

September 18, 2023

Meril Medical Innovations Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	46.00	[ICRA]BBB+ (Stable); Assigned
Short-term – Fund-based/ Non-fund based	30.00	[ICRA]A2; Assigned
Total	76.00	

*Instrument details are provided in Annexure I

Rationale

Meril Medical Innovations Private Limited (MMIPL/ the company) is a wholly owned subsidiary of Micro Life Sciences Private Limited (Micro; rated [ICRA] AA (Stable)/ A1+). The company was incorporated on November 04, 2022, and has commenced construction of its manufacturing facility. The company will undertake various backward integration for Group companies.

The assigned ratings factor in MMIPL's strong parentage as a wholly-owned subsidiary of Micro, the holding company for the healthcare segment of the Bilakhia Group. Micro has an established market position and diversified product portfolio in the medical devices industry. The ratings also consider the extensive experience of the promoters, Bilakhia Group, in the industry. The promoter group has supported its group companies in the past, and is expected to continue the same, in case need for the same arises. The company operates in an industry that is generally considered to be resistant to inflation and primarily consists of non-discretionary products. Over the longer term, higher lifestyle diseases, increased health awareness and improving affordability will benefit the company. MMIPL is expected to be a strategically important entity for the Group, as planned backward integration under the company is expected to reduce raw material costs, leading to improved margins for Group companies.

The ratings, however, remain constrained by the ongoing large debt-funded capex for MMIPL's manufacturing facility. The company is expected to incur most of its capex of ~Rs. 50-55 crore during FY2024, which is being funded through a mix of internal funding from Micro and term debt of ~Rs. 46.0 crore, which will be drawn down during FY2024 with a moratorium period of 30 months. The company's ability to complete the capex within the budgeted timeline and costs as well as ramp up of the facility would remain a key monitorable from a credit perspective.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will continue to benefit from its parent's established presence in the medical devices industry along with favourable demand outlook for medical devices.

Key rating drivers and their description

Credit strengths

Experienced and strong promoter group – MMIPL is a 100% subsidiary of Micro, which is held by Bilakhia Holdings Private Limited (BHPL), the holding company of the Bilakhia Group. The Group entered the healthcare sector in 2006. The promoter group had infused funds into Micro in the past, by way of non-convertible preference shares and unsecured loans for supporting its operational/debt servicing requirements, which was repaid in FY2023, following private equity investments. Going forward, the extensive experience of the promoters and the management team will continue to support the company's operations.

Healthy long-term industry outlook – The company operates in an industry that is generally considered to be resistant to inflation and primarily consists of non-discretionary products. The demand for healthcare products and devices is expected to remain high due to increasing lifestyle diseases. Further, increased health awareness and improving affordability of treatments

are expected to drive industry growth. In the domestic market, the increasing penetration of health insurance will support the industry. Further, export markets also present a sizeable growth opportunity for the company and the broader industry.

Low project funding risks –The project faces low funding risk as planned capex of Rs. 50.0-55.0 crore during FY2024 will be funded through term debt of ~Rs.46.0 crore and rest through support from Micro. The company has already received the required term loan sanction and has drawn ~Rs. 5.0 crore of the term loan till August 2023, with the rest expected to be drawn down during FY2024. Also, ICRA expects Micro to extend financial support to the company, as and when needed.

Credit challenges

Nascent stage of the project – The company is exposed to project implementation risk, given the nascent stage of the project. However, the track record of the parent company for timely completion of projects mitigates the risk to a certain extent.

Large debt-funded capex plans and project execution risks –The company is undertaking a capex of ~Rs. 50-55 crore for a manufacturing facility to carry out various backward integration activities for Group companies. MMIPL is also expected to house manufacturing capacities for peripheral and neurovascular segments. It is expected to incur majority of its capex during FY2024, which is being funded through a mix of internal funding from Micro and term debt of ~Rs. 46.0 crore, to be drawn down during FY2024 with a moratorium period of 30 months. The company's ability to complete the project in a timely manner within the budgeted costs, along with ramp up of the manufacturing facility would remain a key monitorable.

Liquidity position: Adequate

The company had free cash and liquid investments of Rs. 1.2 crore as of March 31, 2023. It is expected to incur a capex of Rs. 50-55 crore during FY2024 with a mix of internal funding from Micro and term debt of ~Rs. 46.0 crore with a moratorium period of 30 months. Repayment for the term debt is expected to start from FY2027. ICRA expects Micro to extend financial support to MMIPL, as and when needed.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates timely completion of construction and commences operations without any material cost overrun. An improvement in the credit profile of the parent, Micro, could also have a positive impact on the company's ratings.

Negative factors – Negative pressure on MMIPL's rating could arise if there are significant delays in completing the capex, or if there are material cost overruns impacting its expected credit metrics. Pressure could also arise with the weakening of the credit profile of Micro.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Micro Life Sciences Private Limited
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of MMIPL.

About the company

MMIPL, incorporated on November 04, 2022, is a wholly-owned subsidiary of Micro Life Sciences Private Limited (rated [ICRA] AA (Stable)/ A1+). MMIPL is yet to commence operations, while its manufacturing facility is currently under construction. The company will carry out various backward integration activities for Group companies.

About the parent

Micro is the holding company for the healthcare segment of the Bilakhia Group. It is a subsidiary of BHPL, the ultimate holding company of the Group. At present, BHPL owns 89.06% stake in Micro. The company received PE investment of Rs. 1,900 crore in H1 FY2023, of which Rs. 1,427.5 crore was equity infusion and Rs. 472.5 crore was in the form of CCPS. The CCPS is expected to be converted into equity at a predetermined conversion ratio, depending on a mutually agreed milestone achievement. On a fully diluted basis (considering CCPS conversion, post-milestone achievement), BHPL will either hold 84.50% or 85.95% in Micro, depending on the outcome of the trigger event for CCPS. There are no terms attached to the PE investment, viz., repayment, exit terms, buy back, or guaranteed returns.

Through its wholly-owned, domestic subsidiaries, Micro is involved in the design and development of medical products and devices. The company caters to segments like cardiovascular, orthopaedic, diagnostic and endo-surgery. It has marketing offices in various countries—viz., Germany, Türkiye, the US, Russia, South Africa, Brazil, Bangladesh, Australia, China, and the UK—which are handled by its foreign subsidiaries.

Key financial indicators

Micro Consolidated	FY2023
Operating income (Rs. crore)	0.0
PAT (Rs. crore)	-0.2
OPBDITA/OI (%)	-
PAT/OI (%)	-
Total outside liabilities/Tangible net worth (times)	0.0
Total debt/OPBDITA (times)	-
Net debt/OPBDITA (times)	-
Interest coverage (times)	-72.3

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; All amounts as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years		
		Amount Rated (Rs. crore)	Amount outstanding as of Jun 30, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				Sep 18, 2023	-	-	-
1 Long term - Fund Based – Term loan	Long-term	46.00	--	[ICRA]BBB+ (Stable)	-	-	-
2 Short Term - Fund Based/Non Fund Based	Short-term	30.00	--	[ICRA]A2	-	-	-

Amount in Rs. Crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund Based – Term loan	Simple
Short Term - Fund Based/Non Fund Based	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term - Fund Based – Term loan	FY2023	NA	FY2031	46.00	[ICRA]BBB+ (Stable)
NA	Short Term - Fund Based/Non Fund Based	NA	NA	NA	30.00	[ICRA]A2

Source: Company; Note: Amounts in Rs. crore

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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