Press Release

Medec Dragon Private Limited

March 10, 2021

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Proposed Commercial Paper	100.00	IVR A1 (IVR A One)	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) draws comfort from extensive experience of its promoters in pharma industry, conservative capital structure and asset light model of operations which enables the company to scale up operations without incurring significant capital expenditure. Further, the rating also considers significant improvement in its scale of operations and profitability leading to healthy gross cash accruals in 10MFY21 and strengthening of the net worth base. The rating also positively notes MDPL's new prestigious association with renowned 'Clinton Initiative' part of the Bill Clinton Foundation for meeting supplies of anti-malarial drugs to emerging markets. 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.

- **Conservative capital structure**

  The Company has a healthy capital structure with no debt on its books as on January 31, 2021.

- **Significant improvement in profitability and net worth base in 10MFY21**

  The operating profitability improved to 10.81% in 10MFY21 from 7.08% in FY20 due to better realisations and cost control initiatives. Healthy addition of profits strengthened the net-worth base to Rs. 98.64 crore as on January 31, 2021 from Rs.80.18 crore as on March 31, 2020. In 10MFY21, the company achieved revenue of ~Rs. 322 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 ~56% of the total revenues in FY20. 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 112 days as on January 31, 2021 (117 days as on March 31, 2020). However, as on January 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 no major investments or capital expenditure planned in the near term.

About the Company

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 noninfringing 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	31-03-2019	31-03-2020	31-01-2021^
	Audited	Audited	10M,Provisional
Total Operating Income	287.23	303.75	321.94
EBITDA	19.79	21.51	34.81
PAT	8.49	8.97	18.46
Total Debt	10.00	0.00	0.00
Tangible Net worth	71.20	80.18	98.64
EBITDA Margin (%)	6.89	7.08	10.81
PAT Margin (%)	2.96	2.95	5.73
Overall Gearing Ratio (x)	0.14	0.00	0.00

**Classification as per Infomerics' standards.*
^CA certified

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Press Release

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)				Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Proposed commercial paper	Short term	100.00	IVR A1	-	-	-	-

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.

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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.

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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