



Press Release
Medex International

April 26, 2022

Rating Reaffirmed and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.00	-	ACUITE A4 Reaffirmed
Bank Loan Ratings	3.00	ACUITE BB- Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	15.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE B+**' (read as **ACUITE B plus**) and reaffirmed the short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.15.00 crore bank facilities of Medex International (MI). The outlook is '**Stable**'.

Reason for upgrade

The rating upgrade takes into account improvement in the firm's scale of operations. It has reported revenue of Rs.24 Cr. for 9M FY2022 (Provisional) against Rs.16 Cr. in FY2021, which is a growth of 33 percent. The rating also draws comfort from the improvement in capital structure and coverage indicators on account of infusion of funds by the proprietor. The rating is however constrained by the firm's modest scale of operations and working capital intensive nature of operations. MI's ability to improve its scale of operations while maintaining its profitability and ability to maintain its working capital cycle will remain a key rating sensitivity.

About the Company

Delhi based, Medex International (MI) was registered as a proprietorship firm in October 2016 by Mr. Swaran Singh. 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

Acuite 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.

Improving capital structure and coverage indicators

Improvement has been observed in MI's capital structure on account of infusion of funds by the proprietor. Its gearing improved to 0.81 times as on December 31, 2021 (Prov.) from 1.13 times as on March 31, 2021. Going forward, MI's gearing is expected to remain in the range of 0.77 – 0.73 times and interest coverage and DSCR in the range of 1.50 – 1.84 times and 0.87 – 1.43 times over the medium term. There have been instance of capital withdrawal by partners in the past and risk of further withdrawal remains given the partnership nature of the entity. Any significant withdrawal of capital leading to deterioration in the capital structure will remain key rating monitorable. Financial risk profile is below average marked by modest net worth, low gearing and average debt protection metrics. The networth stood at Rs.1.50 Cr as on 31 March, 2021 as against Rs.2.49 Cr as on 31 March, 2020 because of drawings made by the proprietor for an amount of Rs.1 Cr. The gearing (debt-equity) stood at 1.13 times as on 31 March, 2021 as against 1.75 times as on 31 March, 2020. The total debt of Rs.1.70 Cr as on 31 March, 2021 consists of long term bank borrowings. The interest coverage ratio stood at 1.57 times for FY2021 as against 1.60 times for FY2020. The DSCR stood at 1.57 times for FY2021 as compared to 0.95 times for FY2020. The Net Cash Accruals to Total debt stood at 0.26 times for FY2021 as against 0.09 times for FY2020. The Total outside liabilities to Tangible net worth stood high at 6.43 times for FY2021 as against 2.57 times in FY2020.

For FY2022 (Provisional), it is estimated that the networth of the firm will increase to Rs.4.50 Cr on account of fund infusion by the proprietor. The gearing (debt-equity) will be ~0.93 times, interest coverage ratio will be ~1.66 times, DSCR will be ~1.51 times, NCA/TD will be ~0.12 times and TOL/TNW will be ~2.38 times.

Acuité believes that MI's financial risk profile is expected to improve to some extent on account of its improving operating performance in near to medium term.

Weaknesses

Modest yet improving scale of operations

MI reported revenues of Rs.16 Cr for FY2021 as against Rs.15 Cr in FY2020 and Rs.27 Cr in FY2019. The operations of the firm got declined in FY2020 mainly due to less number of orders received for supply of electrical goods and equipments to its customers' who are mainly EPC contractors undertaking government projects related to electricity supply and distribution in rural areas and further it got impacted in FY2021 mainly due to covid induced lockdown restrictions wherein these projects got impacted and because of which the firm was unable to supply its products. The operating margin of the firm however stood at same level of ~7 percent in FY2021 and FY2020 and it achieved a slightly high net profit of Rs.0.26 Cr in FY2021 as against Rs.0.18 Cr in FY2020.

For the current year FY2022 as on Dec-21, there has been an improvement in the firm's operational performance since it started receiving orders from the EPC contractors as the projects got resumed for execution post the lockdown restrictions were lifted and that indeed helped the firm to bring back the operations on track. For 9M FY2022, the firm has achieved sales of Rs.24 Cr however with a lower operating margin of 3 percent and net profit of Rs.0.15 Cr. For FY2022 (Provisional), it is estimated that firm will achieve net sales of ~Rs.33 Cr with an operating margin of ~5 percent and net profit of ~Rs.0.35 Cr.

Acuité expects MI's ability to improve its scale of operations while maintaining profitability will remain a key rating sensitivity factor.

Working capital intensive nature of operations

MI's operations are working capital intensive marked by Gross Current Assets (GCA) of 176 days for FY2021 as against 181 days for FY2020. This is primarily on account of high debtor days which stood at 68 days in FY2021 as against 101 days in FY2020 which has reduced due to an improvement in payment realization. The inventory days stood at 32 days in FY2021 as against 5 days in FY2020 mainly because of no supply of electrical goods and equipment taking place due to covid induced lockdown and due to which the creditors got stretched and stood

high at 200 days in FY2021 as against 71 days in FY2020.

Although, there has been an improvement in the firm's working capital cycle in FY2022 as on Dec'21. For 9M FY2022, inventory days stood at 26 days, debtor days stood at 2 days and creditor days stood at 42 days.

Acuité believes that MI's ability to maintain its working capital cycle will remain a key rating sensitivity.

Rating Sensitivities

- Ability to maintain scale of operations and maintaining profitability
- Ability to maintain working capital cycle
- Significant withdrawal of capital leading deterioration in capital structure.

Material covenants

None

Liquidity Position - Stretched

MI has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The firm generated cash accruals in the range of Rs.0.48 Cr – Rs.0.43 Cr during FY2019 to FY2021 against repayment obligation of Rs.0.43 Cr during the same period. Going forward the NCA are expected in the range of Rs.0.52 Cr – Rs.0.82 Cr for period FY2022-FY2024 against repayment obligation of Rs.0.80 Cr – 0.19 Cr for the same period. The company's operations are working capital intensive marked by gross current asset (GCA) days of 176 days for FY2021 due to its high debtor days. This makes the company dependent on bank borrowing for working capital requirement. Average bank limit utilization for 6 months' period ended Dec 2021 stood at 97 percent. Current ratio stands at 1.28 times as on 31 March 2021. The company has maintained cash & bank balance of Rs.1.01 crore in FY2021.

Acuité believes that the liquidity of MI is expected to improve over the medium term on account of improving operating performance resulting in generating healthy cash accruals against its debt obligations.

Outlook: Stable

Acuité believes that MI will maintain a 'Stable' outlook on account of its experienced management and improving scale of operations. 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	16.43	14.63
PAT	Rs. Cr.	0.26	0.18
PAT Margin	(%)	1.60	1.23
Total Debt/Tangible Net Worth	Times	1.13	1.75
PBDIT/Interest	Times	1.57	1.60

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

Not Applicable

Any other information

None

Applicable Criteria

- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
30 Mar 2021	Secured Overdraft	Long Term	3.00	ACUITE B+ (Issuer not co-operating*)
	Letter of Credit	Short Term	12.00	ACUITE A4 (Issuer not co-operating*)
07 Jan 2020	Secured Overdraft	Long Term	3.00	ACUITE B+ Stable (Assigned)
	Letter of Credit	Short Term	12.00	ACUITE A4 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
UCO Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A4 Reaffirmed
UCO Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB- Stable Upgraded (from ACUITE B+)

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About Acuité Ratings & Research

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