Medi Pharma Drug House (MPDH)

March 20, 2025

Ratings

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	71.07	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	-	Assigned	Simple
Short Term Bank Facilities	40.00	IVR A3 (IVR A Three)	-	Assigned	Simple
Total	**111.07 (Rupees One Hundred and Eleven Crore and Seven Lakhs only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has assigned rating to the bank facilities of Medi Pharma Drug House (MPDH). The rating assignment takes into account the established track record of partners and extensive experience of management team and modest financial risk profile. However, the rating strengths remain constrained by working capital intensive operations, stretched capital structure and moderate debt protection metrics. Further, intense competition and exposure to regulatory risk inherent in pharmaceutical industry and risks arising from partnership nature of business which may impact the firm's operations have been factored in the rating.

The Stable outlook is assigned due to extensive experience of the partners and management team and long-standing experience of the firm in the pharmaceutical trading business.

Key Rating Sensitivities:

Upward Factors

- Significant and sustained growth in scale of business with sustenance of profitability margins

- Improvement in the capital structure with further improvement in debt protection metrics

Downward Factors

- Sustained dip in operating income and/or profitability impacting the debt coverage indicators and/or deterioration in the financial risk profile.
- Any further significant rise in working capital intensity or unplanned capex leading to a deterioration in the liquidity position

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Established track record and experienced promoters and management team

MPDH was founded in 1963 by Mr. Manharlal (Manubhai) Sanghavi in Dava Bazar area of Mumbai. His son, Mr. Sanjay Sanghavi joined the firm in 1988 and took over as working partner of the business. The partners of the firm with an experience of about five decades in the bulk drug (API) trading business is one of the oldest and largest importers, distributor and dealer of pharmaceutical API (Bulk Drugs), Excipients, Nutraceuticals and Animal Feed additives. This has helped the firm understand the dynamics of the industry and has PAN India distribution network for regular supplies to Pharma Industry. Besides the promoter, the firm has a team of experienced and qualified professionals, having over an average experience of over a decade in respective divisions and with the firm, to look after the overall operations and day to day management.

Established relationship with suppliers and customers

The firm is engaged in the business of trading of active pharmaceutical ingredients (API), excipients and nutraceuticals since its establishment in 1963 and has expertise in pharmaceutical industry & international trade. The company sources API from direct manufacturers of China, India & other countries that helps the company in providing customers with customized solutions for supply chain management, just-in-time delivery, etc. and has established relationship with leading players in domestic pharma industry.

Modest financial risk profile

The firm’s total operating income witnessed an uneven trend registering a CAGR growth of over 16% between FY21 and FY24, led by a substantial growth of over 80% witnessed during FY22 led by demand surge along with higher realisations while it witnessed a y-o-y decline of about 18% in FY23 led by cost correction due to improved availability post Covid period. In FY24, the ToI has registered an increase of about 5% to stand at Rs. 441.02 crore vis-à-vis Rs. 419.66 crore in FY23 led by stable business operations. Further, being in the trading business, the firm operates on comparatively thinner margins. In FY24, the profitability in absolute terms continued to remain largely stable registering a nominal growth of 1.90% y-o-y at EBITDA level. On the other hand, absolute PAT witnessed a y-o-y decline of 10.66% in FY24 and stood at Rs. 3.06 crore led by higher financial expenses and lower non-operational income during the year. The repayment of UGECL term loans started from December 2023 leading to higher financial expenses in FY24. The Gross Cash Accruals decreased and stood moderate at Rs. 3.61 crore in FY24 from Rs. 4.01 crore in FY23.

Key Rating Weaknesses

Working capital intensive operations

The operating cycle of the MPDH remained moderate and stood at 81 days in FY24 (vis-à-vis 85 days in FY23) mainly on account of high gross current asset days of around 168 days. Further, while collection period witnessed an improvement and stood at 89 days, creditors days largely stable at 63 days and inventory days increased to 55 days as on March 31. 2024. This indicates working capital-intensive operations as the firm has to keep moderate level of inventory of raw materials.

Stretched capital structure and moderate debt protection metrics

The capital structure remains stretched, reflected by Total Outside Liabilities/Adjusted Tangible Net worth at 5.26x as on March 31, 2024 (March 31, 2023: 3.46x) and the overall gearing ratio also stood high at 2.82x as on March 31, 2024 (March 31, 2023: 1.89x). The interest service coverage ratio also remained moderate at 1.55x at the end of FY24 (FY23: 1.58x). The debt service coverage ratio remained moderate at 1.43x as on March 31, 2024 (March 31, 2023: 1.50x). However, current and quick ratio stood comfortable at 1.26x and 0.84x as on March 31, 2024.

Risks arising from partnership nature of business

As a partnership firm, it is exposed to the discrete risks including the possibility of withdrawal of capital by the partners and the risk of dissolution of the firm upon death, retirement or insolvency of the partners. Moreover, the partnership nature limits MPDH's flexibility to tap external channels of financing.

Intense competition and exposure to regulatory risk inherent in pharmaceutical industry

The firm faces intense competition from the other players in the domestic market. Pricing pressure, increasing regulation, and increased sensitivity towards product performance are the key issues in the pharmaceutical industry. The pharmaceutical industry has been a highly regulated industry worldwide by virtue of its direct bearing on public health. In India too, government policies have played key role in performance of companies such as explicit control on drug prices in the form of drug price control order (DPCO). Further, the patent laws and related regulations might hamper firm's plans to launch new products and cater to new markets.

Foreign exchange fluctuation risk

The firm is exposed to currency fluctuation risk to the extent that there is a mismatch between the currencies in which export sales, import purchase and other expenses in foreign currency are denominated and the functional currency of the firm. While the firm takes postdated cheques for its domestic debtors, the firm is associated with one of the financial services providing firms' for hedging its forex transaction for imports and exports. Though the firm has adequate PAT to absorb losses arising due to the currency fluctuation, profitability of MPDH may get affected by volatility in forex rate.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies
Financial Ratios & Interpretation (Non-Financial Sector).
Criteria for assigning Rating outlook.

Policy on Default Recognition

Complexity Level of Rated Instruments/Facilities

Liquidity - Adequate

The liquidity position of the firm remains adequate with no debt funded capex and cash accruals are expected to meet the repayment obligations. Further, the company had gross cash accruals of Rs. 3.61 Crore in FY24. The overall utilisation of the fund-based limits remains high at 87.70% during the last 11 months ended January 2025. The current ratio stood adequate at 1.26x as on March 31, 2024.

About the Company

Established in 1963, MPDH was started by Mr. Manharlal (Manubhai) Sanghavi in Dava Bazar area of Mumbai. It was initially started as a re-packing unit of Boric Acid, Citric Acid, Tartaric Acid and many other such chemicals which were Repacked from bulk packing to small laboratory & household packs.

Dr. Sanjay M. Sanghavi joined the firm in 1988 and took over as working partner of the business, and currently, the firm is one of the oldest and largest importers, distributor and dealer of pharmaceutical API (Bulk Drugs), Excipients, Nutraceuticals and Animal Feed additives. Its bulk drug trading (API) business is supported by a wide product range and large customer base of over 850. It is managed along with his son, Mr. Het Sanghavi. The firm procures bulk drugs (API) largely from China (~60-70%) as well as from domestic markets (~30-40%) for sale to pharmaceutical companies in India as well as export markets such as Bangladesh, Nepal, Kenya and Pakistan. It also provides registration services of API with Drugs Controller General of India (DCGI), New Delhi. It also provides API intermediaries to pharmaceutical companies for further processing and manufacturing of bulk drugs. The firm has warehouses in Bhiwandi and Nhava Sheva in Mumbai region of Maharashtra State.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	419.66	441.02
EBITDA	12.63	12.87

PAT	3.43	3.06
Total Debt	85.61	93.55
Tangible Net Worth	45.25	33.17
EBITDA Margin (%)	3.01	2.92
PAT Margin (%)	0.81	0.69
Overall Gearing Ratio (x)	1.89	2.82
Interest Coverage (x)	1.58	1.55

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (2024-25)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23
					Date	Date	Date
1.	Long Term Fund Based Bank Facilities - Term Loans/UGECL	Long Term	6.07	IVR BBB-/ Stable	-	-	-
2.	Long Term Fund Based Bank Facilities - Cash Credit	Long Term	65.00	IVR BBB-/ Stable	-	-	
3.	Short Term Bank Facilities - Letter of Credit	Short Term	40.00	IVR A3	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Ltd. (formerly Infomerics Valuation and Rating Private Ltd.) (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External

Press Release

Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Instrument/Facility Details

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan /UGECL	-	-	November 2026	6.07	IVR BBB-/ Stable
Cash Credit	-	-	Revolving	65.00	IVR BBB-/ Stable
Letter of Credit	-	-	-	40.00	IVR A3

Annexure 2: Facility wise lender details
https://www.infomerics.com/admin/prfiles/Len-Medi-Pharma-Drug-20mar25.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Name of the Security		Detailed Explanation
	Financial Covenant	
	i.	
	ii.	
	Non-financial Covenant	
	i.	
	ii.	

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.