

Merck Limited

February 26, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund based	16.75	16.75	[ICRA]AA(Stable); reaffirmed
Long term non-fund based	13.50	13.50	[ICRA]AA(Stable); reaffirmed
Total	30.25	30.25	

Rating action

ICRA has reaffirmed [ICRA]AA (pronounced as ICRA double A) to the Rs. 16.75 crore fund based and Rs. 13.50 crore non-fund-based bank limits of Merck Limited (Merck). The outlook on the long-term rating is stable.

Rationale

The rating reaffirmation takes into account Merck's strong parentage, strong presence in the vitamin therapeutic area, robust brand image, increasing presence of performance materials segment bringing diversity to revenues, strong financial profile characterized by profitable operations, moderately high return on capital employed and strong liquidity with net cash position. The company's operating profits improved consistently in CY2016 and 9mCY2017 to 12.2% and 13.3% respectively from 9.4% in CY2015, following higher growth for existing brands, pruning of non-profitable Vitamin E segment as well as geographical expansion and focus on generating more prescriptions. However, the rating is constrained by modest scale of operations, high product concentration on Vitamins and price control on pharmaceutical portfolio generating margin pressure and affecting sales growth.

Going forward, ICRA expects the portfolio to generate healthy margins and maintain its strong financial profile by virtue of its strong product profile and liquid reserves.

Outlook: Stable

ICRA believes Merck Limited will continue to benefit from the extensive experience of the management. The outlook may be revised to 'Positive' if there is substantial growth in revenue and profitability. The outlook may be revised to 'Negative' if proportion of drugs under DPCO control increase due to regulatory changes.

Key rating drivers

Credit strengths

Dominant position in the India Vitamin therapeutic segment with strong brand presence

Merck's portfolio in India is dominated by Vitamins which contribute to more than 50% of pharmaceutical revenues. As per ORG IMS, Merck had a market share of approx. 10.2% in CY2014 and 10.9% in CY2015 for Vitamin Portfolio. Merck also has dominant position in the Nasal Congestion category with 50% market share in CY2016. Among the Vitamin segment, the major brands are Polybion and Neurobion.

Diversified business with presence in Pharma as well as Chemicals

The company derives 78% of its revenues from the pharmaceuticals segment and the rest from chemicals division. In the chemicals division, the company manufactures Active Pharmaceutical ingredients, High quality excipients and Biopharmaceutical process chemicals for biopharma and pharma industry. It also manufactures 'Effect' Pigments and Functional Materials for the automotive, cosmetics, plastics printing and security Industry. This lends favorable diversification since the revenues in this division are not completely dependent on the trends in the Indian Pharmaceutical Industry.

Strong financial risk profile led by net cash position and strong liquidity in the form of investment portfolio

Merck's financial profile is characterized by nil debt leading to strong debt and coverage indicators and unencumbered cash/bank balance of Rs.247.4 crore as of June 2017, indicative of strong liquidity position

Credit challenges

Increase in number of products under DPCO 2013 coverage or NLEM could generate pressure on margin

Merck's portfolio in India is dominated by Vitamins. Since the same falls under mass consumption category, the same has been placed by Government under price control. Even though only a minor portion of the company's products feature in the National List of Essential Medicines (NLEM), a revision in this list by the government resulting in an increase in number of Merck's products in the list could limit the company's pricing ability and generate pressure on profit margins.

High product concentration for Pharma business with top three products contributing to 46% of the Pharma sales

Merck's product portfolio has high product concentration with top 3 products categories for 46% of the sales of the Pharma sales CY2016. Moreover, it has high therapeutic concentration with Vitamin portfolio accounting for approximately an equal proportion of the sales. However, the company has a leading market share in each of these products and most of its brands are well established in the Indian market and have high brand recall, partially alleviating the risk.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Primary Non-Ferrous Metals Manufacturers](#)

About the company:

Merck Limited (Formerly E. Merck Limited) was set up in India in 1967; the first Merck Group company in Asia. Merck Limited went public in 1981 and was the first company to do so. The Merck Group now holds 51.8% of the share capital of Merck Limited, while the remaining 49% is publicly traded on the Bombay Stock Exchange and National stock Exchange. The company has nearly 1800 employees and has two lines of business mainly – Pharmaceuticals and Chemicals. In the Pharmaceutical segment major products include Vitamins, Nutritional supplement, Cardio Vascular, Respiratory, Hematinics, Cough and Cold, Non-Steroidal Anti Inflammatory (NSAID), Antibiotics, Oral Rehydration Salts and Encephalotropics.

In CY2017 on a standalone basis, the company reported a net profit of Rs. 93.9 crore on an operating income of Rs. 1103.9 crore, as compared to a net profit of Rs. 75.9 crore on an operating income of Rs. 993.7 crore in the previous year.

Key financial indicators (audited)

	CY2016	CY2017*
Operating Income (Rs. crore)	993.7	1103.9
PAT (Rs. crore)	75.9	93.9
OPBDIT/ OI (%)	12.2%	14.0%
RoCE (%)	18.4%	23.3%
Total Debt/ TNW (times)	0.0	0.0
Total Debt/ OPBDIT (times)	NA	NA
Interest coverage (times)	NA	NA
NWC/ OI (%)	21.1%	20.9%

Source: Merck Limited; *- based on abridged financials published on BSE India Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount	Amount	Date &	Date &	Date &	
		Rated	Outstanding	Rating	Rating in	Rating in	Rating in
		(Rs. crore)	(Rs Crore)	Feb 2018	FY2017@	FY2016	FY2015
					Dec 2016	Sep 2015	May 2014
Fund based limits	Long-term	16.75	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
Non-fund based limits	Long-term	13.50	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)

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	Long -term fund based	NA	NA	NA	16.75	[ICRA]AA(Stable)
NA	Long term non-fund based	NA	NA	NA	13.50	[ICRA]AA(Stable)

Source: Merck Limited

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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