Mahi Drugs Private Limited (MDPL)
February 25, 2025

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Facilities	10.83	IVR BB+/Stable (IVR Double B Plus with Stable outlook)	-	Assigned	Simple
Total	**10.83 (Rupees Ten crore and eighty-three lakhs only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The assignment of ratings to the bank facilities of Mahi Drugs Private Limited (MDPL) by Infomerics Ratings derives comfort from experienced promoter group with established clientele, strong support from the parent along with business synergies and expected improvement in overall financial & operational profile with recently completed capex with no major dependence on debt and nil observations in USFDA inspection.

The rating is however constrained on account of the presence in the highly fragmented and regulated bulk drug industry, with product concentration risk, small scale of operations along with losses, and weak debt protection metrics along with moderate capital structure**.**

The 'Stable' outlook reflects the limited scale of operations, albeit expected ramp up post USFDA approval, along with continued support of the parent company.

Key Rating Sensitivities:

Upward Factors

- Sustained & significant improvement in revenue & EBITDA margin leading to improvement in capital structure & debt protection metrics.
- Efficient working capital management with improvement in liquidity

Downward Factors

- Non achievement of the financial performance & cash accrual as projected

- Weakening of linkages with parent company or weakening of credit profile of the parent company

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoter group with established clientele

The company was acquired as a subsidiary company of SMSLIL in the year 2018. SMSLIL has an established track record of operations and customer base. Both these companies are engaged in manufacturing of API drugs. MDPL was the strategic enhancement of SMSLIL for availing the USFDA certification. Through MDPL, SMSLIL plans to export various countries. SMSLIL has provided a corporate guarantee to the debt of its subsidiary MDPL, depicting its support towards the subsidiary and its operations.

Strong support from the parent along with business synergies

The company MDPL and its promoter companies are engaged in the similar line of business. SMS Lifesciences India Limited [SMSLIL (IVR BBB/Positive; IVR A3+)] acquired the company with a strategic aim to achieve inorganic growth. The parent has established track record in the similar line of business with established clientele, and track of infusing need-based funds in the past to MDPL. Also, for the year FY24 (refers to the period from April 01, 2023 to March 31, 2024) the majority of the sales of MDPL was went to its parent company, depicting high operational fungibility. Furthermore, in FY23 (refers to the period from April 01, 2022 to March 31, 2023) the company had received the fresh equity investments from a US Based company called as Chemwerth Inc, engaged in the similar line of business who has a presence in US, China and India. Chemwerth Inc. is now a 35% equity share holder of MDPL. Going forward with the post the receipt of USFDA and with the help of both the companies, ie SMSLIL and its other equity share holder, ie. Chemwerth Inc., the company is expected to pick up pace in manufacturing and order execution in both the domestic as well as the overseas markets.

Expected improvement in overall financial & operational profile with recently completed capex expansion for capacity enhancement with no dependence on debt and nil observations in USFDA inspection

The company has recently completed installation and development of API plant. MDPL incurred a total project cost of around Rs.49.25 crore, which was funded through internal accruals and through the equity infused by Chemwerth Inc. Through this the company has achieved various process automations, leading to no observations during the USFDA inspection conducted in January 2025. Therefore, in due course the company is expecting the USFDA certification, post receipt of which the company will be eligible for exporting to various countries such as European Union, United Kingdom, Switzerland, etc, which accept USFDA certification. The growth in the scale of operations through this certification and the continued support from its parent will remain a key rating monitorable.

Key Rating Weaknesses

Limited scale of operations along with incurring losses, albeit expected to increase from FY26 (refers to the period from April 01, 2025 to March 31, 2026) onwards

The scale of operations remained limited due to the full focus of the company on the capex expansion and enhancement of the installed capacity. Due to this company reported TOI of Rs.29.93 crore for the year FY24 (A), with operating losses incurred of Rs.3.57 crore. The company's scale of operations is however expected to increase from Q4FY25 (refers to the period from January 01, 2025 to March 31, 2025) onwards considering the expected USFDA certification. The company and its promoters expected the positive impact of the approval of the USFDA audit in January 2025 and the simultaneous start of the full fledge commercial operations of the MDPL post the receipt of this certification. Therefore, the company has hired required technical professionals in bulk leading to increase in the employee cost for the year FY24. This increase in the employee cost as well as the high interest cost for the year led to the losses for the year.

Thin debt protection metrics and moderate capital structure

Due to the losses incurred in the last 2 years translated to moderate capital structure and thin debt protections metrics. However, with the increase in the scale of operations expected from FY26 onwards the company's debt protection metrics and capital structure is expected to improve. The timely servicing of the debt, increase in the scale of operations and continued support of the parent company SMSLIL to MDPL will remain a key rating monitorable. At present the debt is serviced on timely basis with the support of need based funds infused by the equity holding companies.

Presence in the highly fragmented and regulated bulk drug industry, with product concentration risk

The company is exposed to regulatory risk with its operations centred majorly on manufacturing pharmaceutical APIs. The pharmaceutical industry is highly regulated in many other countries and requires various approvals, licenses, registrations and permissions for business activities. The approval process for new product registration is complex, lengthy and expensive. Although the time taken to obtain approval varies by country, it generally takes from six months to several years from the date of application. Any delay or failure in getting approval for a new product launch could adversely affect the business prospects of the company.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies.

Criteria for assigning Rating outlook.

Policy on Default Recognition and Post-Default Curing Period

Complexity Level of Rated Instruments/Facilities

Financial Ratios & Interpretation (Non-Financial Sector).

Criteria on Parent / Group Support

Liquidity – Adequate

With the expected receipt of the USFDA certificate for the plant, the GCA for the year from FY26 onwards is expected to improve and remain in between Rs.8-10 crore per annum against the nominal repayment obligation of Rs.0-4 crore. Also considering the established support from the parent company in the past, the liquidity of the company is expected to remain adequate. Also, the company has nominal cash and bank balance of Rs.0.14 crore as on September 30, 2024. The company has availed the fund-based limits of Rs.5.00 crore, which remained unutilized for the period, however with the increase in the scale of operations the company is expected to increase its utilization of the sanctioned fund-based CC limits.

About the Company

MDPL is the material subsidiary of SMSLIL, which was incorporated in the year 2013 and specializes in the manufacture of Active Pharmaceutical Ingredients. The plant is located in J N Pharma City, Parawada, Anakapalli District near Visakhapatnam city. In August 2018 the company was acquired by SMS Lifesciences India Limited as a subsidiary company.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	35.47	29.93
EBITDA	3.97	-3.57
PAT	-0.15	-6.91
Total Debt	13.50	8.98
Tangible Net Worth	49.00	40.38
EBITDA Margin (%)	11.20	-11.92
PAT Margin (%)	-0.43	-23.05
Overall Gearing Ratio (x)	0.28	0.22
Interest Coverage (x)	2.34	-2.84

** Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sr. No.	Name of Security/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type (Long Term/ Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					-	-	-
1.	Term Loan	Long term	5.83	IVR BB+/ Stable	-	-	-
2.	Cash Credit	Long Term	5.00	IVR BB+/Stable	-	-	-

Analytical Contacts:

Name: Amit Bhuwania

Tel: (022) 62396023

Email: abhuwania@infomerics.com

About Infomerics:

Infomerics Valuation And Rating Ltd. (Infomerics) [Formerly Infomerics Valuation and Rating Pvt. Ltd.] was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI). Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Annexure 1: Instrument/Facility Details

Name of Facility /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook

Term Loan	-	-	-	June 2026	5.83	IVR BB+/Stable
Cash Credit	-	-	-	-	5.00	IVR BB+/Stable

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Mahi-Drugs-25feb25.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not **applicable**

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com