Sandor Medicaids Private Limited

November 22, 2018

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	20.00	[ICRA]BB- (Negative); downgraded from [ICRA]BB+ (Stable)
Total	**20.00**	

Material Event

Sandor Medicaids Private Limited has announced its half-yearly results on November 15, 2018. The company reported operating income of Rs. 72.7 crore with operating profit (OPBDIT) of Rs 5.1 crore and Profit after tax (PAT) of Rs 0.1 crore in H1FY2019 against operating income of Rs 81.8 crore with OPBDIT of Rs 6.5 crore and PAT of Rs 0.9 crore in H1FY2018. The liquidity position of the company is stretched with high working capital intensity as on September 30, 2018.

Impact of the Material Event

ICRA has downgraded the long-term rating assigned to the Rs. 20.00 crore[1] Non-Convertible Debentures of Sandor Medicaids Private Limited (SMPL)[2] from [ICRA]BB+ (pronounced ICRA double B plus) to [ICRA]BB- (pronounced ICRA double B minus). The outlook on the long-term rating is revised to Negative from Stable.

The company has underperformed during H1FY2019 in comparison to H1FY2018 with dip in revenues, profitability, stretched liquidity and high investments in subsidiaries impacting the operations of the company.

Rationale

The rating downgrade and outlook revision primarily factors in deteriorated financial profile with revenues declining by 11% to Rs. 72.7 crore in H1FY2019 from Rs. 81.8 crore in H1FY2018 and dip in operating margins to 7.1% in H1FY2019 from 7.9% in H1FY2018; and continued tight liquidity position of the company owing to high debtor and inventory days, significant repayment obligations and investments in subsidiaries i.e. Sandor Dialysis Services Bangladesh Private Limited and Sandor Orthopedics Private Limited. The rating is also constrained by moderate scale of operations of SMPL with revenues of Rs. 173.0 crore in FY2018; and moderate financial profile characterised by low operating margins and modest coverage indicators. The rating however, positively takes into account significant experience of promoters in the medical drugs and device distribution business; sole dealership of the medical devices and drugs manufactured by reputed pharmaceutical companies including Genzyme Corporation (part of Sanofi group) (4 drugs), Abbott Point of Care, Dr. F. Kohler Chemie (Germany); and established relationships with its principals. The rating also considers wide customer base comprising hospitals, government research institutes & government laboratories; and favourable demand prospects for medical devices in the domestic market.

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[1] *100 lakh = 1 crore = 10 million*

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

Outlook: Negative

The 'Negative' outlook reflects ICRA's expectation that the financial risk profile is likely to continue to remain weak owing to stretched liquidity and significant repayment obligations. The outlook will be revised to Stable if substantial growth in revenue and profitability, or improvement in liquidity strengthens the financial risk profile.

Key rating drivers

Credit strengths

Experience of promoters in the medical drugs and distribution business – SMPL has over two decades of experience in the medical drugs and distribution business and has established relationships with its principals.

Exclusive dealership of products for reputed pharmaceutical companies – SMPL is the exclusive distributor for the last 14 years for supply of drug and medical devices for Genzyme (Sanofi Group); also, exclusive dealer for sales, marketing and distribution for Abbott point of care, Dr. F. Kohler Chemie etc. for the past few years.

Credit challenges

Dip in revenues and profitability – The revenues declined to Rs. 72.7 crore during H1FY2019 from Rs. 81.8 crore during H1FY2018; further operating profit declined to Rs. 5.1 crore during H1FY2019 from Rs. 6.5 crore during H1FY2018 owing to higher fixed overhead costs with significant decline in net profit to Rs. 0.1 crore during H1 FY2019 from Rs. 0.9 crore during H1 FY2018. The profitability is low during H1 FY2019 owing to one-time write off of Rs. 1.20 crore service tax input.

Tight liquidity position of the company - The working capital intensity was high at ~42% during FY2018 and further increased to ~55% during H1 FY2019 owing to high inventory and debtor levels. As majority of inventory is imported, the company needs to maintain inventory with them to meet immediate demand given the long lead time. The debtor days are also high as the company provides a credit period of 90 days which usually gets extended owing to delay in payments from customers. Further, SMPL has invested Rs. ~7.6 crore in its subsidiaries i.e. Sandor Dialysis Services Bangladesh Private Limited and Sandor Orthopedics Private Limited during FY2018. Also, SMPL has high repayment obligations of Rs. ~5 crore in FY2019 and Rs. ~15 crore during FY2020 including debenture redemption during August 2019 constraining the liquidity position in the medium term.

Key financial indicators (Audited)

	FY 2017	FY 2018	H1FY2019*
Operating Income (Rs. Crore)	175.05	172.99	72.74
PAT (Rs. Crore)	12.25	1.51	0.06
OPBDIT/ OI (%)	6.72%	7.03%	7.09%
RoCE (%)	21.66%	10.07%	7.46%
Total Debt/ TNW (times)	0.78	0.75	0.92
Total Debt/ OPBDIT (times)	4.55	4.15	6.03
Interest coverage (times)	1.60	1.28	1.20

*Note: unaudited financials

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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.

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