

## ADS Diagnostic Limited

August 29, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	1.45	CARE B+; Stable (Single B Plus ; Outlook: Stable)	Assigned
Long-term/ Short- term Bank Facilities	10.00	CARE B+; Stable/ CARE A4 (Single B Plus ; Outlook: Stable/ A Four)	Assigned
<b>Total</b>	<b>11.45</b> <b>(Rupees Eleven crore and forty five lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale and key rating drivers

*The ratings assigned to the bank facilities of ADS Diagnostic Limited (ADS) are constrained by its small and fluctuating scale of operations, leveraged capital structure and working capital intensive nature of operations. The ratings are further constrained from ADS's presence in a fragmented and competitive industry. The aforesaid ratings however draw comfort from an experienced management and moderate profitability margins.*

*Going forward, ability of the company to scale up its operations and improving its capital structure shall be its key rating sensitivity.*

### Detailed description of the key rating drivers

#### Key Rating Weakness

##### ***Small and fluctuating scale of operations***

The scale of operations stood small as marked by the total operating income of Rs. 6.63 crore in FY18 (refers to period starting from April 01 to March 31). The small scale limits the company's financial flexibility in times of stress and deprives it from scale benefits. Further, the scale of operations has been fluctuating for the past three financial years i.e FY16-FY18 owing to unstable demand for equipments and their servicing. The total operating income declined by around 52% in FY17 and registered a growth of around 17% in FY18. Furthermore, the company has achieved a total operating income of Rs. 1.22 crore in 3MFY19 (refers to period starting from April 01 to June 30; based on provisional results).

##### ***Leveraged capital structure***

The capital structure of ADS stood leveraged owing to high dependence on the external borrowings coupled with a small net-worth of Rs. 2.14 crore as on March 31, 2018. The overall gearing stood at more than 1.77x on the balance sheet dates of the past three balance sheet dates of FY16, FY17 and FY18.

##### ***Working capital intensive nature of operations***

The business operations of ADS are working capital intensive in nature as reflected by higher utilization of sanctioned working capital limits. Since ADS operates in a competitive industry and caters to a reputed customer base, it has limited bargaining power and is required to offer high credit period of 3-4 months to its customers. Further, there is delay in realization of the receivables owing to lengthy clearance process with the government hospitals which resulted in an average collection period of 113 days for FY18. Being in the healthcare sector, ADS also maintains substantial inventory of equipments and their spare parts to meet the immediate needs of its customers. The company meets its working capital requirements through the high payable period of upto 300 days received from its suppliers and utilization of its sanctioned working capital limits. The working capital limits remained almost 90% utilized for the past 12 months, period ending June 30, 2018.

##### ***Presence in competitive and competitive nature of industry***

The trading industry is highly unorganized & competitive in nature. Due to low entry barriers, the trading Industry in the country is flooded with many players. This has led to high level of competition in the industry which exerts pressure on profitability margins. The cost of goods purchased is the major cost component for the trading industry. Availability of goods is not an issue for the industry but procuring these goods at competitive prices poses a challenge to maintain efficiencies of business.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

## Key Rating Strengths

### ***Experienced management***

The overall operations of the company are managed by Dr. Gautam Sehgal and Mr. Ravi Kohli. Both of them are graduates by qualification and have vast experience of around three decades in trading of medical equipment through their association with ADS and its group associate Ved Med Software and Trading Private Limited which is also engaged in the same line of business. They are further supported by other directors, members of the board and a team of experienced.

### ***Moderate profitability margins and interest service coverage indicators***

ADS offers installation, maintenance and servicing facility of the medical equipment; which requires specialized technical know-how. The profitability margins thus stood moderate as marked by PBILDT margin and PAT margin of 14.77% and 3.19% respectively in FY18. The company however suffered operational losses in FY17 due to lower absorption of fixed costs. Further, the interest coverage indicators also stood moderate owing to moderate profitability; as marked by interest coverage ratio of 1.93x and total debt to gross cash accruals of 7.70 times for FY18.

## Analytical approach: Standalone

### Applicable Criteria:

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[CARE's methodology for service sector companies](#)

[CARE's methodology for whole sale trading companies](#)

[Financial ratios – Non-Financial Sector](#)

## About the Company

Delhi based ADS Diagnostics Limited (ADS) is a Public Limited Company which was incorporated in June 1984 by Dr. Gautam Sehgal, Dr. Vivek Sehgal, Dr. Versha Sehgal, Dr Arjun Dev Sehgal and Mrs. Radhika Sehgal. ADS is engaged in the trading, installation and servicing of medical equipment across India. The company imports the equipments from United States of America and caters to hospitals such as All India Institute of Medical Sciences, HLL Lifecare Limited, and Lok Nayak Jai Prakash Narayan Hospital among others.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	5.64	6.63
PBILDT	-0.37	0.98
PAT	-0.52	0.21
Overall gearing (times)	0.85	0.57
Interest coverage (times)	2.17	1.77

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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## About CARE Ratings:

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an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	10.00	CARE B+; Stable / CARE A4
Fund-based - LT-Cash Credit	-	-	-	1.45	CARE B+; Stable

#### 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	10.00	CARE B+; Stable / CARE A4	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	1.45	CARE B+; Stable	-	-	-	-

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