

Indian Surgical Equipment Company Private Limited

January 28, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	2.94	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	5.00	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	7.94 (Rs. Seven Crore and Ninety-Four Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Indian Surgical Equipment Company Private Limited (ISECPL) continue to remain constrained by small scale of operations, leveraged capital structure and weak coverage indicators, elongated operating cycle and stretched liquidity position. The ratings are further constrained on account of foreign exchange fluctuation risk and Risk associated with the government regulations in the industry. Further, the ratings, continue to derive comfort from experienced promoters with long track record of operations and moderate profitability margins.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade

- Sizable improvement in total operating income to Rs. 30.00 crore and above on a sustained basis
- Improvement in total debt to GCA below 7x on a sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade

- Deterioration in PBIDLT margin and PAT margin below 10% and 1% respectively on continuous basis
- Deterioration in capital structure as marked by overall gearing of above 2.50x on a sustained basis
- Elongation in operating cycle of above 130 days on a sustained basis

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations: The scale of operations remained small marked by total operating income and gross cash accruals of Rs. 8.05 crore and Rs. 0.38 crore during FY21 as against Rs.8.80 crore and Rs. 0.39 crore respectively during FY20 (refers to the period April 01 to March 31). The marginal decline in scale of operations of the company is on account of lower intake from existing clients. Further, in 8MFY21 (refers to the period April 01 to November 30, 2021), the company has achieved Rs. 5.10 crore. Further, the company's capital base was relatively small to 2.35 Cr as on March 31, 2020. The small scale limits the company's financial flexibility in times of stress and deprives it from scale benefits.

Elongated operating cycle: The operating cycle of the company elongated and stood at 124 days for FY21 as against 105 days for FY20 on account of increase in collection period. The company normally maintains inventory of around 1-2 month in form of traded goods to meets the immediate requirements of its customers resulting in average inventory period of 36 days in FY21 as against 59 days in FY20. ISECPL normally allow credit period of around 3-4 months to its customers, there are many projects which require installation at multiple sites and ISEPL receives payments only after successful installation at all the sites. Further, the customer base also comprises of government bodies / departments and there's normally delay in realization of payment due to procedural issues and due to slow allocation of budget in health sector by government resulting into payment getting delayed resulting in average collection period of 160 days in FY21 as against 111 days in FY20. Furthermore, the company receives a credit period of 2-3 months from their suppliers.

Risk associated with the government regulations in the industry: In India, the Central Drugs Standard Control Organization is the main regulatory body for Notified Medical equipment. Hence, any violation is punishable, and the authority can also make provisions for penalizing the manufacturing units in terms of suspension or cancelling of license. Any adverse change in policies of government can affect business.

Foreign exchange fluctuation risk: The company is also importing material (30%) from United Kingdom, Germany, and USA. Though the proportion of imports vary according to the type of orders. The final products manufactured by the company are sold in the domestic market, with initial cash outlay for procurement in foreign currency and significant chunk of sales realization in domestic currency, the company is exposed to the fluctuation in exchange rates. Further, company doesn't hedge for any foreign currency transaction thus, exposing company's profitability margins to foreign currency fluctuation risk.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Key Rating Strengths

Experienced promoters with long track record of operations: The operations of the company are managed by Ms. Sneha Rajpal, who is graduate by qualification and have vast experience of more than three decade in dealing with medical equipment. She is associated with ISECPL since inception, and she is supported by Mr. Abhinav Rajpal who is post graduate by qualification and looks after sales & service part of medical equipment.

Moderate profitability margins: ISECPL offers installation and annual maintenance servicing facility of the medical equipment's which requires specialized technical know-how. Owing to the trading nature of the business with low value addition, the profitability margins of the company continue to remain moderate as marked by PBILDT margin of 10.87% in FY21 as against 11.36 in FY20. The PAT margin improved marginally and stood above unity at 1.61% in FY20 as against 1.25% in FY20, due to decline in interest cost and depreciation.

Liquidity: Stretched

The liquidity position of the company remained stretched as marked by tightly matched repayment vis-à-vis obligations. The company has generated GCA of Rs. 0.38 crore in FY21 and is expected to envisage GCA of Rs. 0.40 crore in FY22 against repayment obligation of Rs.0.26 crore in same year. Further, the working capital limits of the company is 90% utilised for the past twelve months ending December 2021. The company also have low cash & bank balances of Rs. 0.14 crore as on March 31, 2021.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non-financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Wholesale Trading](#)

About the Company

Indian Surgical Equipment Company Private Limited (ISECPL) was set up as August 04, 1981, as proprietorship concern, it got converted into private limited company in 1987. It is currently managed by Ms Sneha Rajpal and Mr. Abhinav Rajpal. ISEPL is engaged in the trading of medical equipment across India and mostly deals in Life science & diagnostic equipment like Operation table, Anesthesia Machine, surgical instruments etc. ISEPL have also started manufacturing Warm blanket and the same is sold under brand name "Therma". The company imports the equipment from Germany and USA and caters to hospitals such as All India Institute of Medical Sciences, Shri Ganga Ram hospital and various government hospital, VDPL is authorized dealer of "Thermo Fisher Scientific (Germany) medical equipment in North.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22
Total operating income	8.80	8.05	5.10
PBILDT	1.00	0.88	NA
PAT	0.11	0.13	NA
Overall gearing (times)	1.78	1.61	NA
Interest coverage (times)	1.79	1.96	NA

A: Audited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft		-	-	-	2.94	CARE B+; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	5.00	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Bank Overdraft	LT	2.94	CARE B+; Stable	-	1)CARE B+; Stable (25-Mar-21)	1)CARE B+; Stable (23-Mar-20) 2)CARE B+; Stable (02-Apr-19)	-
2	Non-fund-based - ST-Bank Guarantee	ST	5.00	CARE A4	-	1)CARE A4 (25-Mar-21)	1)CARE A4 (23-Mar-20) 2)CARE A4 (02-Apr-19)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Bank Overdraft	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple

Annexure 5: Bank Lender Details for this Firm

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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