September 10, 2014

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	**13.00***	**SMERA BBB-/Negative (Reaffirmed, Outlook Revised)**
Term Loan	**2.87**	**SMERA BBB-/Negative (Reaffirmed, Outlook Revised)**
Working Capital Demand Loan	**3.00**	**SMERA BBB-/Negative (Reaffirmed, Outlook Revised)**

**Includes Buyer's Credit as a sublimit to the extent of Rs.8.00 crore*

SMERA has reaffirmed its rating of **'SMERA BBB-' (read as SMERA triple B minus)** on the Rs.18.87 crore fund-based bank facilities of Sandor Medicaids Private Limited (SMPL). The outlook is revised from 'Stable' to **'Negative'.** The revision in outlook is in view of deterioration in the company's profit margins and liquidity position. The ratings continue to factors in risks related to the company's moderate operating scale and working capital-intensive operations. The ratings remain constrained by the susceptibility of the company's profit margins to forex fluctuation risk. The ratings also remain constrained by the company's exposure to supplier concentration risk. However, the ratings draw comfort from the company's exclusive distribution rights, comfortable gearing (debt-equity ratio) and experienced management.

Update

For FY2013–14 (refers to financial year, April 01 to March 31), SMPL registered net profit of Rs.2.93 crore on total income of Rs.108.68 crore, as compared with net profit of Rs.2.65 crore on total income of Rs.77.14 crore in FY2012–13. Further, the company registered revenues of Rs.52.40 crore during April 2014 to August 2014. SMPL's operating profit margin declined from 8.85 per cent in FY2012–13 to 7.27 per cent in FY2013–14, while the company's net profit margin declined from 3.44 per cent to 2.69 per cent during the same period. As the exclusive distributor of Genzyme Corporation's products in India, SMPL maintains a high level of inventory. The company's operations are thus working capital-intensive. However, SMPL negotiates relaxed payment terms with its suppliers. The company's inventory holding period and payables period stood at 164 days and 146 days respectively in FY2013–14. SMPL's working capital cycle stretched from 41 days in FY2012–13 to 85 days in FY2013–14. The company's average utilisation of working capital limit is high at ~100 per cent during October 2013 to July 2014. SMPL also availed need-based adhoc working capital limit during the period under study.

SMPL procures most of its raw materials through imports. The company's profit margins are thus susceptible to adverse changes in foreign exchange rates. SMPL suffered forex loss of Rs.0.71 crore in FY2013–14 (Rs.1.46 crore in the previous year) on account of un-hedged imports. The company has undertaken negotiations with its principle supplier (Genzyme Corporation) to raise bills denominated in Indian Rupees. SMPL has also revised the contract with its key customer (Abbott Point of Care Inc) by including a provision for reimbursement of forex loss. SMPL is highly dependent on a single supplier. The company sources ~56 per cent of its traded products from Genzyme Corporation.

SMPL has exclusive rights to distribute Genzyme Corporation's products in India SMPL's leverage (debt-equity ratio) is comfortable at 0.88 times as on March 31, 2014. The company continues to benefit from its experienced management. Mr. Rajeev Sindhi and Mr. K. V. Muralidhar, directors of SMPL, have around two decades of experience in the company's line of business.

Outlook: Negative

SMERA believes the outlook on SMPL's rated facilities will remain 'negative' over the medium term. The rating may be downgraded by multiple notches in case of further decline in the company's profit margins, or in case of sustained stretch in the company's liquidity position. Conversely, the outlook may be revised to 'Stable' in case the company registers sustained improvement in profit margins and liquidity position.

About the company

SMPL, incorporated in 1995, is a Hyderabad-based company engaged in distribution of medicines and medical devices. SMPL's overall operations are managed by Mr. Rajeev Sindhi and Mr. K. V. Muralidhar Reddy. Mr. Avinash Anand Kenkare represents the private equity investors (Leonardo Investments Limited, Mauritius) on the board of SMPL.

SMPL is an authorized and exclusive distributor of medicines and medical devices manufactured by various reputed pharmaceutical companies, including Genzyme Corporation (a part of Sanofi), Medivators Inc, Dr. Franz Kohler Chemie GmbH, Abbott Point of Care Inc and Sparsh Pharma International Private Limited. Most of the products distributed by SMPL cater to niche therapeutic segments. In May 2013, SMPL entered into a tie-up with Rusan Pharma (a Mumbai-based entity) for marketing fentanyl injections and morphine tablets and injections.

SMPL has 17 distribution centers across 16 states in India. The company's distribution network is centrally monitored through SAP ERP at the administrative office in Hyderabad.

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