

Sunil Healthcare Limited

February 16, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	35.46 (Enhanced from 32.68)	CARE BBB; Stable	Reaffirmed
Short Term Bank Facilities	20.85 (Enhanced from 14.85)	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Sunil Healthcare Limited (SHL) continue to derive strength from the experienced and resourceful promoters along with long track record of operations, established brand name coupled with wide product profile & revenue stream and moderate financial risk profile as reflected by stable scale of operations, profitability, and comfortable capital structure. However, the rating strengths are partially offset by exposure to raw material price volatility and foreign currency fluctuations risk coupled with highly fragmented and competitive nature of industry with regulatory risks.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- 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

- 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.

Analytical approach: Standalone

Key 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. Although, 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 is likely to further improve profitability going forward.

Moderate financial risk profile

The scale of operations of the company continued to remain moderate during the H1FY23 (refers to the period April 01 to September 30) as reflected by revenue from operations of Rs. 65.86 crores as compared to Rs. 54.24 crores during H1FY22 (refers to the period April 01 to September 30). Moreover, profitability of company has shown improvement during H1FY23 marked by PBILDT and PAT margins of 20.65% and 10.19% respectively as compared to 9.85% and 1.24% respectively during H1FY22, owing to which company has booked gross cash accruals (GCA) of Rs 10.05 crores in H1FY23 against Rs. 3.80 crores during H1FY22. The company has shown improvement in scale and profitability from H2FY22 (refers to the period October 01 to

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

March 31) onwards predominately because of relaxation in COVID related restrictions coupled with improvement in revenue from HPMC capsules having better profitability and realisation as compared to Gelatin capsules which has led towards overall improvement in financial risk profile in FY22 (refers to the period April 01 to March 31) as compared to FY21 (refers to the period April 01 to March 31). The capital structure of the company continues to remain moderate during H1FY23 as reflected by overall gearing ratios of 0.80x as at September 30,2022, compared to 0.94x as on March 31, 2022. The improvement in capital structure was majorly due to accretion of profit coupled with repayment of term liabilities. Further, the interest coverage ratio of the company was also improved to 7.08x in H1FY23 as against 5.27x in FY22 due to improved profitability.

Key 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. Moreover, 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, therefore the remaining portion 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 term liabilities of Rs. 15.58 crores as at March 31,2022, which includes COVID loan, few vehicle loans, and director's loans of Rs 3.18 crores as at March 31,2022. Company is planning to repay entire loans from directors during the FY23 itself, therefore total repayment obligation will be Rs. 7.71 crores (majority portion of which is already repaid till date) & Rs. 2.57 crores for FY23 & FY24 respectively. Company has earned Gross Cash accruals (GCA) of Rs. 10.05 crores during H1FY23 and it expected generate GCA of around Rs.16-17 crore for complete FY23. The average working capital utilization of the company stood high in terms of non-fund-based limits reflected by average utilisation of 95.02% during the last 12 months ending December 2022 whereas fund-based limit utilisation remains comparatively low at 56.79% during the last 12 months ending December 2022, owing to which company has availed enhancement of Rs 6 crores in non-fund-based limits.

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](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

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, 2021 (A)	March 31, 2022 (A)	September 30, 2022 (UA)
Total operating income	89.75	116.96	65.86
PBILDT	6.33	18.40	13.60
PAT	0.28	6.78	6.71
Overall gearing (times)	1.11	0.67	0.80
Interest coverage (times)	1.19	5.27	7.08

A: Audited; UA: Unaudited

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	28.50	CARE BBB; Stable
Fund-based - LT-Working capital Term Loan		-	-	November 2026	6.96	CARE BBB; Stable
Non-fund-based - ST-BG/LC		-	-	-	20.25	CARE A3+
Non-fund-based - ST-Forward Contract		-	-	-	0.60	CARE A3+

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	28.50	CARE BBB; Stable	1)CARE BBB; Stable (01-Jul-22)	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	20.25	CARE A3+	1)CARE A3+ (01-Jul-22)	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+ (01-Jul-22)	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)Withdrawn (01-Jul-22)	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	6.96	CARE BBB; Stable	1)CARE BBB; Stable (01-Jul-22)	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 the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Working capital Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Non-fund-based - ST-Forward Contract	Simple

Annexure-5: Lender details

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

Note on the 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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