December 22, 2023

Medreich Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	17.00	4.21	[ICRA]AA-(Stable); reaffirmed
Short-term – Fund-based Working Capital	384.44	384.44	[ICRA]A1+; reaffirmed
Long-term/ Short -term – Unallocated Limits	0.00	12.79	[ICRA]AA-(Stable)/[ICRA]A1+; reaffirmed
Total	**401.44**	**401.44**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation considers Medreich's healthy financial flexibility and business synergies being a wholly-owned subsidiary of Meiji Seika Pharma Company Limited (Meiji), a leading Japanese pharmaceutical company present in branded pharmaceuticals, veterinary drugs, and agricultural chemicals and a part of Meiji Holdings Company Limited (Meiji Holdings). The ratings also consider the long track record of the company in the contract development and manufacturing space and its established relationships with global pharma majors such as GlaxoSmithKline Plc (GSK), Mylan N.V. (Mylan), Novartis Healthcare Private Limited (Novartis),and Sanofi S.A. (Sanofi), which continue to support the company's revenue growth and healthy market position. Medreich has strong R&D and manufacturing capabilities, with its facilities being approved by major regulatory bodies across the globe, supporting its business prospects.

The company witnessed a revenue growth of 13.4% in FY2023 to Rs. 1,600.9 crore (Rs.1,412.2 crore in FY2022), primarily on the back of both volume growth and strong product portfolio. Going forward, the company is expected to post stable revenue growth supported by established relationships with global pharma companies and consistent volumes from its parent company, Meiji. The operating margin of the company improved to 18.8% in FY2023 from 17.5% in FY2022 on the back of operating leverage and the same is expected to remain healthy, going forward. In FY2023, Medreich's debt metrics improved following reduction of debt with scheduled repayment of term loans and lower working capital utilisation in addition to strong cash accrual supported by healthy margins. Going forward, Medreich's debt coverage metrics are expected to remain comfortable, supported by healthy accruals in addition to scheduled debt repayments in the absence of major capex plans in the near term.

The ratings are, however, constrained by the intense competition from larger established players in the domestic market and various regulated markets. The ratings also take into account the susceptibility of Medreich's revenues and margins to any foreign exchange (forex) fluctuations, as it is primarily an exporter and derives 70-80% of its revenues from the overseas markets. Even as the company remains susceptible to the input price pressures, mainly from price volatility for Active Pharmaceutical Ingredients (APIs), the company has managed to pass on most of its price increases to end customers. Additionally, the company's revenue remains susceptible to demand volatility of end products and supply-chain changes of its customers, resulting in delayed orders for the company. ICRA also notes that while the company's debt metrics remain healthy at present, any large debt-funded capex and the subsequent impact on its financial profile (including margins, ROCE and debt metrics) will be key monitorables.

The Stable outlook on the long-term rating reflects Medreich's healthy financial profile and ICRA's expectations that the same would sustain, supported by its strong parentage, long track record of operations, established relationships with its customer base, and its strong R&D and manufacturing capabilities.

Key rating drivers and their description

Credit strengths

Healthy financial support and business synergies by virtue of strong parentage – Medreich is a wholly-owned subsidiary of Meiji, a leading Japanese pharmaceutical company in branded pharmaceuticals, veterinary drugs, and agricultural chemicals. The company enjoys financial support from its parent and has availed low-cost term loans in India, leveraging on the parent's global banking relations and a corporate guarantee. Further, it has availed unsecured term loans from the parent (outstanding amount of ~Rs. 87.0 crore as on September 30, 2023) at a low interest rate of 0.7%. Medreich also enjoys strong business synergies due to its access to the Japanese pharmaceutical market through Meiji. Although there was a marginal decline in revenue from Meiji in FY2023 due to change in API vendor causing delayed orders, the company's revenue from Meiji in H1 FY2024 witnessed significant growth of 40% aided by ramp-up in volumes, contributing to ~16% of Medreich's revenue. Meiji is expected to remain one of Medreich's key customers going forward as well.

Long track record of catering to leading pharmaceutical players – Incorporated in 1976, Medreich has a long track record in the contract development and manufacturing space across the globe. It faces moderate customer concentration risk with its top-five customers contributing to 56.1% of its revenues in FY2023 and 51.9% in H1 FY20224. Medreich enjoys established relationships with reputed pharma majors across the globe, such as GSK, Mylan and Novartis , which have continued to support its business prospects.

Strong manufacturing capabilities supplemented by approvals from various regulatory authorities – Medreich has strong R&D and manufacturing capabilities with seven manufacturing sites (including a JV facility) in India. These sites have approvals from key regulatory authorities such as the UK MHRA, Australia TGA, South Africa MCC, Health Canada, ANSM, NMA Romania, PIC/S Ukraine, PMDA Japan, NAFDAC Ghana, UNICEF, GCC Gulf, Africa, Yemen and Russia MCC, and others, supporting the company's long-term business prospects.

Financial profile characterised by healthy operating profit margins and improving debt coverage metrics – Medreich's operating margin improved to 18.8% in FY2023 from 17.5% in FY2022 on the back of healthy operating leverage. The gearing level for the company remained comfortable at 0.1 times as on March 31, 2023 (0.3 times as on March 31, 2022). Net debt /OPBDITA of the company improved to 0.3 times as on March 31, 2023, from 1.4 times as on March 31, 2022, following the debt reduction with scheduled repayment of term loans and lower working capital utilisation due to improved working capital intensity. This, combined with strong cash accruals supported by healthy margins, led to improvement in coverage ratios, with interest coverage ratio improving to 54.2 times in FY2023 from 35.8 times in FY2022 and DSCR to 4.6 times in FY2023 from 3.3 times in FY2022. Going forward, Medreich's debt coverage metrics are expected to remain comfortable, supported by healthy accruals in addition to scheduled debt repayments in the absence of major capex plans. ICRA also notes that while the company's debt metrics remain healthy at present, any large debt-funded capex and the subsequent impact on the company's financial profile (including margins, ROCE and debt metrics) will be key monitorables.

Credit challenges

Intense competition from larger established players – The company faces stiff competition from other larger established players in the domestic as well as export markets, restricting its pricing flexibility and bargaining power with customers to a certain extent.

Revenues and margins remain susceptible to forex fluctuations – As Medreich is primarily an exporter and derives nearly 70-80% of its revenues from overseas markets, its revenues and margins remain susceptible to any adverse forex movements as it does not have a hedging mechanism. Its revenues are also susceptible to regulatory and political developments in its key export markets. However, the same is partly mitigated by imports in addition to working capital borrowings in foreign currency.

Revenue remains susceptible to demand volatility of end products and supply-chain changes at customer's end – The company derives majority of its revenue through contract manufacturing of formulations and its revenue remains susceptible to the volatility of demand and acceptance of the product manufactured by the company for its customers. In H1 FY2024, the company's revenue from the domestic markets declined by ~13% due to ongoing process of change in API vendor by the largest customer for the company in the domestic market, causing delayed orders. Given that the APIs for the formulations manufactured by the company are procured by the customers, any change in the API vendor from the customer leads to delayed orders for the company due to time taken for technology transfer. However, the risk is mitigated to an extent by the company's established track record of operations and history of servicing reputed pharma players in the industry.

Liquidity position: Strong

Medreich's liquidity remains strong with positive cash flows, and free cash and liquid investment balance of Rs. 66.9 crore as on March 31, 2023. The company's average working capital utilisation remained at ~5.0% against the sanctioned limits of Rs. 424.8 crore between October 2022 and September 2023. The company incurred only maintenance capex in FY2023 and is expected to do the same in FY2024 as well. This is expected to be funded through internal accruals. The company has repayment obligations of Rs. 33.9 crore in FY2024, Rs. 20.6 crore in FY2025, and Rs. 17.6 crore in FY2026. ICRA expects the company to meet its near-term commitments comfortably through internal accruals. In addition, the company's strong parentage provides it with healthy financial flexibility, allowing it to raise fresh capital at short notice. ICRA also notes that while the company's liquidity position remains strong at present, any large debt-funded capex and the subsequent impact on the company's liquidity profile will be key rating monitorables.

Rating sensitivities

Positive factors – Sustained healthy operating margins, strong debt metrics and robust liquidity position will be key for an upward rating action.

Negative factors – Pressure could arise with the weakening of support and linkages with Meiji Holdings, impacting Medreich's credit profile, or any deterioration in the credit profile of Meiji Holdings. Pressure on Medreich's ratings could also arise from lower-than-anticipated revenues, or if profit margin deterioration impacts its debt coverage indicators. Pressure on the ratings could also arise from weakening of its credit metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology ICRA's rating methodology on Pharmaceuticals
Parent/Group support	Parent/Group Company: Meiji Holdings Co. Ltd. (holding company of the parent, Meiji Seika Pharma Co. Limited); the ratings are based on implicit support from the parent company/Group.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Medreich.

About the company

Medreich was incorporated in 1976 and commenced operations from 1982 by providing outsourced manufacturing services to GSK (erstwhile SmithKline Beecham) in India. Over the years, Medreich has established itself as a medium-sized pharmaceutical company, which predominantly provides contract research and manufacturing services to domestic and global pharmaceutical players. In addition, the company manufactures and distributes its own branded generic formulations for the regulated and semi-regulated markets. Medreich's clientele includes several large pharma companies like GSK, Pfizer and Novartis in India, Meiji in Japan, Sanofi, GSK and Adcock Ingram Holdings Ltd. in the European and African markets, and Mylan in the Australian and New Zealand markets.

Temasek, through V-Sciences Investments Pte Limited, invested ~Rs. 111 crore in FY2006 in the form of convertible preference shares for a 28.17% stake in Medreich. It subsequently exited the investment by selling its stake in Medreich to Meiji in FY2015.

About the parent

Meiji Seika Pharma Co. Limited, established in 1916, manufactures and sells ethical pharmaceuticals, agricultural chemicals, and veterinary drugs. The pharmaceutical business was launched in 1946 with the commencement of penicillin production. The company consequently forayed into anti-bacterial drugs and agricultural chemicals and has established itself as a sizeable player in the pharmaceutical industry over the last 60 years. Meiji also has a strong track record in the livestock and fishery veterinary drugs business with diverse product lines and is working for the health of small animals by supplying drugs and nutritional supplements. Meiji's holding company, Meiji Holdings Co. Ltd., had a turnover of ¥1,062.2 billion in FY2023.

Key financial indicators (audited)

Medreich Consolidated	FY2022	FY2023
Operating income	1,412.2	1,600.9
PAT	93.7	166.4
OPBDIT/OI	17.5%	18.8%
PAT/OI	6.6%	10.4%
Total outside liabilities/Tangible net worth (times)	0.8	0.5
Total debt/OPBDIT (times)	1.6	0.5
Interest coverage (times)	35.8	54.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Dec 22, 2023	Dec 15, 2022	Mar 31, 2022	Feb 26, 2021
1	**Term loan**	Long-term	4.21	8.3	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Stable)**
2	**Fund-based bank Facilities**	Short-term	384.44	25.3	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
3	**Unallocated limits**	Long - term/Short-term	12.79	-	**[ICRA]AA- (Stable)/ [ICRA]A1+**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund Based - Term Loan	Simple
Short Term Fund-based Working Capital	Simple
Long-term/Short-term –Unallocated Limits	NA

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	FY2019	2.6 – 4.3%	FY2024	4.21	[ICRA]AA-(Stable)
NA	**Fund-based Facilities**	NA	3.62 – 5.44%	NA	384.44	[ICRA]A1+
NA	**Unallocated Limits**	NA	NA	NA	12.79	[ICRA]AA-(Stable)/ [ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership as on March 31, 2023	Consolidation Approach
Medreich Plc	100.00%	Full Consolidation
Medreich Lifecare Limited	100.00%	Full Consolidation
Genovo Development Services Limited	100.00%	Full Consolidation
Medreich Far East Limited*	100.00%	Full Consolidation
Medreich Australia Pty Limited**	100.00%	Full Consolidation
Medreich New Zealand Limited **	100.00%	Full Consolidation
Adcock Ingram Limited	50.07%	Equity method
Adcock Ingram Pharma Private Limited***	50.07%	Equity method
Inopharm Limited	50.00%	Equity method

Source: Medreich annual report FY2023; Note: ICRA has taken a consolidated view of the parent, its subsidiaries and associates while assigning the ratings

** Wholly-owned subsidiary of Medreich Plc*

*** Wholly-owned subsidiary of Medreich Limited w.e.f. from March 28, 2022 (Previously subsidiary of Medreich Plc)*

**** Wholly-owned subsidiary of Adcock Ingram Limited*

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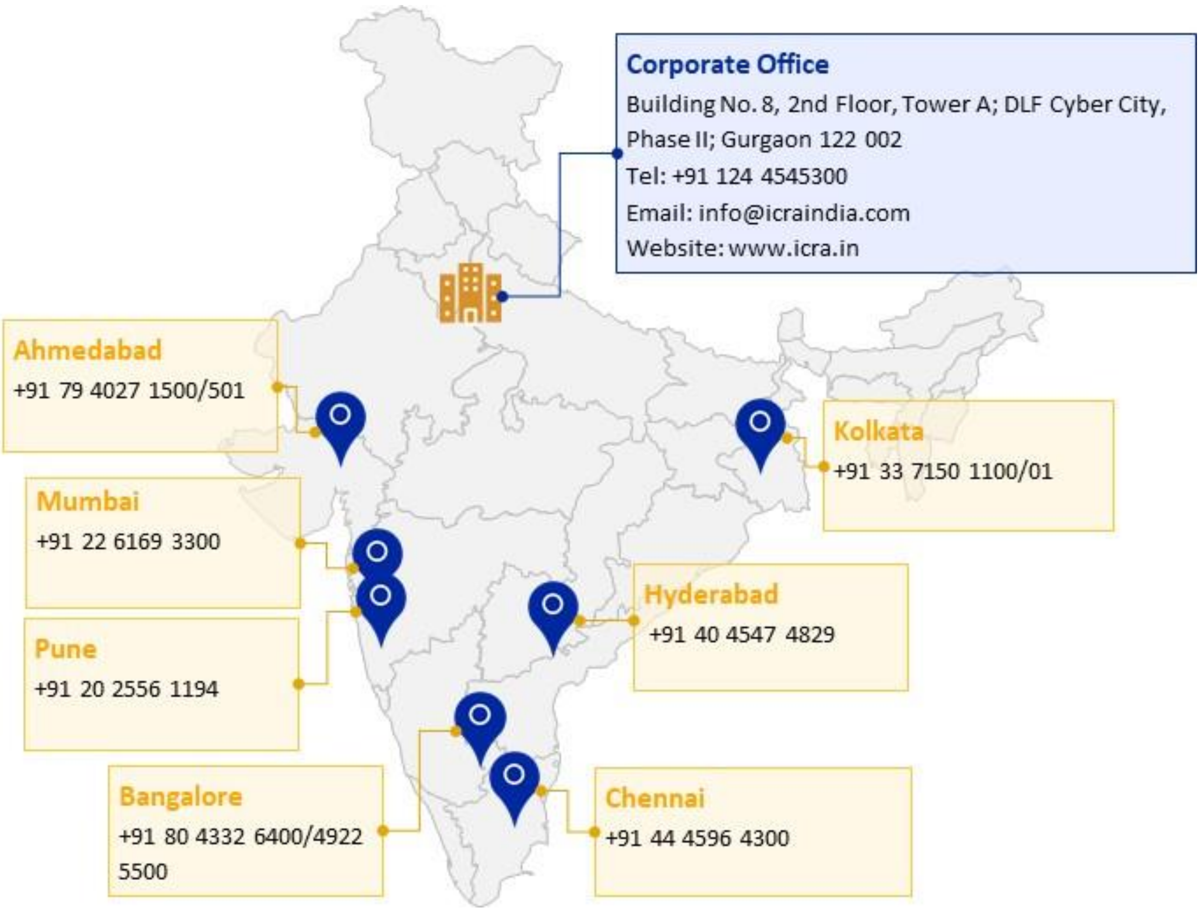

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