

**Sunil Healthcare Limited** (Revised)

November 26, 2021

**Ratings**

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	31.28	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Short Term Bank Facilities	18.35	CARE A3 (A Three)	Reaffirmed
Long Term Bank Facilities – Stand by Limit	-	-	Withdrawn
Short Term Bank Facilities – Working Capital Demand Loan	-	-	Withdrawn
<b>Total Bank Facilities</b>	<b>49.63</b> <b>(Rs. Forty-Nine Crore and</b> <b>Sixty-Three Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1

**Detailed Rationale & 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 for more than four decades with a highly experienced and professionally managed teams. The ratings also take into cognizance the product profile with an established brand name, improved financial parameters and liquidity position of the company during FY21 and H1FY22. However, the ratings are constrained by prevailing customer concentration, susceptibility of profitability margins to raw material price & foreign currency fluctuations and regulatory policy risk in a competitive pharmaceutical industry with increasing pricing pressure.

CARE Ratings has withdrawn the ratings assigned to Long Term Bank Facilities-Stand by limit and Short-Term Bank Facility-Working Capital Demand Loan of Sunil Healthcare Limited with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.
- Improvement in the debt coverage indicators with Total Debt to GCA (TDGCA) ratio of below 6x.

*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 2x.

**Outlook: Stable**

The revision in the outlook of SHL from 'Negative' to 'Stable' reflects the healthy operational performance and demand growth with growth in orderbook of the company. Furthermore, the rating outlook revision to stable reflects CARE's expectation of sustained improved scale of operation and liquidity position of the company in the long term. The outlook may be revised to Negative in case of lower than envisaged improvement in sales and profitability leading to impact on the liquidity of the company going forward.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

## 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. To support the business operations of the company, the promoters have infused funds in the form of redeemable non-cumulative and non-participatory preference shares amounting to Rs. 11.65 cr. in FY20 (non-redeemable till FY40). Further, the promoters had also infused funds in the form of unsecured loans amounting to Rs. 6.81 cr., as on March 31, 2020 (PY; Rs. 4.14 cr.) to support business operations. Though there is no funds infused in FY21 due to improvement in the financial performance of the company, this shows the promoters strong willingness to support the business.

**Established brand name:** SHL is the second largest EHGC (Empty Hard Gelatin Capsules) shell manufacturer in the domestic market with installed capacity of 13.50 billion shells per annum, as on March 31, 2021. The company sells its products under the brand name, 'Sunloc'.

**Wide product profile & revenue stream:** The company's product profile is well diversified with production of double lock, triple lock, multiple groove capsules, HPMC (Hydroxy Propyl Methyl Cellulose) capsules 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.

**Improved financial profile:** Company has registered a growth in the total income in FY21 by 28.27% over FY20. Operating margin improved to 12.34% for FY21 (PY 12.83%) whereas PAT margin improved to 0.29% in FY21 (PY-1.85%). The improvement in margin was majorly on account of increase in the sales along with decrease in the interest expense and power and fuel cost. Overall gearing remained at a comfortable level as on March 31, 2021, due to timely repayment of the loans. Working capital cycle days improved to 114 days in FY21 on account of improvement in the collection period and inventory holding days. It is expected to further improve as the company is strategizing usage of inventory and maintaining it at a low level. The order book for the next 6 months is amounting to Rs.55.00 Crore. Also, the company is focusing on timely collection of the payment from customers, thus enabling smooth flow of funds. Till HY1FY22, the company achieved PAT of Rs.0.68 Crore with total operating income of Rs.54.24 Crore.

### 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 hedged to an extent as the company is engaged in both import of raw material and exports of its products. The company also enters into 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. Additionally, the company supplies to several countries located in the African continent. Thus, the company is also exposed to unfavorable 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) for pharmaceutical and food supplement industry. The industry is characterized by a high level of competition having presence of a large number of small and 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.

#### **Liquidity: Adequate**

As on November 10, 2021 the company has free cash and bank balance of Rs. 0.70 cr. The company has adequate internal accruals to meet the debt obligation for FY22. Average utilization of fund-based limits remains at approximately 74% in the last 12 months. Total debt servicing for FY22 is expected to be Rs.5.47 Crore against expected Gross cash accruals of Rs.9.27 Crore.

**Analytical approach:** Standalone

#### **Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's policy on default recognition](#)

[CARE's methodology for manufacturing companies](#)

[CARE's methodology for Pharmaceutical sector](#)

[Criteria for Short Term Instruments](#)

#### **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) with an installed capacity of manufacturing approximately 13 billion shells per annum, as on March 31, 2020 at its sole unit at Alwar, Rajasthan. The company was earlier engaged in the trading (including merchant trading) of agro based commodities including raw cashew nuts, dehydrated vegetables, Almonds, pistachio, cardamom, etc. since 2013, under brand 'Sunloc foods'. However, the same has been discontinued in FY20 (since July 01, 2019) on account of continuous decline in contribution of the segment to the total operating income in FY17-FY19 period with losses incurred by the company each year from this segment.

<b>Brief Financials (Rs. crore)</b>	<b>31-03-2020 (A)</b>	<b>31-03-2021 (A)</b>	<b>H1FY22(UA)</b>
Total operating income	84.86	95.16	54.25
PBILDT	10.89	11.74	6.00
PAT	-1.57	0.28	0.67
Overall gearing (times)	1.11	1.11	1.08
Interest coverage (times)	1.57	2.21	3.04

A: Audited , UN: Unaudited

**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 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	25.00	CARE BBB-; Stable
Fund-based - LT-Stand by Limits		-	-	-	0.00	Withdrawn
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		-	-	-	3.50	CARE A3
Fund-based - ST-CECL		-	-	-	0.00	Withdrawn
Fund-based - LT-Working capital Term Loan		-	-	-	6.28	CARE BBB-; Stable

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	25.00	CARE BBB-; Stable	-	1)CARE BBB-; Negative (05-Oct-20)	1)CARE BBB-; Negative (07-Oct-19) 2)CARE BBB-; Stable (15-Jul-19)	1)CARE BBB-; Stable (23-Nov-18) 2)CARE BBB-; Stable (14-Nov-18)
2	Fund-based - LT-Stand by Limits	LT	-	-	-	1)CARE BBB-; Negative (05-Oct-20)	1)CARE BBB-; Negative (07-Oct-19) 2)CARE BBB-; Stable (15-Jul-19)	1)CARE BBB-; Stable (23-Nov-18) 2)CARE BBB-; Stable (14-Nov-18)
3	Non-fund-based - ST-BG/LC	ST	14.25	CARE A3	-	1)CARE A3 (05-Oct-20)	1)CARE A3 (07-Oct-19) 2)CARE A3 (15-Jul-19)	1)CARE A3 (23-Nov-18) 2)CARE A3 (14-Nov-18)
4	Non-fund-based - ST-Forward Contract	ST	0.60	CARE A3	-	1)CARE A3 (05-Oct-20)	1)CARE A3 (07-Oct-19) 2)CARE A3 (15-Jul-19)	1)CARE A3 (23-Nov-18) 2)CARE A3 (14-Nov-18)
5	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (23-Nov-18) 2)CARE BBB-; Stable (14-Nov-18)

6	Fund-based - ST- Standby Line of Credit	ST	3.50	CARE A3	-	1)CARE A3 (05-Oct-20)	1)CARE A3 (07-Oct-19) 2)CARE A3 (15-Jul-19)	1)CARE A3 (23-Nov-18) 2)CARE A3 (14-Nov-18)
7	Fund-based - ST- Working Capital Demand loan	ST	-	-	-	1)CARE A3 (05-Oct-20)	-	-
8	Fund-based - LT- Working capital Term Loan	LT	6.28	CARE BBB-; Stable	-	1)CARE BBB-; Negative (05-Oct-20)	-	-

\* Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated instrument / 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-Stand by Limits	Simple
3	Fund-based - LT-Working capital Term Loan	Simple
4	Fund-based - ST-Standby Line of Credit	Simple
5	Fund-based - ST-Working Capital Demand loan	Simple
6	Non-fund-based - ST-BG/LC	Simple
7	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 instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### About CARE Ratings:

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