

Press Release

PANACEA MEDICAL TECHNOLOGIES PRIVATE LIMITED

20 November, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 23.60 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs.15.10 crore bank facilities and withdrawn rating of **SMERA BBB-/Stable** (read as **SMERA triple B minus**) on the Rs. 2.40 crore bank facilities of Panacea Medical Technologies Private Limited (PMTPL). Further, SMERA has assigned rating of (**SMERA BBB-/Stable/SMERA A3**) on the Rs. 8.50 crore bank facilities. The outlook is '**Stable**'.

PMTPL, incorporated in 1999 was promoted by Mr G.V Subrahmanyam who possesses 29 years of experience in applied research. The company manufactures medical equipments for radiology and radiotherapy. It has tie-ups with Bhabha Atomic Research Centre (BARC) and Society for Applied Microwave Electronic Engineering and Research (SAMEER).

Key Rating Drivers

Strengths

• Experienced management

PMTPL was incorporated in 1999. The Managing Director, Mr. Subramanyam has experience of over three decades in the medical equipment industry. The company is also supported by other directors, Ms. Valli, Ms. Bala Despande, Mr. Tarun Sharma, and Mr. Y. Ramann with experience of more than two decades in the said business.

• Comfortable financial risk profile

The financial risk profile of the company is marked by modest network, comfortable gearing and healthy debt protection metrics. The tangible network (TNW is equal to paid up Share capital and reserves and surplus, after excluding items such as revaluation reserves, intangibles, unamortized miscellaneous expenditure and accumulated losses) increased to Rs.48.78 crore as on 31 March, 2017 as against Rs. 20.63 crore as on 31 March, 2016. This is due to fresh equity infusion of Rs. 0.001 crore, issue of convertible preference shares of Rs. 11.57 crore at a premium of Rs. 17.35 crore apart from internal accruals of Rs. 3.15 crore. The gearing (debt-to-equity ratio) improved to 0.29 times as on 31 March, 2017 as against 0.64 times as on 31 March, 2016. The total debt of Rs.14.08 crore includes term loan of Rs.10.56 crore from banks and research councils like Biotechnology Industry Research Assistance Council (BIRAC), Technology Development Board (TDB), other financial institutions and short term working capital borrowings of Rs. 3.52 crore as on 31 March, 2017. The interest coverage ratio (ICR) stood at 2.53 times for FY2017 as against 3.19 times for FY2016. The net cash accruals to total debt (NCA to TD) stood at 0.26 times in FY2017 as against 0.39 times in FY2016. SMERA believes that the financial risk profile will remain moderate on the back of regular capex and steady profitability.

• Reputed clientele along with moderate order book

PMTPL has technological collaboration and support from major government agencies. The company has installed medical equipments in several hospitals including those run by the state government and charitable trusts. Further, PMTPL has moderate order book position marked by current orders-in-hand of Rs. 26.00 crore to be executed by December 2017 which leads to moderate revenue visibility over the medium term.

Weaknesses

• Moderate scale of operations and profitability

The operations are at a moderate level. The company registered revenue of Rs. 33.69 crore for FY2016-17 compared to Rs.26.33 crore for FY2015-16. From April to June 2017, the company registered revenue to the tune of Rs.7.00 crore (Provisional). The revenue depends on the number of successful bids and tenders released by the government in the financial year. The operating margins (EBIDTA) stood at 16.46 percent for FY2017 compared to 25.93 percent for FY2016. Further, the Profit after tax (PAT) margin stood at 9.34 per cent in FY2017 as against 17.85 per cent in FY2016. The EBITDA and PAT margins in FY2016 were supported by one time insurance claim income of Rs. 1.99 crore which was not available in FY2017. Hence, the adjusted EBITDA and PAT margin stood at 19.86 percent and 11.12 percent respectively for FY2016. The decline in profitability during FY2017 as compared to the adjusted margins in FY2016 is mainly due to increase in the proportion of low margin third-party products such as radioactive source, treatment planning systems etc. in the totalsales.

• Working capital intensive operations

The operations of PMTPL are working capital intensive marked by high gross current assets (GCA) of 398 days as against 372 days in FY2016. The high GCAs are mainly on account of high inventory holding of ~182 days in FY2017 as against 139 days in FY2016. Out of the total inventory of Rs. 14.07 crore as on 31 March, 2017, (Rs. 7.43 crore as on 31 March, 2016), proto-type inventory stood at Rs. 5.72 crore (Rs. 1.94 crore as on 31 March, 2016). The prototype inventory is of new product and is expected to remain in business for more than a year. The company had high debtors of 170 days as on 31 March, 2017 as against 222 days as on 31 March, 2016. The average working capital limit utilisation has been high at ~99 per cent in the last six months ended September 2017.

• Exposure to foreign exchange fluctuations

The company imports about 52 per cent (in FY2017) of raw material from various geographies and exports 18 per cent (in FY2017) of its sales to developing countries. The company is thus exposed to forex fluctuation risk. However, the same is partly offset through natural hedging as the company maintains EEFC account and exports sales.

Analytical Approach

SMERA has considered the standalone financial and business risk profile of the company.

Outlook: Stable

SMERA believes that PMTPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and established track record of operations. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues while achieving improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues and profitability thereby deteriorating the financial risk profile or resulting in further elongation of working capital cycle.

About the Rated Entity - Key Financials

For FY2016-17, PMTPL reported PAT (profit after tax) of Rs.3.15 crore on operating income of Rs. 33.69 crore compared with PAT of Rs.4.70 crore on operating income of Rs. 26.33 crore in the previous year. The net worth stood at Rs. 48.78 crore as on 31 March, 2017 compared to Rs. 20.63 crore in the previous year.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
26-Nov, 2016	Cash Credit	Long Term	INR 5	SMERA BBB- / Stable (Assigned)
	Term Loan	Long Term	INR 1.1	SMERA BBB- / Stable (Assigned)
	Term Loan	Long Term	INR 2.4	SMERA BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	INR 3	SMERA A3 (Assigned)
	Letter of Credit	Short Term	INR 4	SMERA A3 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.10	SMERA BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.40	SMERA BBB- / Stable (Withdrawn)
Term loans	Not Applicable	Not Applicable	Not Applicable	4.50	SMERA BBB- / Stable (Assigned)
Proposed Term loans	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA BBB- / Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00 (Enhanced from Rs. 3 crore)	SMERA A3 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00 (Enhanced from Rs. 4 crore)	SMERA A3 (Reaffirmed)
Proposed Letter of credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A3 (Assigned)

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ABOUT SMERA

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