale of operations of the company. AHEL's strong credit profile acts as a mitigating factor for KPL's customer concentration risk.

Increase in TOI and operating profit, despite marginal decline at net level

At the consolidated level, the group achieved a top line of ₹9,541.26 crore in FY23 at 25.12%. This is considering increased sales to the Apollo group (new hospitals and pharmacies) and the increase in customer base in the existing business and through acquisitions of new entities. PBILDT increased to ₹335.73 crore in FY23 compared to ₹276.72 crore in FY22 considering an increase in scale of operations. However, 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 in FY23 as against ₹845.16 crore in FY22 (growth of 21.52%).

Satisfactory operating cycle

KPL has a satisfactory operating cycle despite 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 retail businesses. The operating cycle 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, in FY23.

Experienced promoter group and strong management team

The company's promoters 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 and Chairman of Apollo Hospitals. She has been associated with the Apollo group since 1982 and spearheads the Apollo Pharmacy division. The company's business operations have benefited from her long-established track record in the business and 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 day-to-day operations.

Favourable industry outlook

The Indian pharma sector ranks third globally in terms of volume and 14th 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 frequency of chronic diseases, increased per capita income, better access to healthcare facilities, and penetration of health insurance are factors benefitting 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, 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 lifestyle diseases. One of the greatest proportions of diabetic patients are seen in India. Obesity and disorders associated with it are becoming more common. These trends are causing the customer's medical demands to change, which may make this the largest category.

Key weaknesses

Low profitability margins with moderation in FY23

Owing to trading operations, PBILDT margin at the consolidated level stood low at 3.52% in FY23 as against 3.63% in FY22. The PBILDT margin remained stable, as the cost of traded goods sold grew in proportion to improving TOI. However, 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 deteriorating debt coverage indicators

The company's total debt (TD) 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 increase in working capital requirements, resulting from acquiring new companies in the last two years ended FY23, and further considering the increase in 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 last two years, the group acquired 12 companies, which led to increased utilisation of its working capital to support expanded operations.

For acquiring five companies in FY23, KPL availed term loans, resulting in a marginal increase in term debt as on March 31, 2023. Promoters infused unsecured loans in FY23 to meet the promoter contribution. Despite 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).

The company's standalone debt surged to ₹1,329.21 crore in FY23 from ₹972.46 crore in FY22. This increase can be attributed to 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 trading pharma products, which is highly fragmented due to presence of organised and unorganised players in the industry. The potential risk arises from new competition owing to low entry barriers, with no visible differentiators in product profile. KPL is a leading wholesale trader with a substantial network of 41,000 partners, serving an active retail customer base of 70,000. However, competition from unorganised players continues to exist to some extent.

Liquidity: Adequate

The group's liquidity profile is marked adequate by GCA of ₹175.13 crore in FY23 against term debt obligations of ₹25.59 crore in FY24. At the group level, 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). Working capital utilisation for 12-months ending July 31, 2023, stood at 90%.

Assumptions/Covenants: Not applicable

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

Applicable criteria

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

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

[Rating Outlook and Rating Watch](#)

[Pharmaceuticals](#)

[Financial Ratios – Non financial Sector](#)

Wholesale Trading

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Services	Services	Commercial services and supplies	Trading and distributors

About the Parent – KPL

Promoted by the Kamineni family, KPL was incorporated in March 2000 in Hyderabad, Telangana. The company is currently engaged in wholesale trading pharmaceutical products for a wide range of medical goods and consumables, drugs, surgical, health and personal care products, through its branches across India. KPL has 20 subsidiaries and 44 step-down subsidiaries as on March 31, 2023. The Keimed group has 44 network partners with 70,000 active retail store customers and 45,000 SKUs, spread across 20 states. The group also has a warehouse space of six lsf with cold storage facilities and in-house IT infrastructure to take care of its operational needs, which has been implemented across all entities of the Keimed group. The promoter group (Kamineni family) holds an equity shareholding of 81.32% in KPL, followed by Family Health Plan Insurance TPA Limited, which is an associate company of AHIL, having shareholding of 18.62%. AHIL holds 49% in Family Health Plan Insurance TPA Limited, and the balance is held by the 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; Note: 'the above results are latest financial results available', *includes ₹1.44 crore commission income.

About the company – AMPL Incorporated on March 14, 2022, AMPL is involved in wholesale distribution of pharmaceutical products primarily in Gujarat. The company caters to wholesale/retail shops, doctors, and multi-speciality hospitals. AMPL procures material from vendors across the country and caters mainly to Apollo Hospitals and Pharmacy retail outlets. The company is a step-down subsidiary of KPL, promoted by Shobana Kamineni, who also serves as the Executive Vice-Chairperson of AHIL.

Brief Financials (₹ crore)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	18.64	43.52
PBILDT	0.76	1.34
PAT	0.45	-0.01
Overall gearing (times)	3.57	NA
Interest coverage (times)	21.07	NA

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 (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		-	-	-	39.00	CARE A (RWD)

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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	39.00	CARE A (RWD)	-	1)CARE A; Stable (24-Nov-23)	-	-

LT: Long 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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