Disposafe Health and Life Care Limited

December 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	64.00 (Enhanced from 49.00)	CARE BBB; Stable	Reaffirmed
Short Term Bank Facilities	6.00	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of Disposafe Health and Life care limited (DHLCL) continues to derive comfort from steady improvement in operational performance over the last two fiscals marked by sequential growth in operating income, healthy profitability supported by growing exports and realizations, diversified product portfolio, in house capabilities to develop moulds, tools and in-house R&D team for product innovation and design. The ratings also favourably factors in vast experience of the promoters in the disposable medical devices industry, long-standing relationship with buyers and suppliers and adequate liquidity. However, the rating is constrained by company's exposure towards foreign exchange fluctuation risk, competitive market, regulatory changes and high debt funded capital expenditure.

Rating sensitivities: Factors likely to lead to rating actions

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

- Substantial increase in scale of operations along with PBILDT margin to be maintained at the level of 20.00% on sustained basis.
- Improvement in the capital structure as marked by Total Debt/ PBILDT below 2.0x.

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

- Decline in profitability margin as marked by PBILDT margin below 15.00%.
- Deterioration in the capital structure as marked by overall gearing ratio above 1.2x.
- Any unplanned capex leading to deterioration in the liquidity position of the company.

Analytical approach: Standalone

Outlook: Stable

The "Stable" outlook reflects CARE Ratings' expectation of improvement in scale of operations along with profitability margins while maintaining healthy financial risk profile and adequate liquidity.

Detailed description of the key rating drivers:

Key strengths

Growing scale of operations with healthy profitability margins: The total operating income, though modest, is on an increasing trend and stood at Rs. 119.03 Cr in FY23 (refers to the period from April 01, 2022, to March 31, 2023) (PY Rs. 105.01 Cr) which improved due to healthy and growing demand from export destinations. The PBILDT margin (Profit before interest, lease, depreciation, and taxes) of the company remained stable at 20.94% in FY23 (PY 20.24%) on the back of steady volumes and no substantial increased fixed overheads. The stability in margins is also supported by inhouse development of tools and dies and R&D for constant process improvements for efficient production which resulted in relatively lower cost of material consumed and manufacturing expenses. However, PAT margin (Profit after tax) slightly declined to 9.07% during FY23 (PY 9.49%) owing to increased interest cost during the year. The Interest cost increased due to term debt availed for the purpose of capex. During H1FY24 (refers to the period from April 01, 2023 to September 30, 2023), company has reported sales of Rs. 57.86 Cr. Further, company is planning to launch medical electronic devices as well, as part of their backward integration plan along with automation of some process, which is expected to further augment scale and profitability besides increasing the global reach. Additionally, ongoing capex will also benefit the company to cut labour cost along with reducing reliance on imports.

Experienced management coupled with in house R&D team: Mr. Naresh D Chandani and Mrs. Drishti N Chandani, Directors of DHLCL, have an experience of 10 years in the same line of business. Prior to that directors were engaged for 20 years in the business of same kind of medical products and various merchandise export. The directors are supported by experienced professionals who collectively look after the overall operations of the company. Further, DHLCL possess a team of professional's

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

researchers and CAD designers, who monitor and focus on improvement in product and process quality, in compliance to norms laid down by international quality assessment organisations.

Diversified product profile: DHLCL offers diversified range of disposable medical products which are applicable in hospitals for treating patients. The demand of these products is expected to remain healthy with growing industry, which ensures regular orders from its existing customers as well as new customers.

Long standing association with reputed customers and suppliers: The company has long-standing relationship with its customers based out of USA, UAE, Germany, Peru, Egypt, Kenya, and Turkey. Further, in order to comply with quality standards, company procures certain portion of its raw material (Stainless Steel tubes and packaging material etc.) requirements from reputed overseas suppliers including Korea, China, Thailand, Taiwan, Japan and other European Countries. The company also exports its products in around 128 countries, considering the diversified geography mix also reduces the country risk concentration.

Comfortable financial risk profile: On account of ongoing debt funded capex, the capital structure of the company deteriorated slightly; however, continued to remain comfortable as marked by overall gearing of 0.72x as on March 31, 2023 as against 0.67x as on March 31, 2022. Interest coverage ratio continued to remain comfortable at 10.78x in FY23 (PY 13.72x) and Total Debt to GCA is 2.30x in FY23 (PY 2.02x).
Further, the capex envisaged earlier for automating the assembly process and in-house manufacturing of SS (stainless steel) tubes which was scheduled to operationalize in June 2023 has been delayed due to some operational issues and the same is expected to commence operations from December 2024. The company is expecting to save around 15-20% of labour expense and 4%-8% of the cost of raw material consumed from the ongoing capex. Additionally, the scope of the project has been increased by Rs. 29.85 Cr in addition to the previous project cost of Rs. 38.00 Cr and therefore timeline has been extended from March-23 to December-24. The same shall be funded by debt of Rs. 25.00 Cr (already tied-up, yet to be availed) and rest from internal accruals.

Key weaknesses

Foreign exchange fluctuation risk: The company derives around 80-85% of its total sales from exports. Thus, profitability margins of the company remain susceptible to any adverse movement in the foreign currency. Further the company also imports raw materials (Imports formed around 15% of total raw material consumed by the company) which provides the natural hedge to company to some extent. However, the company hedges the balance forex risk through forward contracts, which mitigates the risk to a large extent. Further, during FY23 the company has booked a net gain of Rs. 1.11 crore (PY: Rs. 0.95 crore) on foreign currency transaction and translation process.

Susceptibility to regulatory Change: DHLCL operates in regulated industry which has witnessed continuous regulatory changes by the government of other countries or by Government of India during the past couple of years, such as restriction on export of certain medical equipment's citing shortage in India during COVID-19 which adversely impact the export sales and margins of the company. Any such further regulation might have adverse impact on the DHLCL profitability and thus would remain a key monitorable.

Presence in competitive nature of medical disposable product industry: The fortunes of the company are linked with demand for medical disposable products from healthcare institutes and hospitals. DHLCL is operating in competitive and fragmented nature of industry due to presence of multiple players offerings similar range of products, which limits the bargaining power of the company with big players operating in domestic market.

Liquidity: Adequate

The company has adequate liquidity as characterized by sufficient cushion in expected gross cash accruals of Rs.19.01 crore vis-à-vis repayment obligations of Rs.5.20 crore during FY24 and moderate cash and bank balance of Rs. 4.01 crores as on March 31, 2023. Further, average fund based working capital limit utilization remains low to the extent of 20-25% for the past twelve months ending October 2023 and has above unity current ratio. Operating cycle of the company stood at 65 days as on March 31, 2023 (58 days as on March 31, 2022). Additionally, company receives advances from the buyer of the goods which also support the operations of the business.

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	Healthcare Equipment & Supplies	Medical Equipment & Supplies

Disposafe Health and Life Care Limited (DHLCL), incorporated in December 2007, by Mr Naresh D Chandani (Co-founder and managing director) and Ms. Drishti N Chandani and commenced its operations in 2013. DHLCL is engaged in manufacturing of medical disposable products such as IV Cannula, IV infusion sets, 3 Way Stopcock etc. having manufacturing unit situated in Faridabad (Haryana) with installed capacity of 55.59 crore pieces. It is one of the world's leading providers and manufacturers of healthcare disposable solutions.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	105.01	119.03	57.86
PBILDT	21.26	24.93	14.75
PAT	9.96	10.78	NA
Overall gearing (times)	0.67	0.72	0.72
Interest coverage (times)	13.72	10.78	8.24

A: Audited UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Brickwork has conducted the review on the basis of best available information and has classified Disposafe Health and Life Care Limited as "Not cooperative" vide its press release date March 07, 2023.

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		-	-	-	14.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	July 2028	50.00	CARE BBB; Stable
Non-fund-based - ST-BG/LC		-	-	-	6.00	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-Term Loan	LT	50.00	CARE BBB; Stable	-	1)CARE BBB; Stable (30-Dec-22)	1)CARE BBB; Stable (29-Dec-21)	-
2	Non-fund-based - ST-BG/LC	ST	6.00	CARE A3	-	1)CARE A3 (30-Dec-22)	1)CARE A3 (29-Dec-21)	-
3	Fund-based - LT-Cash Credit	LT	14.00	CARE BBB; Stable	-	1)CARE BBB; Stable (30-Dec-22)	1)CARE BBB; Stable (29-Dec-21)	-

*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

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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