Rating Advisory

May 12, 2022 | Mumbai

Mercury Laboratories Limited

Update as on May 12, 2022

This rating advisory is provided in relation to the rating of Mercury Laboratories Limited

The key rating sensitivity factors for the rating include:

Upward factors

- Efficient working capital cycle, with GCAs improving to around 120 days.
- Significant increase in revenue and operating margin

Downward factors

- Increase in working capital requirement leading to GCAs of more than 240 days.
- Large, debt-funded capex resulting in pressure on liquidity

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL Ratings is yet to receive adequate information from Mercury Laboratories Limited (MLL) to enable it to undertake a rating review. CRISIL Ratings is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf)

If MLL continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 and **SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020** issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

About the Company
Incorporated in 1983, MLL is promoted by Vadodara, Gujarat-based, Mr R Shah. The company manufactures formulations under its own brand.

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Rating Rationale

June 16, 2021 | Mumbai

Mercury Laboratories Limited

Rating Reaffirmed

Rating Action

Rs.3 Crore Fixed Deposits	**F B+/Stable (Reaffirmed)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'FB+/Stable' rating on the fixed deposit programme of Mercury Laboratories Limited (MLL).

The rating continues to reflect the extensive experience of the promoter in the pharmaceutical industry, healthy relationships with customers and suppliers and above-average financial risk profile. These strengths are partially offset by modest scale of operations, large working capital requirement and risks associated with planned capex.

Key Rating Drivers & Detailed Description

Strengths:

- **Extensive experience of the promoter:** The promoter's experience of over five decades in the pharmaceutical industry, his technical expertise, the wide product range in the pediatrics and gynecology segments, the strong team of medical representatives and wide distribution network across India will continue to support the business. In the gynecology segment, it offers pregnancy to postnatal care products. In the pediatrics segment, it has a wide product range for children up to four years. The company exports to semi-regulated markets such as Uganda, Sri Lanka, Myanmar, and the Philippines, which enhances the product reach.

- **Above-average financial risk profile:** The financial risk profile is healthy, as reflected in moderate networth of Rs 37 crore and low gearing of 0.24 time as on March 31, 2021. Debt protection metrics are comfortable, with interest coverage and net cash accrual to adjusted debt ratios of over 16 times and 0.7 time, respectively, for fiscal 2021.

Weaknesses

- **Modest scale of operations**
  Revenue was modest at Rs 69.5 crore in fiscal 2021. The manufacturing capacity is small at 6 crore tablets per month, which restricts the scale of operations. The company is present in the branded generics segment and faces intense competition from many large players.

- **Large working capital requirement:** Gross current assets (GCAs) were high at over 6 months as on March 31, 2021, driven by sizeable receivables and moderate inventory. Receivables are expected to remain over 120 days on account of stretch in realization of export proceeds.

- **Risks associated with project implementation**
  MCL has taken up Rs 20 cr capital expansion spread through 2 years to fiscal 2023 and be appropriately funded through debt. The project is large for MCL compared to the existing fixed asset base, net worth base or the revenue size. The project exposes MCL to associated risks, such as funding tie up, time or cost overrun, technology obsolesce, and stabilisation and ramp up in operations post completion. Progress in project implementation and subsequent ramp up, stabilization remains a rating sensitivity factor.

Liquidity: Adequate

Bank limit utilisation averaged below 50% for the 12 months through fiscal 2021. Cash accrual, expected at Rs 7 crore, will comfortably cover term debt obligation of less than Rs. 1 cr over the medium term. Current ratio was healthy at 1.9 times as on March 31, 2021. Company is taking up a Rs. 20 cr capex which spread over fiscal 2022 and 2023 and be appropriately funded through debt, thereby ensuring the liquidity remains adequate.

Outlook: Stable

CRISIL Ratings believes MLL will continue to benefit from its established position in the pharmaceutical formulations industry.

Rating Sensitivity factors

Upward factors

- Efficient working capital cycle, with GCAs improving to around 120 days.
- Significant increase in revenue and operating margin

Downward factors

- Increase in working capital requirement leading to GCAs of more than 240 days.
- Large, debt-funded capex resulting in pressure on liquidity

About the Company

Incorporated in 1983, MLL is promoted by Vadodara, Gujarat-based, Mr R Shah. The company manufactures formulations under its own brand.

Key Financial Indicators

As on/for the period ended March 31	Unit	2021	2020
Operating income	Rs.Crore	69.5	57.9
Reported profit after tax (PAT)	Rs.Crore	5.3	3.2
PAT margin	%	7.5	5.6
Adjusted debt/adjusted networth	Times	0.24	0.23
Interest coverage	Times	16.4	8.61

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Fixed Deposit	NA	NA	NA	3	Simple	FB+/Stable

Annexure - Rating History for last 3 Years

	Current			2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST		--		--		--	11-12-19	Withdrawn	31-12-18	CRISIL BB+/Stable / CRISIL A4+	CRISIL BB+/Stable / CRISIL A4+
Non-Fund Based Facilities	LT/ST		--		--		--	11-12-19	Withdrawn	31-12-18	CRISIL A4+	CRISIL A4+
Fixed Deposits	LT	3.0	F B+/Stable		--	20-10-20	F B+/Stable	11-12-19	F B+/Stable	31-12-18	F B+/Stable	F B+/Stable

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria

CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
Assessing Information Adequacy Risk
Rating Criteria for the Pharmaceutical Industry
The Rating Process
CRISILs Bank Loan Ratings

Media Relations	Analytical Contacts	Customer Service Helpdesk
Saman Khan Media Relations **CRISIL Limited** D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com **Naireen Ahmed** Media Relations **CRISIL Limited** D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com	Rahul Subrato Kumar Guha Director **CRISIL Ratings Limited** D:+91 22 4097 8320 rahul.guha@crisil.com Nilesh Agarwal Associate Director **CRISIL Ratings Limited** B:+91 124 672 2000 Nilesh.Agarwal1@crisil.com Gaurav Vinod Gupta Manager **CRISIL Ratings Limited** B:+91 79 4024 4500 Gaurav.Gupta1@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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