

Press Release

Medex International

January 07, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.15.00 Cr.
Long Term Rating	ACUITE B+/ Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and the short-term rating of '**ACUITE A4**'(**read as ACUITE A four**) to the Rs.15.00 crore bank facilities of MEDEX INTERNATIONAL (MI). The outlook is '**Stable**'.

Delhi based, Medex International (MI) was established as a proprietorship firm in October 2016. The firm is engaged in trading of electrical goods and equipment. MI supplies equipment for power cable laying, energy efficient off-grid distributed power generation, substation and transmission lines, and rural electrification.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

MI was established in 2016 as a proprietorship firm. The proprietor of the firm, Mr. Swaran Singh has an experience of about four decades through his association with Medcraft International Private Limited, Omkareshwar Builders Private Limited and Pathfinder Infrastructures Private Limited as director. The experience of management has helped the firm to develop healthy relationships with customers and suppliers in a relatively short span of time.

Acuité believes that MI will sustain its existing business profile backed by experienced management.

Weaknesses

- **Weak financial risk profile**

MI has weak financial risk profile marked by modest net worth, high gearing and average debt protection metrics. The net worth stood at Rs.2.81 crore as on 31 March, 2019 as against Rs.0.31 crore as on 31 March 2018 due to infusion of capital by the proprietor. The firm has followed an aggressive financial policy in the past; the same is reflected through its peak gearing levels of 5.43 times as on March 31, 2018. The gearing improved to 1.56 times as on March 31, 2019. Further, the interest coverage ratio stood at 1.76 times for FY2019 as compared to 1.43 times for FY2018. Total outside liabilities to total net worth (TOL/TNW) stood high at 4.36 times as on 31 March, 2019 as against 39.26 times as on 31 March, 2018.

Acuité believes that financial risk profile of the firm is likely to remain weak over the medium term, on account of high gearing and average debt protection metrics.

- **Modest scale of operations and customer concentration risk**

The operations of the firm are modest as reflected by the revenue of Rs. 27.13 crore in FY2019 as compared to Rs. 25.05 crore in FY2018. The firm generated ~86 per cent of its revenues in FY2019 through a single customer. Further the firm has a limited track record of operations of 3 years.

Acuité believes that customer concentration risk will be a key rating sensitivity.

- **Working capital intensive nature of operations**

The operations of the firm are working capital intensive marked by gross current assets (GCA) of 160 days in FY2019 as compared to 178 days in FY2018. This is on account of high debtors' collection period of 116 days in FY2019 as against 134 days in FY2018 due to longer payment realization and the firm maintains inventory levels of 0 days in FY2019 and FY2018. The stretch in working capital has led to the reliance on external bank limits depicted by the average banks limit utilization of ~83 percent for the past six months ended November 2019. Further the creditors' payment period stood at 112 days in FY2019 as against 164 days in FY2018.

Acuité believes that the working capital operations of the firm will continue to remain intensive over the medium term on account of elongated debtors' collection period and creditors' payment period.

Liquidity position: Stretched

MI has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs. 0.48 crore for FY2019 with debt repayment obligation of Rs. 0.43 crore for the same period. The cash accruals of MI are estimated to remain in the range of around Rs. 0.32 crore to Rs. 0.66 crore during 2020-22 against debt repayment obligations of Rs. 0.26 crore per year. The firm's working capital operations are intensive marked by 160 gross current asset (GCA) days for FY2019. The average banks limit utilization for the past six months ended November 2019 remained ~83 per cent. The firm maintains cash and bank balances of Rs. 0.68 crore as on 31 March 2019. The current ratio stood at 1.27 times as on 31 March 2019. Acuité believes that the liquidity of the firm is likely to remain stretched on account of low cash accrual against debt repayments over the medium term.

Rating Sensitivities:

- Substantial improvement in profitability margins.
- Stretch in working capital cycle leading to increased reliance on working capital borrowings

Material Covenants

Not Applicable

Outlook: Stable

Acuité believes that the firm will maintain a 'Stable' outlook on account of experienced management. The outlook may be revised to 'Positive' in case of significant improvement in working capital operations while, maintaining revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in scale of operations or profitability or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	27.13	25.05
PAT	Rs. Cr.	0.34	0.43
PAT Margin	(%)	1.26	1.71
Total Debt/Tangible Net Worth	Times	1.56	5.43
PBDIT/Interest	Times	1.43	1.76

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

India Ratings & Research, vide its press release dated February 08, 2019 had denoted the rating of Medex International as 'IND B+/IND 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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE B+/ Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A4 (Assigned)

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
Stuti Fomra Analyst - Rating Operations Tel: 011-49731309 stuti.fomra@acuite.in	

About Acuité Ratings & Research:

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