Sunil Healthcare Limited

August 23,2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	34.08	CARE BBB-; Stable	Revised from CARE BBB; Negative
Short Term Bank Facilities	20.85	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in short-term rating and revision in long-term rating assigned to the bank facilities of Sunil Healthcare Limited (SHL) takes into account declining profitability quarter-on-quarter basis during FY23 (Provisional, refers to the period of April 01 to March 31) and during Q1FY24 (Provisional, refers to the period of April 01 to June 30) owing to decline in prices, increase in competition and softening of demand. The ratings, however, continues to derive strengths from experienced and resourceful promoters along with long track record of operations leading to established brand name along with wide range of product & revenue stream, established relationship with diversified and reputed clientele albeit customer concentration risk & 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

Outlook: Stable

The revision in outlook for the long-term bank facilities of SHL from “Negative” to “Stable” takes into account abilities of the management due to its long track record of operations to mitigate the inherent risk related to highly competitive nature of industry.

Detailed description of the key rating drivers:

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 few large players in the industry making it highly competitive industry.

Wide range of product & 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) & some proportion of vegan HPMC (Hydroxy Propyl Methyl Cellulose) along with liner, circular, two-colour printing & 360degree printing being offered. Since, the pricing of HPMC remains almost three times of gelatin capsules manufactured by the company which is ultimately used by pharma industry which are highly regulated, and pricing is also controlled under Drug (Prices Control) Order, 2013. This leads to lower demand of HPMC capsules due to its higher pricing. The

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

proportion of HPMC capsules in total revenue from operations of company is not likely to increase substantially during years to come.

Established relationship with diversified and reputed clientele albeit customer concentration risk.

Over the period, SHL has established a reputed customer base, both in the domestic and export markets which include reputed Active Pharmaceutical Ingredients (APIs) and Pharma manufacturers. During FY23, about 44.84% of the total income of the company was derived from top 5 buyers which is increased from 22.60% during FY22 leading to customer concentration risk to some extent. However, company attempts to retain the customers having long relationship of long relationship and they are getting regular order from these buyers.

Further, company imports raw materials (Gelatin) and also procure domestically which is then processed at the sole manufacturing facility of company. Top 5 suppliers collectively comprise almost 88.30% of total raw material procured during the FY23 which has been reduced from 95.43% during FY22.

Comfortable Capital Structure

The capital structure of the company remains comfortable during FY23 and in QFY24 as reflected by the long-term debt to equity ratio and overall gearing ratio of 0.24x and 0.87x, respectively, as of March 31, 2023, as against long-term debt to equity ratio and overall gearing ratio of 0.30x and 0.83x, respectively, as of March 31, 2022. Although, due to declining price of capsules owing to increased competition in the industry (the realisation per capsules in Q4FY23 which is continued in Q1FY24 has been reduced by almost ~23% as compared to realisation per capsule in Q1FY23). Realisation per capsule is further declined by ~11% during Q1FY24 as compared to Q4FY23. Thus, company has availed long term loan in May 31,2023, payable in 60 months after expiry of moratorium period of 3 months for reimbursement of capex done from internal accruals during preceding financial year/s which will further improve liquidity position of company.

Key weaknesses

Decline in scale of operations coupled with declining profitability quarter on quarter basis.

Scale of operations remain small at Rs 113.46 crores during FY23 (Provisional, refers to the period of April 01 to March 31) which remains in similar line as compared to preceding financial year since company had booked revenue from operations of Rs. 116.96 crores during FY22 (Audited, refers to the period of April 01 to March 31). Moreover, company has booked revenue from operations of Rs. 22.13 crores in Q1FY24 (Provisional, refers to the period of April 01 to June 30) and has shown decline in revenue from operations on quarter-on-quarter basis. Further, company majorly caters domestic market with some proportion of exports which comprises 24% during FY23 (PY: 25% during FY22).

The profitability margin of the company has shown a declining trend quarter on quarter basis during FY23 majorly due to increased competition between capsule manufacturing entities thereby creating severe pressure on pricing of end products i.e., geletin capsules. Thus, sales prices of each capsule have been reduced by almost ~23% in Q4FY23 as compared to realisation per capsule in Q1FY23 which is further declined by ~11% in Q1FY24 as compared to Q4FY23 leading to declining PBILDT margin on quarter-on-quarter basis. Thus, company has availed long term funding which will counter the liquidity impact created by pricing pressure on gelatin capsules. However, company is working on saving its raw material cost and operations cost by identifying new suppliers in different geographical reasons.

Although, the profitability margins of the entity remain moderate on annual basis as reflected by PBILDT margin and PAT margin of 18.45% (PY: 15.73%) and 6.15% (PY: 5.79%) respectively which is majorly supported by higher profitability during Q1FY23. Thus, company has booked gross cash accruals of Rs. 15.09 crores during FY23 as compared to Rs. 15.87 crores during FY22. However, company has generated marginal cash profit of Rs. 0.62 crores in Q1FY24. Interest coverage indicator also remains moderate and in similar line which stands at 5.02 times during FY23 as compared to 5.27 times in FY22.

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 multiple small and few big players. 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. However, due to excessive stocking by pharma industry during COVID coupled with intense competition the realisation of capsules has adversely impacted quarter-on-quarter basis. Therefore, the ability of the company to manage the competition along with the pressure on selling prices will be key monitorable from the credit rating perspective.

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 input costs to its customers, thus, the profitability margins are exposed to any adverse fluctuation in raw material prices. The company has identified certain new source of raw material procurement at cheaper cost, to mitigate the impact of decline in selling prices, however the saving on raw material procurement is not sufficient to completely absorb the declining realisation per capsule. Therefore, going forward any adverse movement in the raw material prices, will have a major impact on the company profitability and liquidity position. 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 reported foreign currency fluctuation gains during FY23 as well as FY22.

Liquidity: Adequate

The company has earned Gross Cash Accruals (GCA) of Rs. 15.09 crores during FY23 and is projecting to generate GCA of around Rs ~7 crores & Rs ~11 crores in FY24 & FY25 respectively as against scheduled repayment obligations of Rs. 3.97 crores and Rs. 5.11 crores for FY24 & FY25 respectively. The current and quick ratio stood at a moderate level of 1.13x and 0.85x, as on March 31, 2023, which is improved from 0.90x and 0.63x respectively as on March 31, 2022. Moreover, since company has availed long term funding, this will further improve liquidity. Furthermore, operating cycle continues to remain moderate at 92 days during FY23 as against 83 days during FY22 owing to which average working capital utilisation of cash credit limits of the company remains comparatively low and stood at 57.76% during the 12 months ending April 2023.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

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
Pharmaceutical
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Healthcare Equipment & Supplies	Medical Equipment & Supplies

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)	March 31, 2023 (UA)	June 30,2023 (UA)
Total operating income	89.75	116.96	113.46	22.13
PBILDT	6.33	18.40	20.94	1.07
PAT	0.28	6.78	6.98	-0.76
Overall gearing (times)	1.37	0.83	0.87	NA
Interest coverage (times)	1.19	5.27	5.02	0.84

A: Audited UA: Unaudited; NA: Not Available Note: 'the above results are latest financial results 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: 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-Term Loan		-	-	November 2026	5.58	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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	28.50	CARE BBB-; Stable	1)CARE BBB; Negative (27-Jun-23)	1)CARE BBB; Stable (16-Feb-23) 2)CARE BBB; Stable (01-Jul-22)	1)CARE BBB-; Stable (26-Nov-21)	1)CARE BBB-; Negative (05-Oct-20)
2	Fund-based - LT-Stand by Limits	LT	-	-	-	-	1)Withdrawn (26-Nov-21)	1)CARE BBB-; Negative (05-Oct-20)
3	Non-fund-based - ST-BG/LC	ST	20.25	CARE A3	1)CARE A3 (27-Jun-23)	1)CARE A3+ (16-Feb-23) 2)CARE A3+ (01-Jul-22)	1)CARE A3 (26-Nov-21)	1)CARE A3 (05-Oct-20)

4	Non-fund-based - ST-Forward Contract	ST	0.60	CARE A3	1)CARE A3 (27-Jun-23)	1)CARE A3+ (16-Feb-23) 2)CARE A3+ (01-Jul-22)	1)CARE A3 (26-Nov-21)	1)CARE A3 (05-Oct-20)
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)
6	Fund-based - ST-Working Capital Demand loan	ST	-	-	-	-	1)Withdrawn (26-Nov-21)	1)CARE A3 (05-Oct-20)
7	Fund-based - LT-Term Loan	LT	5.58	CARE BBB-; Stable	1)CARE BBB; Negative (27-Jun-23)	1)CARE BBB; Stable (16-Feb-23) 2)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 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-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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