RATING REPORT

Radiant Medical (Pvt.) Limited (RML)

REPORT DATE:
March 18, 2020

RATING ANALYSTS:
Tayyaba Ijaz
tayyaba.ijaz@vis.com.pk

Maimoon Rasheed
maimoon@vis.com.pk

RATING DETAILS		
	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	BBB+	A-2
Rating Date	*16th March, 2020*	
Rating Outlook	Stable	

COMPANY INFORMATION	
Incorporated in 2004	**External auditors:** Atta Ullah & Chartered Accountants
Private Limited Company	**Chairman of the Board & CEO :** Mr. Ali Ahmad
Key Shareholders: (Above 5%)	
Mr. Ali Ahmad: 48% Mr. Sabir Ali: 32% Dr. Ather Jawad: 20%	

APPLICABLE METHODOLOGY
VIS Entity Rating Criteria: Corporates (May 2019) ***https://www.vis.com.pk/kc-meth.aspx***

OVERVIEW OF THE INSTITUTION

Radiant Medical (Pvt.) Limited was incorporated in 2004 as a private limited company. The company is principally engaged in the business of import and supply of medical equipment, disposables and surgical items to hospitals in Pakistan.

Profile of Chairman & CEO

Mr. Ali Ahmad is the chairman of the board and CEO of the company since its inception and has vast experience in the relevant field.

Financial Snapshot

Core Equity: end-FY19: Rs. 808.1m; end-FY18: Rs. 633.2m; FY17: Rs. 481.5m

Assets: end-FY19: Rs. 1.0b; end-FY18: Rs. 823.2m; FY17: Rs. 691.6m

Profit After Tax: FY19: Rs. 174.9m; FY18: 151.7m; FY17: 113.8

RATING RATIONALE

Radiant Medical (Pvt.) Limited (RML) is medium-size trading enterprise, majority owned and managed by family members. The ratings take into account steady growth in sales emanating from securing contracts from government, semi-government and premium healthcare institutes in Pakistan and specialized nature of equipment solely distributed by the company. Financial profile incorporates higher margins, strong liquidity profile and low leveraged capital structure. Coverages remained sizeable given improvement in cash flows and minimal on-balance sheet financing. However, the ratings are constrained by implied volatility in the topline due to nature of business and relatively small scale of operations amid rating universe. The ratings also factor in presence of the company in highly fragmented industry, possible impact of currency fluctuation on products' prices and any adverse changes in regulatory duties. Further, corporate governance framework has considerable room for improvement.

Key Rating Drivers:

Industry Overview: Pakistan medical devices & diagnostic industry, which includes medical devices, diagnostics and medical imaging equipment, comprises importers, suppliers, distributors & manufacturers of various forms of medical devices from emerging local companies to global corporations. The product range of this industry is equally diverse and includes disease screening technologies, therapies, equipment and supplies. The industry is dynamic and with continuous innovation resulting in short life cycles of many products.

The Government of Pakistan (GoP) imposes no restrictions on foreign direct investment in healthcare services, and allows medical equipment imports under its "Open General" regulations. *(Imports of radioactive equipment require Pakistan Nuclear Regulatory Authority approval).* Import tariffs range from 0 to 25 percent, depending on category. Some medical equipment is exempt from sales taxes. Low entry barriers, given relaxation in the process of registration of medical devices in recent years, lower regulatory duties and restrictions by the Government, has given rise to high competition among various small and medium-size players. Classification and grouping of medical devices has been harmonized with international guidelines of the World Health Organization (WHO), International Medical Devices Regulators Forum (IMDRF) and Asian Harmonization Working Party (AHWP) in the last few years. Due to growing population and improving healthcare infrastructure, medical technology companies are increasing their investment in Pakistan, among other emerging markets. Though the same have followed a rather conservative business strategy and operating model in Pakistan by mainly focusing on catering premium segment of the market.

Company's profile: RML is operated by more than 128 employees in 4 branches located in Rawalpindi, Karachi, Multan and Peshawar, with its head office being located in Lahore. Board of Directors comprises Mr. Ali Ahmad and his Brother, Mr. Sabir Ali. Mr. Ather Jawad is a family member, who has recently acquired 20% shares in the company. Another sister concern *(with Mr. Ahmad holding 50% share)* namely Ensmile Pakistan is the manufacturer and exporter of invisible dental aligners. Moreover, a new venture in fast food industry is currently under process, with 50% shareholding held by Mr. Ahmad, pertain to a franchise of 'Applebees' *(a US company)*, to be run under the banner of Radiant Dine (Pvt.) Limited, in major cities of Pakistan.

RML is involved in supplying electro-medical equipment to public and private healthcare institutions, providing after sale services and separate maintenance contracts. Products include X-Ray films and radiography equipment, radiation therapy products, burn care products, hospital furniture and ophthalmology equipment. A considerable portion of revenue (FY19: 23%; FY18: 29% and FY17: 41%) emanates from supply of digital and conventional X-Ray films *(of Carestream-USA)* across Pakistan; the company holds ~27% market share in its total supply, as per management. Some of the major projects completed by RML are mentioned below:

- MOT at Armed Forces Bone Marrow Transplant Centre (AFBMTC), Rawalpindi (RWP)
- MOT at Armed Forces Institute of Cardiology (AFIC), RWP
- MOT at Armed Forces Institute of Ophthalmology (AFIO), RWP
- MOT at Anwar Hospital, RWP
- MOT at Cardiac Centre, Pakistan Institute of Medical Sciences (PIMS), Islamabad (ISB)
- MOT at Combined Military Hospital (CMH), Lahore (LHR)
- MOT at Gwadar Development Authority (GDA), Gwadar (GWD)
- MOT at Mayo Hospital, LHR
- MOT at Military Hospital (MH), RWP
- MOT at Multan Institute of Kidney Diseases (MIKD), Multan (MKN)
- CSSD at National Institute of Cardiovascular Diseases (NICVD), Sukkur (SKZ)
- CSSD at PIMS, ISB
- Laundry at NICVD, SKZ
- MOT at NICVD, SKZ
- MOT at PIMS Burns Centre, ISB
- MOT at Punjab Institute of Neurosciences (PINS), LHR
- MOT at Shifa international, ISB
- Fluoroscopy at Surgical Tower Mayo Hospital, ISB
- Medical Gas Pipeline at PIMS, ISB
- PTS at NICVD, SKZ
- CSSD at AFBMTC
- CSSD at PINS, LHR
- Laundry at Bahawal Victoria Hospital (BVH), Bahawalpur (BWP)
- Laundry at District Headquarters (DHQ), Nowshera (NOW)
- Laundry at Mayo Surgical Tower, LHR
- PTS at Pakistan Kidney and Liver Institute (PKLI)

- **MOT: Modular Operation Theater**
- **CSSD: Central Sterile Services Department**
- **PTS: Pneumatic Tube System**

Distribution agreements with foreign principals: The company has secured renewable sole distribution agreements with all (46) of the foreign principals of 1-2 years' tenure; implying the authority to submit quotations for specific products, tender for government, semi-government, private institutions and hospitals.

Client's portfolio constituted premium medical institutes both in public and private sector: RML client's portfolio is dominated with premium medical institutes both in public as well as in private sectors. As usually the business is secured via tenders, customer concentration in terms of sales to top clients (mainly institutes) remained higher over the years. This risk is mitigated to a greater extent as majority of the products supplied are of exclusive type and made. Around 90% of the revenue emanated from products for which the company acts as sole distributor in the country. Majority of the products sold by the company are made of USA, Germany, UK, France, Japan, Spain, Austria, Sweden, Belgium, Italy and Switzerland. Sales orders are broadly divided into two modes in terms of execution, i.e. Freight on Road (FOR) and Indenting.

Higher sales and improved margins: The company's topline stood higher at Rs. 1.2b (FY18: 953m; FY17: Rs. 880m) during FY19 mainly on back of higher orders secured through successful bidding. Increase in gross margins to 26.1% (FY18: 24.9%; FY17: 20.4%) is consistent with higher product prices during the review period. Albeit purchase prices of imported products have also increased owing to devaluation of local currency, the same has been fully passed on to customers. Custom and additional custom duty of 1% and 2% respectively are applicable to all relevant products except for ETT machines.

Cost of sales, only comprising cost of imported products, stood higher at Rs. 865.7m (FY18: Rs. 715.3m; FY17: Rs. 700.8m) during FY19, due to currency depreciation, higher prices and nature of product-mix. Operating expenses increased to Rs. 100.8m (FY18: Rs. 74.1m; FY17: Rs. 55.9m) primarily due to expense incurred on business promotion amounting Rs. 16.1m (FY18: Rs. 0.9m; FY17: Rs. 1.0m) and higher salaries, wages and benefits. Finance cost remained at almost prior year's level at Rs. 3.8m (FY18: Rs. 3.9m; FY17: Rs. 2.9m) during FY19. Accounting for taxation, bottom line stood higher at Rs. 174.9m (FY18: Rs. 151.7m; FY17: Rs. 113.8m) during FY19.

A list of orders currently in hand worth Rs. 483.4m, with item description, institutes' names, quantity and total value is presented below:

Item description	Institute	Quantity	Value in Rs. (Million)
Defibllirator	Army	10	7.9
ETT Machine	Army	30	85.5
X-Ray Machine	Army	4	27.8
Dinamap Monitor	Air	24	6.2
Image Intensifier	Air	1	37.7
Portable X-Ray	Air	3	9.2
C-Arm	Air	3	16.8
ETT Machine	Air	2	6.6
ETT Machine	Navy	1	3.5
Patient Monitor	Navy	2	1.7
Laundry & MOT	Khyber Teaching Hospital	N/A	100.7

The company has received 80% of the payment during the ongoing year, in lieu of the above mentioned orders, while 20% will be received after installation. On account of general economic slowdown and cash flows constraints with GoP, the management projects the topline to remain stagnant during FY20.

Strong liquidity as evident from cash flows in relation to outstanding obligations and adequate debt service ability: Funds from operations (FFO) increased to Rs. 202.7m (FY18: Rs. 162.3m; FY17: Rs. 118.8m) during FY19, owing to higher profitability. Given lower overall debt levels, FFO to total debt and FFO to long-term debt remained sizeable at 7.0x and 43.1x (FY18: 3.9x & 56.9x; FY17: 4.2x & 89.1x) respectively, during FY19. In line with improvement in cash flows and minimal long-term repayments, Debt Service Coverage Ratio (DSCR) stood higher at 42.4x (FY18: 36.5x; FY17: 36.5X) during the review period.

Stock in trade of RML comprised imported medical equipment and supplies of Rs. 93.3m

(FY18: Rs. 121.6m; FY17: Rs. 121.6m) at end-FY19. Trade debts stood higher at Rs. 443.7m (FY18: Rs. 344.5m; FY17: Rs. 261.5m) by end-FY19, out which ~Rs. 38m are due above 6 months. A credit period of maximum 6 months is provided by the company; however sometimes government payments may get delayed due to budgetary constraints. Advances, deposits and prepayments stood higher at Rs. 245.3m (FY18: Rs. 172.3m; FY17: Rs. 134.8m) by end-FY19, on account of higher advances to staff, deposits for bank guarantee and withholding tax on imports and supplies. Trade and other payables also increased to Rs. 154.0m (FY18: Rs. 139.5m; FY17: Rs. 174.1m) due to higher trade creditors of Rs. 151.5m (FY18: Rs. 103.6m; FY17: Rs. 127.9m) at end-FY19. At an average, around 70% of the payment to suppliers is made in advance, while a credit period of 60-90 days is availed for the remaining amount. With higher current asset base, current ratio increased to 4.5x (FY18: 3.9x; FY17: 2.0x) by end-FY19. Coverage of short-term borrowings via stock in trade and trade debts remained considerable at 20.7x (FY18: 11.7x; FY17: 13.7x).

Conservative capital structure: The equity base of the company has steadily increased to Rs. 808.1m (FY18: Rs. 633.2m; FY17: Rs. 481.5m) on back of profit retention. Long-term debt *(including current maturity)* amounted to Rs. 4.7m (FY18: 2.9m; FY17: Rs. 1.3m) at end-FY19. Reliance on short term borrowing has also remained minimal, the same stood lower at Rs. 25.9m (FY18: Rs. 39.8m; FY17: Rs. 27.6m) at end-FY19. The company has available credit lines of Rs. 448m from various banks. Moreover, the banks have issued guarantees, mobilization guarantees and bid securities on behalf of the company to different customers/institutions. Debt leverage and gearing have remained low at 0.26x and 0.04x (FY18: 0.30x & 0.07x; FY17: 0.44x & 0.06x) at end-FY19. Given no major procurement of further debt, leverage indicators are expected to remain low.

BALANCE SHEET *(in PKR. millions)*	FY17	FY18	FY19
Property, plant & Equipment	67	82	84
Stock-in-Trade	117	122	93
Trade Debts	261	344	444
Advances, Deposits & Prepayments	135	172	245
Cash & Bank Balances	111	103	152
Total Assets	691	823	1,018
Trade and Other Payables	174	139	154
Long Term Debt *(including current maturity)*	1	3	5
Short Term Debt	28	40	26
Provision for Taxation	7	8	26
Total/Tier-1 Equity	482	633	808
Paid-up Capital	5	5	5
INCOME STATEMENT	**FY17**	**FY18**	**FY19**
Net Sales	880	953	1,172
Gross Profit	180	238	306
Operating Profit	124	163	205
Profit Before Tax	121	160	201
Profit After Tax	114	152	175
Funds from Operations	119	162	203
RATIO ANALYSIS	**FY17**	**FY18**	**FY19**
Gross Margin (%)	20.4	24.9	26.1
Net Margins (%)	12.9	15.9	14.9
Current Ratio (x)	2.98	3.94	4.49
Net Working Capital	415	553	726
FFO to Total Debt (x)	4.19	3.90	6.97
FFO to Long Term Debt (x)	89.07	56.88	43.12
Debt Leverage (x)	0.44	0.30	0.26
Gearing (x)	0.06	0.07	0.04
DSCR (x)	36.5	36.5	42.4
ROAA (%)	18.2	20.0	19.0
ROAE (%)	26.8	27.2	24.3
(Stock in Trade+Trade Debt) to Short-Term Borrowing Ratio (x)	13.7	11.7	20.7

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES					**Appendix III**
Name of Rated Entity	Radiant Medical (Pvt.) Limited				
Sector	Miscellaneous				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
			RATING TYPE: ENTITY		
	16/03/20	BBB+	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
Probability of Default	VIS ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2019 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meetings Conducted		Name	Designation	Date	
	1	Mr. Zohaib Ahmad	CFO	28-Feb-2020	