Lucky Pharma Logistics Private Limited

January 07, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	50.00	CARE A (RWD)	Continues to be on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) continues to place the rating of bank facilities of Lucky Pharma Logistics Private Limited (LPLPL) on 'Rating watch with developing implications'. The rating was placed under watch in May 2024, following Apollo Hospitals Enterprise Limited's (AHEL's) announcement on April 26, 2024, of proposed scheme of amalgamation for merging KPL with Apollo Healthco Limited (AHL, a subsidiary of AHEL), with the latter as the surviving entity. The rating continues to be on watch given the receipt of approval from the Competition Commission of India (CCI) on August 20, 2024; however, approval from National Company Law Tribunal (NCLT) is pending. The merger process is expected to complete in 15 months from the date of receipt of first tranche of investment from Advent International (AI), a global private equity (PE) firm. First tranche proceeds were received on September 27, 2024. Post merger, KPL shall cease to exist and AHL shall be the surviving entity. The milestone of internal restructuring of KPL, through "execution of scheme of arrangement" involving amalgamation of various subsidiaries was achieved in July 2024.

However, there is limited clarity on AHL management's plan on investment in digital business and expansion and timeline to turnaround the digital business. CARE Ratings will continue to monitor the developments pertaining to the merger and assess its impact to resolve the watch.

Per the proforma combined financials available on public domain (AHEL's publication on BSE), the revenue for FY24 stood at ₹13,770 crore with an earnings before interest, taxation, depreciation, and amortisation (EBIDTA) of ₹253 crore. In H1FY25, the performance of combined entity improved with total operating income (TOI) of ₹7,896 crore (annualised growth of ~15%) compared to FY24.

The rating assigned to bank facilities of LPLPL 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 through the acquisition of regional players in a similar line of business, which provides it a competitive advantage over its peers, and supply arrangements with the Apollo group of companies, Apollo Hospitals Enterprise Limited (AHEL) and Apollo Healthco Limited (AHL), which contributed close to 54% of KPL's consolidated revenue. The rating also derives strength from improved financial profile, marked by growth in the TOI and operating profit in FY24 (Audited) at the consolidated level (FY refers to April 01 to March 31), comfortable operating cycle, and adequate liquidity position. The rating also factors in the experienced promoters and management team, group's expansion through the acquisition of new entities and addition of branches in existing entities in the last fiscal year, FY24 and H1FY25, completion of internal restructuring of the Keimed Group, and improved financial performance in H1FY25 at a consolidated level.

The above strengths are offset by the decline in net profit in FY24, led by an increase in interest expenses due to higher working capital borrowings, moderation in profitability margins, deterioration in the capital structure and debt coverage indicators, and the high competition from organised and unorganised players. As on September 30, 2024, debt levels continue to remain at elevated levels.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins over 4% on a sustained basis.
- Improvement in the working capital turnover ratio above 6.5x on a sustained basis.

Negative factors

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

Analytical approach: CARE Ratings has carried out standalone analysis of LPLPL factoring linkages with the parent, KPL. LPLPL is a wholly owned subsidiary of KPL, which operates in same line of business, having common management and operations team, and strong financial linkages.

Outlook: Not applicable

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

Detailed description of key rating drivers:

Key strengths

Proposed merger with AHL
On April 26, 2024, AHEL (parent of AHL) announced a proposed scheme of amalgamation for the merger of KPL with its subsidiary company, AHL. AHL houses the pharmacy distribution business with exclusive supply arrangement with Apollo Pharmacies Ltd, retail pharmacy chain of the group, and operates omni channel digital healthcare platform, Apollo24x7. The overall transaction is expected to conclude over next 24-30 months from the date of announcement of scheme of amalgamation subject to receipt of all relevant shareholder and regulatory approvals. Company has received approval from the CCI on August 20, 2024. As part of the proposed merger, AHL proposes to raise equity capital of ₹2,475 crore (USD 300 million) from AI. The same was proposed to be infused in two tranches, tranche 1 investment of ₹1,732 crore and tranche 2 investment of ₹743 crore.

As on September 27, 2024, AHL has received ₹1,732 crore from AI in tranche 1 of which ₹890 crore was paid to AHEL against ₹1,290 crore payable for business acquired by AHL from AHEL in March 2022, and ₹125 crore was paid to promoters of KPL for acquiring 1.96% stake in KPL. The balance ₹718 crore is maintained for working capital in AHL. The tranche 2 investment of ₹743 crore is scheduled post 12 months of Tranche 1. Post completion of Tranche 2, AHL shall acquire 7.7% in KPL from promoters of KPL for ₹500 crore. Additionally, AHL shall subscribe to equity shares of KPL of ~1.54% for ₹100 crore to finally hold 11.2% share in KPL. Post merger, AI will acquire a total of 12.1% stake in AHL (merged entity), while AHEL will hold minimum 59.2% and KPL's promoters will hold maximum 25.7%. The merged 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.

Performance of combined entity (KPL + AHL) in FY24 and H1FY25
Per the proforma combined financials available on public domain (AHELs publication on BSE), the revenue for FY24 stood at ₹13,770 crore with an EBIDTA of ₹253 crore. In H1FY25, the performance of combined entity improved with TOI of ₹7,896 crore (annualised growth of ~15%) compared to FY24. The loss reported in online pharma distribution business of AHL reduced in H1FY25 leading to a combined EBIDTA of ₹258 crore (annualised growth of ~104%). AHLs online business reported loss of ₹619 crore in FY24 and the same stood at ₹250 crore in H1FY25.

Moderate growth in scale of operations in FY24, however, margins remain subdued
At the consolidated level, KPL achieved topline of ₹10,585 crore in FY24, growth of 14%. Increase in revenue is considering increase in share of sales to Apollo group and acquisition of companies resulting in increased customer base. At the standalone level as well, the company reported topline of ₹1,702.97 crore in FY24 against ₹1,179.19 crore in FY23 (growth of ~44%).

Due to the trading nature of the business, PBILDT margins remained thin in the range of 3.5% - 3.8% in FY20 – FY24. For FY24, PBILDT margin stood at 3.27% compared to 3.58% in FY23. However, at the absolute level, PBILDT improved to ₹346 crore in FY23 (PY: ₹333 crore) due to improvement in scale of operations.

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. Simultaneously, 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. As part of the company's growth strategy, KPL acquired complete ownership in one company in FY24 and three companies in H1FY25. The group also opened four new branches strengthening its position in their respective sectors.

Strong track record of KPL
Incorporated in 2000, KPL has been 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 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, and GlaxoSmithKline Pharmaceuticals Limited, among others. 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 over 40 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 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. CARE Ratings observes, the expanding scale of operations is expected to maintain with acquisitions taking place based on opportunities.

Preferred partner of Apollo Hospitals, despite moderate customer concentration risk
KPL holds the position of the preferred pharmaceutical supplier for AHEL. This preference is reinforced by the fact that Shobana Kamineni, a promoter of KPL, also serves as the Executive Vice Chairperson of AHEL. Consequently, AHEL and its related entities have emerged as a significant client for KPL, contributing 54% to the group's revenue in FY24 (~49% in FY23) on a consolidated basis. In the last 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, has resulted in the growing scale of operations of the company. AHEL's strong credit profile acts as a mitigating factor for KPL's customer concentration risk.

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 though marginally deteriorated to 63 days in FY24, compared to 54 days in FY23. Despite the increase in scale of operations, the company has maintained satisfactory collection and inventory levels – at 47 days and 32 days, respectively, in FY24.

Experienced promoter group and strong management team
The company's promoters have been in the pharmaceutical industry for over 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 company's business operations 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 pharm industry is anticipated to grow at a compounded annual growth rate (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 increased demand for OTC and prescription drugs, wellness items, and private label products. However, pharma retail outlets also sell a variety of fast moving consumer goods (FMCG) items, consumables, and medical equipment in addition to pharma and related services. Due to a sedentary lifestyle, there is a rising tendency of diseases caused by lifestyle, with one of the greatest proportions of diabetic patients reported 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 might make that category the largest.

Key weaknesses

Low profitability margins with moderation in FY24
Owing to the trading nature of operations, the PBILDT margin at the consolidated level stood low at 3.27% in FY24 against 3.38% in FY23. The PBILDT margin remained stable despite marginal decline as the cost of traded goods sold grew in proportion to the improvement in the TOI. The gross cash accruals (GCA) remained at a comfortable level which stood at ₹167 crore in FY24 (PY: ₹170 crore).

However, in H1FY25, the group's margins improved with operating margin at 3.41% and profit after tax (PAT) margin at 1.34%. The group was able to achieve slightly higher margins through economies of scale.

Leveraged capital structure and moderation in debt coverage indicators
On consolidated basis, total debt has increased from ₹1,413 crore as on March 31, 2023, to ₹1,797 crore as on March 31, 2024, due to increase in working capital utilisation to support the scale of operations. Working capital requirements for the newly acquired companies tend to be on a higher side initially resulting in higher working capital (WC) requirements. This, coupled with change in credit terms extended by KPL to its customers resulted in increased borrowings. In FY24, KPL extended a credit period of 45-60 days against maximum of 30 days extended till FY23 resulting in higher outstanding as on March 31, 2024. With increase in the total debt, overall gearing has marginally deteriorated to 2.45x as on March 31, 2024 (PYE: 2.34x) despite accretion of profits to the net worth.

As on September 30, 2024, working capital borrowings continue to remain on a higher side at ₹1,694 crore (₹1,580 crore as on March 31, 2024). However, with higher profit reported in H1FY25, overall gearing marginally improved to 2.34x as on September 30, 2024.

Moderate scale of operations with decline in FY24 and moderate contribution to consolidated revenue

LPLPL's TOI decreased by ~45% to ₹267 crore in FY24 when compared to the previous year due to closure of few branches resulting in lower turnover. Given the trading nature of business, the company operates on thin margins. With decrease in scale of operations and high interest expense, LPLPL incurred operating losses amounting to ₹1.53 crore and at net level, LPLPL incurred a loss of ₹0.63 crore. Capital structure marked by overall gearing remained leveraged at similar levels at 2.34x as of March 31, 2024. This is considering reduction in net worth due to loss.

Presence in highly fragmented and competitive nature of industry
The company is engaged in trading pharmaceutical products, which is highly fragmented in nature, due to presence of both organised and unorganised players in the industry. Potential risk arising out of new competition owing to differentiated products and new entrants of varying sizes and store formats operating in unexplored semi-urban and rural markets. Nevertheless, Keimed group is one of the largest pharma traders in the country having strong presence with over 40,000 stores spread across parts of India. However, competition from unorganised players continues to exist to some extent.

Liquidity: Adequate
The liquidity profile of the group is marked adequate by GCA of ₹167 crore in FY24 against the term debt obligations of ₹37 crore in FY24. At the group level, the free cash and bank balance stands at ₹62 crore as on March 31, 2024. The working capital utilisation for the past 12 months ending September 2024 stood at 82%.

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
Financial Ratios – Non financial Sector
Wholesale Trading

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

About the parent – KPL: KPL, promoted by the Kamineni family, was incorporated in March 2000 in Hyderabad, Telangana. The company is currently engaged in wholesale trading of 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 42 wholly owned subsidiaries as on March 31, 2024. The Keimed group has 44 network partners with 70,000 active retail store customers and 45,000 SKUs, spread across the country. The group also has a 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 an equity shareholding of 71.98% in KPL, followed by Family Health Plan Insurance TPA Limited, which is an associate company of AHEL, having shareholding of 16.49%. AHEL holds 49% in Family Health Plan Insurance TPA Limited and the balance is held by the promoters' group.

KPL – Consolidated:

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	9,311	10,585	6,354
PBILDT	333	346	217
PAT	141	117	85
Overall gearing (times)	2.34	2.45	2.34
Interest coverage (times)	3.63	2.62	2.89

A: Audited UA: Unaudited; Note: these are latest available financial results

About the company – LPLPL:
Incorporated on March 25, 2022, in New Delhi, LPLPL is engaged in 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 organisations across New Delhi. The company is promoted by Veerinder Singh Pal (Managing Director).

LPLPL – Standalone:

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	489.55	267.64
PBILDT	11.09	-1.53
PAT	8.12	-0.63
Overall gearing (times)	2.26	2.34
Interest coverage (times)	4.00	-0.26

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	50.00	CARE A (RWD)

Annexure-2: Rating history for 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	50.00	CARE A (RWD)	1)CARE A (RWD) (08-May-24)	1)CARE A; Stable (24-Nov-23)	-	-

LT: Long term

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

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

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

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

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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