

Sunil Healthcare Limited (Revised)

July 01,2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	32.68 (Enhanced from 31.28)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Short Term Bank Facilities	14.85	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Short Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	47.53 (₹ Forty-Seven Crore and Fifty-Three Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Sunil Healthcare Limited (SHL) takes into account overall improvement in the financial risk profile of the company in FY22 (refers to the period April 01 to March 31) as reflected by increase in scale, improvement in profitability and improvement in overall solvency position. The ratings continue to derive strength from the experienced & resourceful promoters with long track record of operations of the company and established brand name coupled with wide product profile and revenue stream. These rating strengths are, however, partially offset by the exposure to raw material price volatility and foreign currency fluctuations risk coupled with highly fragmented and competitive nature of industry with regulatory risks.

CARE Ratings has withdrawn the ratings assigned to Long Term Bank Facilities-Stand by line of credit of Sunil Healthcare Limited with immediate effect, as the company has repaid the facilities in full and there is no amount outstanding under the facilities as on date.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustained improvement in scale of operations with total operating income beyond Rs.150 crores.
- Improvement in Improvement in profitability margins marked by PBILDT margin exceeding 18% coupled with ROCE of over 17% on sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- PBILDT margins falling below ~10% on a sustained basis.
- Any major debt funded capex or increase in working capital borrowings resulting in deterioration of overall gearing ratio to above 1.5x.

Detailed description of the key rating drivers

Key rating strengths

Experienced and resourceful promoters along with long track record of operations:

SHL is promoted by Mr. Anil Khaitan (Chairman and Managing Director) who has nearly four decades of industry experience and is involved in the overall business operations of the company. The directors of the company are assisted by a team of professionals who are highly experienced in their respective domains.

Established brand name:

SHL is one of the leading EHGC (Empty Hard Gelatin Capsules) shell manufacturer in the domestic market, company sells its products under the brand name, 'Sunloc' which enjoys decent credibility in domestic as well as in foreign markets. However, there is presence of multiple small players and one large player in the industry.

Wide product profile & revenue stream:

The company's product profile is well diversified with production of double lock, triple lock, multiple groove capsules of EHGC (Empty Hard Gelatin Capsule) & HPMC (Hydroxy Propyl Methyl Cellulose) along with liner, circular, two-colour printing & 360-degree printing being offered. Company is gradually developing the market base for the HPMC capsules both domestically and internationally as it is expected to provide better margins supported by the growing demand. Further, HPMC capsules are also promoted by government since it is categorically mentioned in production linked incentive (PLI) scheme for Pharmaceuticals. Owing to higher profitability and realisation thereon company is planning to increase proportion of HPMC capsules in revenue from operation which will result in better profitability during FY23.

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

Improvement in financial risk profile:

The scale of operations of the company improved during the FY22 (refers to the period April 01 to March 31) by 22.91% as compared to revenue from operations in FY21 (refers to the period April 01 to March 31), the rise was majorly on account of better operational efficiency of company coupled with improvement in product mix. Moreover, profitability of company also improved during FY22 marked by PBILDT and PAT margins of 15.73% and 5.79% respectively as compared to 12.34% and 0.29% respectively coupled with substantial improvement in gross cash accruals to Rs 15.87 crores in FY22 against Rs. 7.48 crores during FY21. Export revenue of the company was improved to 25% during FY22 coupled with improvement in revenue from HPMC capsules having better profitability and realisation as compared to Gelatin capsules resulting in better operating margins in FY22. The capital structure of the company was also strengthened during FY22 on a year-on-year basis, with the long-term debt- to-equity and overall gearing ratios of 0.30x and 0.94x as on March 31, 2022, respectively compared to 0.47x and 1.37x, respectively, as on March 31, 2021. The improvement in capital structure was majorly due to accretion of profit and lower utilisation of working capital limits on balance sheet date coupled with repayment of loans. The interest coverage ratio of the company was also improved to 5.27x in FY22 (P.Y 2.21x) due to improved profitability.

Key rating weaknesses**Exposure to raw material price volatility and foreign currency fluctuations risk:**

The raw materials, primarily gelatin, colour & chemical compounds, are obtained from both domestic and foreign suppliers. Due to competitive nature of the industry, the company is not always able to pass on any increase in costs to its customers, thus, the profitability margins are exposed to any adverse fluctuation in raw material prices. Further, the foreign currency exposure of SHL is naturally hedged to an extent as the company is engaged in both import of raw material and exports of its products. The company also enters derivative contacts to hedge some part of its unhedged portion. The remaining portion, however, remains unhedged thereby exposing the profitability margins to adverse fluctuations in foreign exchange rates. However, the company has booked gain on foreign currency fluctuation of Rs 0.58 crore during FY22 and Rs. 0.12 crore during FY21. Additionally, the company supplies to several countries located in the African continent. Thus, the company is also exposed to unfavourable changes in the government policy of respective African nations.

Highly fragmented and competitive nature of industry with regulatory risks:

SHL is engaged in the manufacturing of capsule shells which is a raw material (excipient category) for pharmaceutical and food supplement industry. The industry is characterized by a high level of competition having presence of many small and one big player. Further, pharmaceutical industry is a closely monitored and regulated industry and as such there are inherent risks and liabilities associated with the products and their manufacturing. Issues like price control of essential medicines by the Government of India through the Drug (Prices Control) Order, 2013, pose regulatory risk for the pharmaceutical industry. Although, empty capsules shells are of excipient category in Drug (Prices Control) Order, 2013 but majority of final products manufactured using these capsules are highly regulated.

Liquidity: Adequate

The company has a total debt repayment obligation of Rs. 7.71 crores including unsecured loans from directors of Rs. 3.18 crores in FY23, which will be met through the proposed cash accruals. Company has earned Gross Cash accruals (GCA) of Rs. 15.87 crores during FY22 and it expected generate GCA of around Rs.16-17 crore in FY23. Company has also shown improvement in overall operating cycle in FY22 as to compared to FY21 majorly on account of improved collection period and inventory days. The average working capital utilization of the company stood moderate at 53.87% during the last 12 months ending May 2022.

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](#)

[Withdrawal Policy](#)

About the company

SHL was incorporated in 1973 by Late Mr. S.N Khaitan, the father of Mr. Anil Khaitan, who is the present Chairman and Managing Director of the company. SHL was originally constituted as a closely held public limited company by the name of Sunil Synchem Limited, however, the same was changed in June-2005 to its current name. SHL is mainly engaged in the manufacturing of Empty Hard Gelatin Capsule (EHGC) shells and Hydroxypropyl Methylcellulose (HPMC) at its sole unit at Alwar, Rajasthan. The company was earlier also engaged in the trading (including merchant trading) of agro based commodities since 2013, under brand 'Sunloc foods'. However, the same has been discontinued in FY20 (since July 01, 2019).

Brief Financials (₹ crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (A)
Total operating income	84.86	95.16	116.96
PBILDT	10.89	11.74	18.40
PAT	-1.57	0.28	6.78
Overall gearing (times)	1.42	1.37	0.94
Interest coverage (times)	1.57	2.21	5.27

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	25.00	CARE BBB; Stable
Non-fund-based - ST-BG/LC		-	-	-	14.25	CARE A3+
Non-fund-based - ST-Forward Contract		-	-	-	0.60	CARE A3+
Fund-based - ST-Standby Line of Credit		-	-	-	0.00	Withdrawn
Fund-based - LT-Working capital Term Loan		-	-	Nov 26	7.68	CARE BBB; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	25.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (26-Nov-21)	1)CARE BBB-; Negative (05-Oct-20)	1)CARE BBB-; Negative (07-Oct-19) 2)CARE BBB-; Stable (15-Jul-19)
2	Fund-based - LT-Stand by Limits	LT	-	-	-	1)Withdrawn (26-Nov-21)	1)CARE BBB-; Negative (05-Oct-20)	1)CARE BBB-; Negative (07-Oct-19) 2)CARE BBB-; Stable (15-Jul-19)
3	Non-fund-based - ST-BG/LC	ST	14.25	CARE A3+	-	1)CARE A3 (26-Nov-21)	1)CARE A3 (05-Oct-20)	1)CARE A3 (07-Oct-19) 2)CARE A3 (15-Jul-19)
4	Non-fund-based - ST-Forward Contract	ST	0.60	CARE A3+	-	1)CARE A3 (26-Nov-21)	1)CARE A3 (05-Oct-20)	1)CARE A3 (07-Oct-19) 2)CARE A3 (15-Jul-19)
5	Fund-based - ST-Standby Line of Credit	ST	-	-	-	1)CARE A3 (26-Nov-21)	1)CARE A3 (05-Oct-20)	1)CARE A3 (07-Oct-19) 2)CARE A3 (15-Jul-19)

6	Fund-based - ST-Working Capital Demand loan	ST	-	-	-	1)Withdrawn (26-Nov-21)	1)CARE A3 (05-Oct-20)	-
7	Fund-based - LT-Working capital Term Loan	LT	7.68	CARE BBB; Stable	-	1)CARE BBB-; Stable (26-Nov-21)	1)CARE BBB-; Negative (05-Oct-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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-Cash Credit	Simple
2	Fund-based - LT-Working capital Term Loan	Simple
3	Fund-based - ST-Standby Line of Credit	Simple
4	Non-fund-based - ST-BG/LC	Simple
5	Non-fund-based - ST-Forward Contract	Simple

Annexure-5: Bank lender details for this company

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

Note on complexity levels of the rated instruments: CARE Ratings 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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