

Press Release

Adeshwar Meditex Private Limited

September 13, 2019



Rating Downgraded

| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs. 19.00 Cr. |
| Long Term Rating | ACUITE BB / Outlook: Stable (Downgraded from ACUITE BB+/Stable) |
| Short Term Rating | ACUITE A4+ |

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BB**' (**read as ACUITE double B**) from **ACUITE BB+/Stable** (**read as ACUITE double B plus**) and reaffirmed the short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 19.00 crore bank facilities of ADESHWAR MEDITEX PRIVATE LIMITED. The outlook is '**Stable**'.

The downward revision in rating is in view of significant buildup in inventory, which has impacted the working capital cycle of the company and decline in operating performance due to delay in exports. The operations were working capital intensive marked by GCA of 265 days for FY2019 (Est.) as against 170 for FY2018.

Mumbai-based, Adeshwar Meditex Private Limited (AMPL) was established in 1951 as a partnership firm. Subsequently, AMPL got reconstituted as private limited company in 2007. The company is engaged in manufacturing of surgical and adhesive dressing, gauze bandages, cohesive bandage and many more. AMPL has manufacturing unit located in Palghar, Maharashtra.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the AMPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

AMPL has a presence of almost seven decades in manufacturing medical dressings. The company is managed by its promoters, Mr. Siddharth Talati, Mr. Sitanshi Talati Parikh, Mrs. Sucheta Siddharth Talati, Mr. Shailesh Vinayak Rajpure and Mrs. Ashalata Baburao Raut. The promoters have extensive experience of more than two decades in drugs and pharmaceuticals Industry. The extensive experience and presence of AMPL has forayed in establishing healthy relationship with reputed clients including Jordon Armed Forces, Scott and Mahindra and Mahindra, among others.

Acuité believes that the promoters' entrepreneurial experience and healthy relationship with customers is expected to support its business risk profile over the medium term.

- **Moderate financial risk profile**

AMPL has moderate financial risk profile marked by tangible net worth of Rs.15.18 crore as on 31 March, 2019 (Est.) as against Rs.13.49 crore as on 31 March, 2018. The gearing stood at 1.15 times as on 31 March, 2019 (Est.) as against 0.86 times as on 31 March, 2018. The debt of Rs.17.52 crore as on 31 March, 2019 (Est.) consists of working capital borrowing of Rs.15.46 crore, unsecured loans from promoters of Rs.2.00 crore and term loans of Rs.0.06 crore.

The coverage ratios are moderate with Interest Coverage Ratio (ICR) of 2.26 times for FY2019 (Est.) against 3.23 times for FY2018. Debt Service Coverage Ratio (DSCR) stood at 1.82 times for FY2019 (Est.) against 2.47 times for FY2018. The total outside liabilities to tangible net worth (TOL/TNW) stood at 1.52 times as on March 31, 2019 (Est.) against 1.40 times as on March 31, 2018. Debt to EBITDA stood at 3.51 times in FY2019 (Est.) as compared to 2.02 times in FY2018. Further, Net Cash Accruals to Total Debt (NCA/TD) stood at 0.12 times in FY2019 (Est.) as against 0.25 times in FY2018.

Acuité believes that the financial risk profile of the company is expected to be at similar levels over the medium term in the absence of major debt funded capital expenditure plans.

Weaknesses

• Working capital intensive operations

AMPL's operations are working capital intensive in nature as reflected in gross current assets (GCA) of 265 days in FY2019 (Est.) as compared to 170 days in FY2018. These high GCA days emanates from high debtor days of 149 days in FY2019 (Est.) as compared to 109 days in FY2018. The stretched debtor days is because of the delays in payment realization from customers as most of the customers are government entities. The inventory days also stood high at 119 days in FY2019 (Est.) as compared to 58 days in FY2018. Acuité believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

• Decline in revenues

AMPL has registered revenues of Rs.45.98 crore in FY2019 (Est.) compared to Rs.58.60 crore in FY2018. The decline in revenues is due to delay in export order.

• Intense competition

The company is also exposed to intense competition in the medical disposables industry, which is likely to keep the margins under pressure.

Liquidity Position

Liquidity profile of AMPL is adequate reflected by sufficient net cash accruals against no major maturing debt obligations. AMPL has reported cash accruals of Rs.2.03 crore in FY2019 (Est.) and expected to generate cash accruals in the range of Rs.2 crore – Rs.4.00 crore over the medium term against repayment obligations of Rs.0.06 crore. The utilisation of working capital limits remains more than 80 per cent every month. The current ratio stood at 1.69 times as on 31 March, 2019. Acuité believes that the cushion in its accruals is expected to be absorbed into its incremental working capital operations resulting into adequate liquidity profile.

Outlook: Stable

Acuité believes AMPL will maintain a 'Stable' business risk profile in the medium term on account of its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the company registers higher than-expected growth in revenues, while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the company's financial risk profile or higher than expected working capital requirements.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 58.60 | 47.52 | 40.47 |
| EBITDA | Rs. Cr. | 5.64 | 3.00 | 2.15 |
| PAT | Rs. Cr. | 2.54 | 1.27 | 1.07 |
| EBITDA Margin | (%) | 9.63 | 6.32 | 5.30 |
| PAT Margin | (%) | 4.34 | 2.67 | 2.63 |
| ROCE | (%) | 24.19 | 17.35 | 18.41 |
| Total Debt/Tangible Net Worth | Times | 0.86 | 1.06 | 0.83 |
| PBDIT/Interest | Times | 3.23 | 3.46 | 4.79 |
| Total Debt/PBDIT | Times | 2.02 | 3.19 | 2.26 |
| Gross Current Assets (Days) | Days | 170 | 165 | 188 |

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|------------------|--------------------------------|
| 05-Jul-2018 | Cash Credit | Long Term | 11.50 | ACUITE BB+ / Stable (Upgraded) |
| | Packing Credit | Short Term | 3.50 | ACUITE A4+ (Withdrawn) |
| | Term Loan | Long Term | 0.27 | ACUITE BB+ / Stable (Upgraded) |
| | Letter of Credit | Short Term | 1.75 | ACUITE A4+ (Reaffirmed) |
| | Proposed Cash Credit | Long Term | 3.50 | ACUITE BB+ / Stable (Upgraded) |
| | Proposed Bank Guarantee | Long Term | 1.98 | ACUITE BB+ / Stable (Assigned) |
| 04-Jan-2017 | Cash Credit | Long Term | 4.40 | ACUITE BB- / Stable (Assigned) |
| | Packing Credit | Short Term | 3.50 | ACUITE A4+ (Assigned) |
| | Term Loan | Long Term | 0.35 | ACUITE BB- / Stable (Assigned) |
| | Letter of Credit | Short Term | 1.88 | ACUITE A4+ (Assigned) |
| | Proposed Cash Credit | Long Term | 1.50 | ACUITE BB- / Stable (Assigned) |
| | Proposed Letter of Credit | Short Term | 0.62 | ACUITE A4+ (Assigned) |

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|--------------------------------------|---|
| Cash Credit* | Not Applicable | Not Applicable | Not Applicable | 15.00 (Enhanced from Rs.11.50 crore) | ACUITE BB / Stable (Downgraded from ACUITE BB+/ Stable) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 0.27 | ACUITE BB / Stable (Downgraded from ACUITE BB+/ Stable) |
| Letter of credit** | Not Applicable | Not Applicable | Not Applicable | 3.50 (Enhanced from Rs.1.75 crore) | ACUITE A4+ (Reaffirmed) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 0.23 (Revised from Rs.3.50 crore) | ACUITE BB / Stable (Downgraded from ACUITE BB+/ Stable) |

*sublimit of FDBP/FUDBP (DP/DA 180 days under LC/contract) up to Rs.3.50 crore; sub limit of FDBP/FUDBP (DP/DA 180 days under LC/contract) of Rs. 3.50 crore; UBD under LC of prime bank of Rs. 1.00 crore.

**sublimit of letter of guarantee of Rs. 3.50 crore.

Contacts

| Analytical | Rating Desk |
|---|---|
| Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in | Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in |
| Simranjeet Kaur Analyst - Rating Operations Tel: 02249294052 simranjeet.kaur@acuite.in | |

About Acuité Ratings & Research:

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