Press Release

Medec Dragon Private Limited

August 19, 2021

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Proposed Commercial Paper	100.00	IVR A1+ (IVR A One Plus)	Assigned

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the proposed commercial paper programme of Medec Dragon private Limited (MDPL) considers significant growth in its total operating income in FY21 and in 4MFY22. Further, the growth is expected to sustain over the near to medium term. The rating also positively notes MDPL's prestigious association with renowned 'Clinton Initiative' part of the Bill Clinton Foundation for meeting supplies of anti-malarial drugs to emerging markets. The company is expecting its first order from the foundation by end of November 2021 which will drive further revenue and profitability growth. Besides, the rating also continues to draw comfort from extensive experience of the promoters in pharma industry, comfortable financial risk profile and asset light model of operations which enables the company to scale up operations without incurring significant capital expenditure. Recently, the company has planned to buyout existing API manufacturing facility in Maharashtra at a total outlay of Rs.8 crore which is to be fully funded by promoter's fund. The unit is expected to be in the company's possession by September 30, 2021. However, these rating strengths remain constrained due to high geographical and customer concentration risk. The rating also considers high receivables and susceptibility of operations to regulatory restrictions.

Key Rating Sensitivities

Upward Factors:

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Effective working capital management with improvement in operating cycle and liquidity

Downward Factors:

- Decline in operating income and/or profitability on sustained basis
- Deterioration in the capital structure with the overall gearing deteriorated to below 1x
- Elongation in the operating cycle impacting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of promoters**

  The promoter, Dr Suresh Chhaberia, has experience of over three decades in pharmaceutical industry. He has worked with companies in UAE & Africa and his long presence in Pharma industry has helped in building strong supplier and customer network. Besides, he is ably supported by well experienced management team which enables the company to grow and penetrate newer markets globally.

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- **Asset light model of operations**

  MDPL follows asset-light model of operations and outsources its entire manufacturing to third parties. This enables the company to scale-up its operations without incurring significant capital expenditure and offers higher flexibility and lower overhead cost. However, recently the company has planned to buyout existing API manufacturing facility in Maharashtra at a total outlay of Rs. 8 crore which is to be fully funded by promoters fund. The unit is expected to be in the company's possession by September 30, 2021.

- **Comfortable financial risk profile**

  MDPL's financial profile has been comfortable as characterised by its conservative capital structure on the back of strong net worth base of Rs. 96.86 crore, coupled with no debt as on March 31, 2021 and its healthy cash accruals.

- **Consistent and healthy revenue growth**

  MDPL reported a CAGR of ~21% in total operating income over FY18-FY21. In FY21, the company reported ~43% YOY revenue growth to ~Rs. 434 crore driven by increase in demand for its products induced by covid-19 pandemic. In 4MFY22, the company has achieved revenue of ~Rs.221 crore and its recent association with Bill Clinton foundation is expected to drive further revenue and profitability growth.

Key Rating Weakness

- **Concentration risk**

  The company's major sales are exports, mainly in semi-regulated/unregulated markets. Further, the company is exposed to increased customer concentration risk with the top five customers accounting for more than 50% of the total revenues. MDPL also remains exposed to geographical concentration risk with major share of revenues coming from the Middle East region. However, the promoters have strong relationship with the counter parties with good understanding of the Middle East market which imparts comfort.

- **Operations exposed to regulatory restrictions**

  The operations remain susceptible to regulatory restrictions in terms of pricing caps and product approvals in export destinations. With increasing focus on exports, timely product approval, in various semi-regulated markets, remains crucial for the growth of exports going forward.

- **High receivables**

  The debtor days remained high owing to the high credit period offered to the customers. It stood at 94 days as on March 31, 2021 (117 days as on March 31, 2020). However, as on March 31, 2021, there was no receivables above 6 months. The company's exports are not LC backed but are covered under insurance.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Adequate

MDPL's liquidity position remains adequate, characterised by absence of debt and healthy accruals.

About the Company

Press Release

Incorporated in December 2010, Medec Dragon Pvt Limited (erstwhile Miles Tradexim Pvt Ltd) was promoted by Mr. Chandulal Shah. After the demise of Mr. Chandulal Shah in 2018, his long-time family friend Dr Suresh Chhaberia took over the company to continue its operations. In April 2017, the company acquired Avaya Industries Ltd for a consideration of Rs. 61.58 crore. The Company has 14 registered process patents for improved and non-infringing process for producing anti-cancer, pain killers, infective APIs. The company follows an asset light model of operations and outsource its entire manufacturing to third parties. All plants are USFDA WHOGMP approved. MDPL is primarily into exports of pharmaceutical intermediates and bulk drugs to the emerging markets. The Anti-cancer drugs cover the major portion of the company's revenue (~60%). The Company has ISO 9001:2015, ISO14001:2015 , ISO OHSAS 18001:2015 from LMS Certifications Pvt Limited and WHO GMP and Certificate of Compliance (CE for Europe) from UK Certification and Inspection Limited and USFDA Registration with Registrar Corporation Virginia.

Financials: Standalone **(Rs. crore)**

For the year ended* / As On	**31-03-2020**	**31-03-2021**
	Audited	**Audited**
Total Operating Income	303.75	434.14
EBITDA	21.51	23.62
PAT	8.97	16.67
Total Debt	0.00	0.00
Tangible Net worth	80.18	96.86
EBITDA Margin (%)	7.08	5.44
PAT Margin (%)	2.95	3.84
Overall Gearing Ratio (x)	0.00	0.00

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr.	**Name of Instrument/Facili**	**Current Rating (Year 2021-22)**	**Rating History for the past 3 years**

N o.	ties	Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Proposed commercial paper	Short term	100.00	IVR A1+	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Mr. Ashish Agarwal	Name: Mr. Avik Podder
Tel: (033) 46022266	Tel: (033) 46022266
Email: aagarwal@infomerics.com	Email: apodder@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating / Outlook
Proposed Commercial Paper	-	-	-	100.00	IVR A1+

Annexure 2: Facility wise lender details : Not applicable

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

Annexure 4: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1	Commercial Paper	Simple

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.