Sandor Medicaids Private Limited: Reaffirmed

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	28.00 (Enhanced from Rs.21.00 crore)	SMERA BBB-/Stable (Reaffirmed)
Term Loan	2.87	SMERA BBB-/Stable (Reaffirmed, Withdrawn)
Working Capital Demand Loan	3.00	SMERA BBB-/Stable (Reaffirmed, Withdrawn)

SMERA has reaffirmed the ratings of **'SMERA BBB-' (read as SMERA triple B minus)** assigned to the abovementioned bank facilities of Sandor Medicaids Private Limited (SMPL). The outlook is **'Stable'**. Further, SMERA has withdrawn the rating of **'SMERA BBB-/Stable'** assigned to the Rs.5.87 crore bank facilities, since there are no dues outstanding. The rating continues to draw comfort from the company's exclusive distribution rights, comfortable gearing (debt-equity ratio) and experienced management. However, the rating is constrained by the moderate operating scale and working capital-intensive operations. The rating also factors in the susceptibility of profit margins to forex fluctuation risk and supplier concentration risk.

Update

SMPL's operating income increased to Rs.152.29 crore in FY2015-16 (provisional) as against Rs.132.73 crore in FY2014-15. For 4MFY2016-17, the company achieved operating income of Rs.49.53 crore. The operating margin stood at 7.85 per cent in FY2015-16 as compared to 9.27 per cent in the previous year. The net profit margin stood at 2.26 per cent in FY2015-16 as compared to 3.95 per cent in FY2014-15.

SMPL's gearing (total debt to equity ratio) improved to 0.66 times as on March 31, 2016 as against 1.34 times as on March 31, 2015 on account of infusion of Rs.25.02 crore through compulsorily convertible preference shares. The company's interest coverage ratio deteriorated to 2.06 times in FY2015-16 as compared to 3.54 times in FY2014–15.

SMPL is the exclusive distributor of Genzyme Corporation's (now a part of Sanofi) products in India and has high inventory levels. The inventory holding and payables period stood at 165 days and 152 days respectively in FY2015–16. The operations are working capital-intensive with working capital cycle stretched to 111 days in FY2015–16. The company's average utilisation of working capital limit (including need-based adhoc facility) remained moderate at ~99.79 per cent from February 2016 to July 2016.

With SMPL importing most of its raw material, the profit margins are susceptible to forex fluctuation risk. However, the risk is mitigated to an extent since ~60 per cent bills are denominated in Indian rupees. Further, SMPL has revised the contract with its other supplier, Abbott Point of Care Inc by including a provision for reimbursement of forex loss. SMPL faces supplier concentration risk with ~56 per cent of traded products being sourced from Genzyme Corporation.

Rating Sensitivity Factors

- Sustained improvement in scale of operations and profitability
- Improvement in capital structure and coverage indicators
- Efficient working capital management

Outlook: Stable

SMERA believes SMPL will maintain a stable outlook over the medium term. The outlook may be revised to 'Positive' in case of sustained improvement in the operating scale while maintaining a comfortable liquidity position and healthy financial risk profile. The outlook may be revised to 'Negative' in case of deterioration in its financial risk profile.

Criteria applied to arrive at the ratings

- Trading entities

About the Company

SMPL, incorporated in 1995, is a Hyderabad-based company engaged in the distribution of medicines and medical devices manufactured by reputed pharmaceutical companies such as Genzyme Corporation (now a part of Sanofi), Medivators Inc, Dr. Franz Kohler Chemie GmbH among others. Most of the products are patented and cater to niche therapeutic segments. The company's overall operations are managed by Mr. Rajeev Sindhi and Mr. K V Muralidhar Reddy. The company has 17 distribution centres across 16 states in India.

For FY2015-16 (provisional), SMPL reported net profit after tax (PAT) of Rs. 3.44 crore on operating income of Rs.152.29 crore as compared to PAT of Rs.5.24 crore on operating income of Rs.132.73 crore in FY2014-15. The tangible net worth stood at Rs.56.94 crore as on March 31, 2016 as compared to Rs. 28.48 crore in the previous year.

Rating History:

Date	Facilities	Amount (Rs. Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
07 July, 2015	Cash Credit	21.00 (enhanced from Rs. 13.00 crore)	SMERA BBB- (Reaffirmed)	-	Stable (Revised from Negative)
	Term Loan	2.87	SMERA BBB- (Reaffirmed)	-	Stable (Revised from Negative)
	Working Capital Demand Loan	3.00	SMERA BBB- (Reaffirmed)	-	Stable (Revised from Negative)
10 September, 2014	Cash Credit	13.00*	SMERA BBB- (Reaffirmed)	-	Negative (Revised from Stable)
	Term Loan	2.87	SMERA BBB- (Reaffirmed)	-	Negative (Revised from Stable)

	Working Capital Demand Loan	3.00	SMERA BBB- (Reaffirmed)	-	Negative (Revised from Stable)
	* includes Buyer's Credit as a sublimit to the extent of Rs. 8.00 crore				
17 January, 2014	Cash Credit	13.00* (Enhanced from Rs. 12.50 crore)	SMERA BBB- (Reaffirmed)	-	Stable
	Term Loan	2.87 (reduced from Rs.4.21 crore)	SMERA BBB- (Reaffirmed)	-	Stable
	Working Capital Demand Loan	3.00	SMERA BBB- (Reaffirmed)	-	Stable
	* includes Buyer's Credit as a sublimit to the extent of Rs. 8.00 crore				
20 March, 2013	Cash Credit	12.50	SMERA BBB- (Assigned)	-	Stable
	Term Loan I	0.24	SMERA BBB- (Assigned)	-	Stable
	Term Loan II	3.97	SMERA BBB- (Assigned)	-	Stable

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ABOUT SMERA

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