March 17, 2025

Medreich Limited: Long-term rating reaffirmed and withdrawn; short-term rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term fund-based – Term loan	4.21	0.00	[ICRA]AA- (Stable); reaffirmed and withdrawn
Short-term – Fund-based working capital	384.44	401.44	[ICRA]A1+; reaffirmed
Long-term/short-term – Unallocated limits	12.79	0.00	[ICRA]AA-(Stable) / [ICRA]A1+; LT rating reaffirmed and withdrawn, and ST rating reaffirmed
Total	**401.44**	**401.44**	

**Instrument details are provided in Annexure I*

Rationale

The ratings reaffirmation considers Medreich's strong liquidity position, its established parentage and healthy financial flexibility and business synergies by being a wholly owned subsidiary of Meiji Seika Pharma Company Limited (Meiji), a leading Japanese pharmaceutical company and a part of Meiji Holdings Company Limited (Meiji Holdings). ICRA expects Meiji Holdings to provide need-based support to Medreich. The ratings also factor in 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), among others, which continue to support the company's revenue growth. Medreich has strong research and development (R&D) and manufacturing capabilities, with its facilities being approved by major regulatory bodies across the globe, supporting its business prospects. Its financial profile also remains comfortable, characterised by healthy operating profit margins (OPMs) and limited debt levels.

The company witnessed a revenue growth of 8.1% YoY in FY2024 to Rs. 1,720.9 crore (Rs.1,592.3 crore in FY2023), primarily on the back of broad-based volume growth across its product portfolio. Going forward, the company is expected to post stable revenue growth supported by established relationships with global pharma companies and consistent healthy volume offtake from its parent, Meiji. The OPM of the company improved to 20.2% in FY2024 from 18.9% in FY2023 due to reduction in the prices of some active pharmaceutical ingredients (APIs), foreign exchange (forex) rate benefits and sales price increases and the same is expected to remain healthy, going forward.

The ratings are, however, constrained by the intense competition from larger established players in the domestic market and various regulated markets. The ratings also consider the susceptibility of Medreich's revenues and margins to forex fluctuations, as it is primarily an exporter and derives 70-80% of its revenues from overseas markets with the absence of a well-defined hedging mechanism. The company's revenue remains susceptible to demand volatility of end products and supply-chain changes of its customers, which could impact the order inflows for the company.

ICRA has also reaffirmed and withdrawn the long-term rating assigned to the Rs. 4.21-crore bank limits, as the company has repaid the said term loan in full.

Key rating drivers and their description

Credit strengths

Strong parentage – Medreich is a wholly-owned subsidiary of Meiji, a leading Japanese pharmaceutical company engaged in manufacturing of branded pharmaceuticals, veterinary drugs, and agricultural chemicals. The company enjoys regular financial support from its parent in the form of unsecured term loans (outstanding amount of ~Rs. 71.0 crore as on December 31, 2024) at a low interest. Also, Medreich's bank limits availed in India are backed by corporate guarantee from its parent. Further, ICRA expects Meiji Holdings to provide need-based support to Medreich. Medreich also enjoys strong business synergies due to its access to the Japanese pharmaceutical market through Meiji.

Healthy financial profile – Medreich's revenue grew by 8.1% YoY in FY2024 to Rs. 1,720.9 crore (Rs.1,592.3 crore in FY2023), primarily on the back of strong volume growth in its Australian and New Zealand subsidiaries and higher sales to the parent. The OPM improved to 20.2% in FY2024 from 18.9% in FY2023 due to reduction in prices of some APIs, favourable forex movements and sales price hikes undertaken for some customers. The gearing level for the company remained comfortable at 0.1 times as on March 31, 2024 (0.1 times as on March 31, 2023). Given the low gearing and healthy profit margins, the financial profile of Medreich remains comfortable with net debt vis-à-vis operating profit of 0.1 times as on March 31, 2024, and a robust interest cover. Going forward, Medreich's debt coverage metrics are expected to remain comfortable supported by healthy cash flows and limited debt levels, in the absence of any material capex plans in the near term.

Long track record of catering to leading pharmaceutical players; strong manufacturing capabilities – Incorporated in 1976, Medreich has a long track record in the contract development and manufacturing space across the globe. Medreich enjoys established relationships with reputed pharma majors across the globe, such as GSK, Sanofi, Mylan and Novartis, which have continued to support its business prospects. Medreich has seven manufacturing facilities in India which complies with standards stipulated by international regulatory bodies and multinational pharmaceutical companies.

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.

Exposed to regulatory risks and vulnerability to unfavourable forex movement – Like other industry players, Medreich's operations remain exposed to regulatory risks pertaining to scrutiny by regulatory agencies, though the company has not faced any adverse regulatory outcome over the last four to five years. Medreich is primarily an exporter and derives nearly 80% of its revenues from the overseas markets. Hence, its revenues and margins remain susceptible to any adverse forex movements as it does not have a hedging mechanism. However, the same is partly mitigated by imports in addition to working capital borrowings in foreign currency. Its revenues are also susceptible to regulatory and political developments in its key export markets.

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 results in delayed orders for the company due to the 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 retained cash flows, and free cash and liquid investment balance of Rs. 75.5 crore as on December 31, 2024, deployed in current accounts and fixed deposits. The company has repayment obligations of Rs. 18.3 crore in FY2025, Rs. 14.6 crore in FY2026, and Rs. 10.4 crore in FY2027. The company is expected to incur only a maintenance capex of Rs. 55-60 crore in FY2025 and FY2026, funded through internal accruals. 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.

Rating sensitivities

Positive factors – Not applicable.

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 in case of a sharp decline in its revenues and profits and/or large debt-funded capex, leading to a sustained weakening in its liquidity position and debt coverage indicators.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Pharmaceuticals Policy on Withdrawal of Credit Ratings
Parent/Group support	Group Company: Meiji Holdings Co. Ltd. (holding company of the parent, Meiji Seika Pharma Co. Limited) The ratings are based on the expectation of need-based funding support from the parent and Meiji Holdings Co. Ltd.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Medreich. As on March 31, 2024, Medreich had five subsidiaries, one step-down subsidiary and three joint ventures, details of which are given in Annexure II.

About the company

Medreich is a wholly owned subsidiary of Meiji Seika Pharma Co. Limited, which is part of the Meiji Group. Medreich was incorporated in 1976 and commenced operations from 1982 by providing outsourced manufacturing services to GSK. Over the years, Medreich has established itself as a mid-sized pharma company, which predominantly provides Contract Manufacturing (CMO) and Contract Development and Manufacturing (CDMO) services to domestic and global pharma players. In addition, the company manufactures and distributes its own branded generic formulations. Medreich's clientele includes several large pharma companies like GlaxoSmithKline Plc (GSK), Novartis Healthcare Private Limited (Novartis) and Pfizer Limited in India, Meiji Seika Pharma Co Ltd in Japan, Sanofi S.A. (Sanofi) and GlaxoSmithKline Plc (GSK) in the European and African markets, and Mylan N.V. (Mylan) in the Australian and New Zealand markets. At present, Medreich has seven manufacturing facilities in India which complies with standards stipulated by international regulatory bodies and multinational pharmaceutical companies.

In terms of the revenue share, around 20-30% revenue is contributed by CMO operations and 70-80% by CDMO operations in FY2024. The key therapeutic areas include pain management, cardiovascular diseases and diabetes. Around 30-35% of the revenue in FY2024 was from beta-lactam (anti-bacterial) products.

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 ¥1,105.5 billion in FY2024.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	1,592.3	1,720.9
PAT	166.4	185.1
OPBDIT/OI	18.9%	20.2%
PAT/OI	10.4%	10.8%
Total outside liabilities/Tangible net worth (times)	0.5	0.4
Total debt/OPBDIT (times)	0.5	0.3
Interest coverage (times)	54.2	112.6

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	March 17, 2025	Date	Rating	Date	Rating	Date	Rating
Long term-term loan-fund based	Long Term	0.00	[ICRA]AA- (Stable); reaffirmed and withdrawn	22-DEC-2023	[ICRA]AA- (Stable)	15-DEC-2022	[ICRA]AA- (Stable)	31-MAR-2022	[ICRA]A+ (Positive)
Long term / short term-unallocated	Long Term/ Short Term	0.00	[ICRA]AA- (Stable)/[ICRA]A1+; LT rating reaffirmed and withdrawn, and ST rating reaffirmed	22-DEC-2023	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	-	-
Short term-working capital-fund based	Short Term	401.44	[ICRA]A1+; reaffirmed	22-DEC-2023	[ICRA]A1+	15-DEC-2022	[ICRA]A1+	31-MAR-2022	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity indicator
Short Term Fund-based Working Capital	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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based Facilities**	NA	3.62 – 5.44%	NA	401.44	[ICRA]A1+; reaffirmed
NA	**Term Loan**	FY2019	2.6 – 4.3%	FY2024	0	[ICRA]AA- (Stable); reaffirmed and withdrawn
NA	**Unallocated Limits**	NA	NA	NA	0	[ICRA]AA- (Stable)/[ICRA]A1+; LT rating reaffirmed and withdrawn, and ST rating reaffirmed

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, 2024	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's annual report FY2024

** 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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