

M.S. Life Drug House Private Limited

August 07, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-Based-Cash Credit	15.00	20.00	[ICRA]BBB- (Stable); reaffirmed
Non-fund Based- Bank Guarantee	1.30	1.30	[ICRA]A3; reaffirmed
Total	16.30	21.30	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 20.00-crore¹ (enhanced from Rs. 15.00-crore) cash-credit limit of M.S.Life Drug House Private Limited (MSLDH or the company)². ICRA has also reaffirmed the short-term rating of [ICRA]A3 (pronounced ICRA A three) to the Rs. 1.30-crore non-fund based bank facilities of MSLDH. The outlook on the long-term rating is Stable.

Rationale

The ratings reaffirmation continues to factor in the extensive experience of the promoters in the pharmaceutical distribution business with strong presence in Kolkata and a wide product portfolio of branded drugs from reputed suppliers, which supports MSLDH's business prospects. The ratings also take note of the company's low working capital intensity of operations resulting from limited receivables and stocking requirements, which support its liquidity position as well as MSLDH's comfortable capital structure and debt-coverage metrics.

The ratings are, however, constrained by the company's thin operating margins that can be attributed to regulated drug prices and trading nature of operations. Besides, there is intense competition in the pharmaceutical distribution space and the company's concentrated operations in Kolkata, reflecting its high dependence on a single market as is generally the case in this line of business. The company's ability to achieve significant growth in its turnover through the expansion of its product portfolio and distribution network, while keeping working capital intensity low, would remain the key rating sensitivities, going forward.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that MSLDH will continue to benefit from the extensive experience of the promoters and its established relationship with reputed pharmaceutical companies. The outlook may be revised to Positive if there is considerable improvement in the company's profitability. Conversely, the outlook may be revised to Negative if the company registers sizeable revenue de-growth and/or its borrowings increase significantly from the current level.

¹100 lakh = 1 crore = 10 million

²For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Extensive track record as a pharmaceutical drugs distributor; strong presence in Kolkata region: Established in 2000 by Mr. Swapan Das, MSLDH distributes drugs of different pharmaceutical companies in West Bengal. MSLDH caters to a large number of customers, in West Bengal (especially Kolkata) market, which are a mix of large stockists, medical retail chains, super-speciality hospitals, nursing homes, Government hospitals and institutions in the public and private sectors.

Wide product portfolio encompassing over 22,000 branded drugs supports business prospects: The company trades in over 22,000 branded drugs in West Bengal. Its stockists and sub-stockists cover more than 19,000 retail outlets. The Group also operates retail outlets under the brand “Lifeline” through a Group company, the entire requirement of which is met through MSLDH. In addition, MSLDH operates five fair-price medicine outlets under the public-private partnership policy of the Health and Family Welfare Department, Government of West Bengal.

Long-term association with a large supplier base: MSLDH is an authorised distributor for 72 pharmaceutical companies, reflecting a diversified supplier base. The company has established relationships with its reputed suppliers, rendering stability in its business. Sun Pharma is MSLDH’s largest supplier, accounting for around 15% of the total supplies in FY2018.

Low working capital intensity of operations: The company generally offers a credit period of about three to seven days to stockists, which constitute the largest customer segment, while it offers 7-10 days for medical institutions as these are relatively high-value customers. Its receivables continue to remain low at around 12 days as on March 31, 2018. Purchases are mostly on a cash-and-carry basis, with a maximum credit period of five to seven days offered by some of its suppliers. However, due to limited receivables and stocking requirements, its working capital intensity of operations remained low, as reflected by the NWC/OI of 7% in FY2018.

Comfortable capital structure and debt coverage metrics: The company’s gearing improved and remained conservative at 0.52 times as on March 31, 2018 vis-a-vis 1.04 times in the previous year due to its reduced working capital borrowing. MSLDH’s limited working capital borrowing and absence of any long-term debt repayment obligation led to comfortable debt-coverage metrics, as reflected by an interest coverage of 4.77 times, total debt relative to OPBDITA of 1.5 times and net cash accrual relative to total debt of 38% in FY2018.

Credit challenges

Intense competition in the pharma distribution space owing to low entry barriers: The presence of a large number of players due to low entry barriers in the pharma distribution business intensifies the competition in the segment. Nevertheless, the company’s established presence in Kolkata provides competitive advantage to some extent.

Thin margins owing to trading nature of business: The drug distribution system in India is highly tiered with multiple levels between the manufacturer and the end-customer. The retailers continue to enjoy a major part of the margins across the extended distribution chain, while the margins of the large distributors like MSLDH remains relatively low. Owing to the regulated nature of drug prices in India, the margins at each level in the distribution chain is primarily fixed. Further, due to the presence of large number of players in the distribution segment and low bargaining power against larger suppliers in the pharma industry, the company’s margins remained thin.

High geographical concentration, with most of its revenues from the Kolkata market: The company’s sales are concentrated and a major portion of its revenues are generated from Kolkata. Nevertheless, such risks are mitigated to an extent by MSLDH’s long-term association with its customers.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Incorporated by Mr. Swapan Das in 2000, MSLDH is in the distribution business of pharmaceutical products catering to more than 19,000 pharmaceutical outlets via stockist and sub-stockists across West Bengal. The company operates from its Kolkata office at Mehta Building, which also houses its warehouse and storage facilities. The warehouse is equipped with one walk-in cooler and four refrigerators ensuring temperature-controlled stocking of medicines. It trades in branded drugs with supplies from major pharmaceutical companies. MSLDH also operates five fair-price medicine outlets in West Bengal at Government hospitals for selling basic generic drugs at a discounted price.

MSLDH posted a net profit of Rs. 3.49 crore (provisional) on an operating income (OI) of Rs. 309.24 crore (provisional) in FY2018. In FY2017, the company reported a net profit of Rs. 2.86 crore on an OI of Rs. 278.33 crore.

Key financial indicators

Standalone	FY2017 (audited)	FY2018 (provisional)
Operating Income (Rs. crore)	278.33	309.24
PAT (Rs. crore)	2.86	3.49
OPBDIT/ OI (%)	1.90%	2.05%
RoCE (%)	18.83%	22.97%
Total Debt/ TNW (times)	1.04	0.52
Total Debt/ OPBDIT (times)	2.90	1.50
Interest Coverage (times)	4.09	4.77

Status of non-cooperation with previous CRA:

India Ratings has in its rationale published on M.S.Life Drug House Pvt. Ltd, dated May 18, 2018, stated the following: *“India Ratings and Research (Ind-Ra) has maintained M.S. Life Drug House Pvt Ltd’s Long-Term Issuer Rating in the non-cooperating category. The issuer did not participate in the rating exercise despite continuous requests and follow-ups by the agency. Therefore, investors and other users are advised to take appropriate caution while using these ratings. The rating will continue to appear as ‘IND BBB-(ISSUER NOT COOPERATING)’ on the agency’s website.*

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018 August 2017	Date & Rating in FY2017	Date & Rating in FY2016
1	Cash Credit	20.00	6.41 (June, 2018)	Aug 2018 [ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-
2	Bank Guarantee	1.30	-	[ICRA]A3	[ICRA]A3	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	20.00	[ICRA]BBB- (Stable)
NA	Bank Guarantee	NA	NA	NA	1.30	[ICRA]A3

Source: M.S.Life Drug House Pvt. Ltd.

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