Sunil Healthcare Limited

June 06,2024

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

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in ratings and revision in outlook from "Stable" to "Negative" assigned to the bank facilities of Sunil Healthcare Limited (SHL) takes into account strained liquidity position categorised by rising debt level, high utilisation of working capital limits and slow-moving receivables thereby leading to tight repayment capabilities along-with lower sales due to lower realization. Although, the company has implemented cost saving measures coupled with slight improvement in realisation, resulting in improved profitability margins during Q4FY24 (Unaudited, refers to the period of January 01 to March 31) as reflected by PBILDT margin of 12.53% indicating some revival for the company, however, despite of these improvement repayment capabilities continues to remain tight. Furthermore, apart from this, company has also generated non-operating income of Rs. 4.69 crores during FY24 (Unaudited, refers to the period of April 01 to March 31) which has helped company to meet their obligations during the year.

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 & moderate 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 ~13% on a sustained basis and revenue from operations below envisaged levels.
- Any major debt funded capex or increase in working capital borrowings resulting in deterioration of overall gearing ratio to above 1.50x.

Analytical approach: Standalone

Outlook: Negative

The Outlook for the long-term facilities of Sunil Healthcare Ltd (SHL) is revised from "Stable" to "Negative" on account of strained liquidity position categorised by rising debt level, high utilisation of working capital limits and slow-moving receivables thereby leading to tight repayment capabilities. Although, the company has implemented cost saving measures coupled with slight improvement in realisation, resulting in improved profitability margins during Q4FY24 as reflected by PBILDT margin of 12.53% indicating some revival for the company, however, despite of these improvement repayment capabilities continues to remain tight since sales has declined during FY24 and despite of improving profitability GCA remains low as compared to repayment obligations. The ratings may be revised downwards if profitability of the company fails to improve from current levels on sustained basis coupled with realisation of receivables so as to reduce debt levels. The outlook may be revised to 'Stable' if the company is able to sustain its scale of operations while improving its profitability margins and capital structure.

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

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 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 FY24, about 38% of the total income of the company was derived from top 5 buyers which is improved from 45% during FY23 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 procures domestically, company has implemented cost saving measures by exploring new sources of Gelatin manufactures providing better pricing, this has also led to improvement in profitability margins during Q4FY24. On the supplier side, top 5 suppliers collectively comprise almost ~97% of total raw material procured during the FY24 which has been increased from ~88% during FY23 which shows company's dependence on limited suppliers.

Moderate Capital Structure

The capital structure of the company remains moderate and deteriorated during FY24 as reflected by the long-term debt to equity ratio and overall gearing ratio of 0.48x and 1.27x, respectively, as of March 31, 2024, as against long-term debt to equity ratio and overall gearing ratio of 0.24x and 0.87x, respectively, as of March 31, 2023. Company has sustained losses in 9MFY24 (Unaudited, refers to the period of April 01 to December 31) and due to increased collection period from buyers' dependence on debt has increased. Therefore, company has availed fresh term loans of Rs 10 crores during FY24 which is used for funding of increasing receivables coupled with higher utilisation of working capital limits. This has led to deterioration in capital structure in FY24, however, company expects to reduce receivables from their exiting levels which will improve capital structure going forward.

Key weaknesses

Decline in scale of operations coupled with substantial deterioration in profitability during FY24 albeit improvement in Q4FY24.

Scale of operations remain small at Rs 89.69 crores during FY24 (Unaudited, refers to the period of April 01 to March 31) which has declined by almost 21% as compared to preceding financial year since company had booked revenue from operations of Rs. 113.46 crores during FY23 (Audited, refers to the period of April 01 to March 31). This deterioration in revenue is majorly due to declining realisation of capsules by comparable numbers whereas volume wise sales remain in similar lines.

The profitability margin of the company has shown substantial deterioration in FY24 as reflected by PBILDT and PAT margins of 4.78% and (-)2.35% respectively as compared to PBILDT and PAT margins of 18.45% and 6.15% respectively during FY23. Further, company has booked gross cash accruals (GCA) of Rs. 3.11 crores in FY24 (PY: Rs. 15.09 crores) which is majorly backed by non-operating incomes of Rs. 4.69 crores in FY24. Although, the company has implemented cost saving measures coupled with slight improvement in realisation, resulting in improved profitability margins during Q4FY24 as reflected by PBILDT margin and PAT margins of 12.53% and 0.19% respectively. This huge gap between PBILDT and PAT margins is due to increased finance cost owing to increased debt levels. Thus, company has booked GCA of Rs. 1.48 crores in Q4FY24 which is rarely meeting its quarterly repayment obligations.

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. 1.48 crores during Q4FY24 and projected GCA of Rs ~7 crores for FY25 against repayment obligation of Rs ~6.50 crores. Free cash and cash equivalent stood low at Rs 0.05 crores as at March 31,2024, which is in similar line as compared to March 31,2023. However, working capital utilisation has gone up which is high utilised as compared to drawing power, due to extended credit period given to customer.

Assumptions/Covenants: Not Applicable

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

Applicable criteria
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Pharmaceuticals
Financial Ratios – Non financial Sector
Short Term Instruments

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, 2022 (A)	March 31, 2023 (A)	March 31,2024 (UA)
Total operating income	116.96	113.46	89.69
PBILDT	18.40	20.94	4.29
PAT	6.78	6.98	-2.11
Overall gearing (times)	0.83	0.87	1.27
Interest coverage (times)	5.27	5.02	0.74

A: Audited UA: Unaudited; 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-; Negative
Fund-based - LT-Term Loan		-	-	November 2026	5.58	CARE BBB-; Negative
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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	28.50	CARE BBB-; Negative	-	1)CARE BBB-; Stable (23-Aug-23)	1)CARE BBB; Stable (16-Feb-23) 2)CARE BBB; Stable (01-Jul-22)	1)CARE BBB-; Stable (26-Nov-21)

						2)CARE BBB; Negative (27-Jun-23)		
2	Fund-based - LT-Stand by Limits	LT	-	-	-	-	-	1)Withdrawn (26-Nov-21)
3	Non-fund-based - ST-BG/LC	ST	20.25	CARE A3	-	1)CARE A3 (23-Aug-23) 2)CARE A3 (27-Jun-23)	1)CARE A3+ (16-Feb-23) 2)CARE A3+ (01-Jul-22)	1)CARE A3 (26-Nov-21)
4	Non-fund-based - ST-Forward Contract	ST	0.60	CARE A3	-	1)CARE A3 (23-Aug-23) 2)CARE A3 (27-Jun-23)	1)CARE A3+ (16-Feb-23) 2)CARE A3+ (01-Jul-22)	1)CARE A3 (26-Nov-21)
5	Fund-based - ST-Standby Line of Credit	ST	-	-	-	-	1)Withdrawn (01-Jul-22)	1)CARE A3 (26-Nov-21)
6	Fund-based - ST-Working Capital Demand loan	ST	-	-	-	-	-	1)Withdrawn (26-Nov-21)
7	Fund-based - LT-Term Loan	LT	5.58	CARE BBB-; Negative	-	1)CARE BBB-; Stable (23-Aug-23) 2)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)

LT: Long term; ST: 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.

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Sajan Goyal Director **CARE Ratings Limited** Phone: 91-120-4452017 E-mail: sajan.goyal@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Amit Jindal Associate Director **CARE Ratings Limited** Phone: 91-120-4452073 E-mail: amit.jindal@careedge.in Farhan Anwar Assistant Director **CARE Ratings Limited** E-mail: Farhan.Anwar@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in