

## Press Release

### Sri Sai Appa Biocare

October 07, 2020



### Rating Upgraded and Reaffirmed

<b>Total Bank Facilities Rated*</b>	Rs.12.00 Cr.*
<b>Long Term Rating</b>	ACUITE B+/Outlook: Stable (Upgraded from ACUITE B/Stable)
<b>Short Term Rating</b>	ACUITE A4 (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE B+** (read as ACUITE B plus) from '**ACUITE B** (read as ACUITE B) and has reaffirmed the short term rating of '**ACUITE A4** (read as ACUITE A four) on the Rs.12.00 crore bank facilities of Sri Sai Appa Biocare (SSBC). The outlook is '**Stable**'.

### Revision in Rating

The rating is upgraded on account of improvement in scale of operations and profitability margin of the firm. The operating income of the firm stood improved at Rs.17.68 crore in FY2020 (Provisional) as against Rs.14.07 crore in FY2019. The revenues are growing at a compounded annual growth rate of 102.94 percent since 2017. Further, the firm has registered revenue of Rs.7.00 crore till 5MFY2021. Also, the firm's operating margin improved and stood at 4.10 percent in FY2020 (Provisional) as against 3.61 percent in FY2019. PAT margin also improved and stood at 0.72 percent in FY2020 (Provisional) as against 0.57 percent in FY2019. Acuité believes going ahead the firm is likely to sustain its growth over the medium term.

### About Company

Sri Sai Appa Biocare (SSBC) is a Chennai based partnership firm established in 2016. The firm is promoted by Mr. Ramesh Kulandaraj, Mr. Siva Mr. Kailasanathan J and Mr. S Soundararajan. SSABC distributes medical devices of various principals across Southern India and its major presence is in Tamil Nadu and Pondicherry. Some of the key principals of SSABC include renowned global companies in the medical devices industry such as Medtronic Inc., Abbott Vascular (AV) Inc., and St. Jude Medical, Inc. and Teleflex.

### Analytical Approach

Acuité has considered the standalone business and financial risk profile of CIPL to arrive at the rating.

### Key Rating Drivers

#### Strengths

##### • Experienced management

SSBC is a Chennai based partnership firm established in 2016. The firm is promoted by Mr. Ramesh Kulandaraj, Mr. Siva Mr. Kailasanathan J and Mr. S Soundararajan. The partners have an experience of over 2 decades in the medical distribution industry associated with other concerns. SSBC is associated with several reputed multi-national companies such as Abbott Vascular, St Jude Medical, Teleflex, and Medtronic as a distributor of their medical products. SSABC reported revenues of about Rs.17.68 crore in FY2020 (Provisional) as against Rs.14.07 crore in FY2019. Acuité believes that SSABC will continue to benefit over the medium term from the extensive experience of the partners and strong and reputed equipment supplier.

#### Weaknesses

##### • Average financial risk profile

The financial risk profile of the firm is marked by low net worth, modest gearing (debt:equity) and debt

protection metrics. The tangible net worth of the firm stood at Rs.4.66 crore as on 31 March, 2020 (Provisional) as compared to Rs.2.19 crore as on 31 March, 2019. The total debt consist of short term borrowing of Rs.6.75 crore as on 31 March, 2020 (Provisional). The gearing (debt-equity) stood moderate at 1.30 times as on 31 March, 2020 (Provisional) as compared to 1.89 times as on 31 March, 2019. Interest Coverage Ratio stood low at 1.20 times for FY2020 (provisional) as against 1.17 times for FY2019. Total Outside Liabilities/Total Net Worth (TOL/TNW) also stood high at 2.43 times as on 31 March, 2020 (Provisional) as compared to 4.14 times on 31 March, 2019. Net Cash Accruals to Total Debt (NCA/TD) stood low at 0.02 times for FY2020 (Provisional). Debt Service Coverage Ratio (DSCR) stood at 1.20 times in FY2020 (Provisional) as against 1.17 times in FY2019. Acuité believes that the financial risk profile is expected to improve, however, remain average on account of low net worth and intensive working capital.

#### • Working capital Intensive nature of operations

The firm operates in a working capital intensive nature of operations marked by high Gross Current Assets (GCA) days of 316 days in FY2020 (Provisional) and 268 days in FY2019. The increase in GCA is majorly on account of increase in receivable days to 160 days for FY2020 (Provisional) as against 136 days for FY2019. Further, the inventory days has also increased to 172 days in FY2020 (Provisional) from 132 days in FY2019. The average bank limit utilisation stood low at ~88.00 percent for the past eight months ending August 2020. Acuité believes that efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

#### Rating Sensitivities

- Significant improvement in scalability while maintaining profitability
- Any further elongation of the working capital cycle

#### Material Covenants

None

#### Liquidity Position: Stretched

SSBC has stretched liquidity marked by low net cash accruals and high bank limit utilisation. The firm has generated cash accruals of Rs.0.08-0.20 crore during the last three years through 2018-20 as against no maturing debt obligations. The working capital cycle of the firm is intensive marked by Gross Current Assets (GCA) days of 316 days in FY2020 (Provisional) as against 268 days in FY2019. The average bank limit utilisation stood at ~88.00 percent for the past eight months ending August 2020. The firm maintained low unencumbered cash and bank balances of Rs.0.02 crore as on March 31, 2020 (Provisional). The current ratio of SSBC stood lower at 1.41 times as on March 31, 2020 (Provisional). Acuité believes that the liquidity of SSBC is likely to remain stretched over the medium term.

#### Outlook: Stable

Acuité believes that SSBC will maintain a 'Stable' outlook in the medium term backed by its promoter's extensive experience. The outlook may be revised to 'Positive' in case of a significant improvement in its revenues along with improvement in profitability and capital structure. Conversely, the outlook may be revised to 'Negative' if there is any further stretch in its working capital cycle leading to the deterioration of financial risk profile and liquidity.

#### About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	17.68	14.07
PAT	Rs. Cr.	0.13	0.08
PAT Margin	(%)	0.72	0.57
Total Debt/Tangible Net Worth	Times	1.30	1.89
PBDIT/Interest	Times	1.20	1.17

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

CRISIL, vide its press release dated May 18, 2020 had denoted the rating of Sri Sai Appa Biocare (SSBC) as 'CRISIL B/Stable/A4 (Issuer Not Cooperating)' on account of lack of adequate information required for monitoring of ratings.

#### **Any other information**

None.

#### **Applicable Criteria**

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities: <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

#### **Note on complexity levels of the rated instrument**

<https://www.acuite.in/view-rating-criteria-55.htm>

#### **Rating History (Upto last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09-April-2019	Cash Credit	Long Term	4.00	ACUITE B/Stable (Assigned)
	Proposed Cash Credit	Long Term	2.00	ACUITE B/Stable (Assigned)
	Bank Guarantee	Short Term	2.30	ACUITE A4 (Assigned)
	Proposed Bank Guarantee	Short Term	0.30	ACUITE A4 (Assigned)
	Proposed Bank Facility	Long Term	3.40	ACUITE B/Stable (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	6.00	ACUITE B+/Stable (Upgraded from ACUITE B/Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.30	ACUITE A4 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.70	ACUITE B+/Stable (Upgraded from ACUITE B/Stable)

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate and Infrastructure Sector Tel: 022 49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>	Varsha Bist Senior Manager - Rating Desk Tel: 022 49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>
Rupesh Patel Senior Analyst – Rating Operations Tel: 022 49294044 <a href="mailto:rupesh.patel@acuite.in">rupesh.patel@acuite.in</a>	

### About Acuité Ratings & Research:

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