Disposafe Health and Life Care Limited (Revised)

December 29, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	49.00	CARE BBB; Stable (Triple B; Outlook: Stable	Assigned
Short Term Bank Facilities	6.00	CARE A3 (A Three)	Assigned
Total Bank Facilities	55.00 (Rs. Fifty-Five Crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Disposafe Health and life care limited (DHLCL) favourably factor in vast experience of the promoters in the disposable medical devices industry, long-standing relationship with buyers and suppliers and comfortable financial risk profile marked by low overall gearing and adequate liquidity. The ratings also factor in improved operational performance over the years marked by sequential growth in operating income, albeit on a low base and healthy profitability supported by steady exports and realizations, diversified product portfolio, in house capabilities to develop moulds, tools and in-house R&D team for product innovation and design. However, the rating is constrained by company's exposure towards foreign exchange fluctuation risk, competitive market, regulatory changes and timely completion of ongoing capital expansion.

Rating Sensitivities

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

- Increase in scale of operations as marked by total operating income of Rs. 130.00 Crore along with PBILDT margin of 20% on sustained basis.

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

- Decline in profitability margin as marked by PBILDT margin below 15.00% on a sustained basis.
- Deterioration in the capital structure as marked by overall gearing ratio above 1x.
- Any unplanned debt-funded capex leading to deterioration in the liquidity position of the company.

Key Rating Strengths

Experience Management coupled with in house R&D team.

Mr. Naresh D Chandani and Mrs. Drishti N Chandani, Directors of DHLCL, have an experience of 8 years in the same line of business. Prior to that director were engaged for 20 years in business of same kind of medical products and various merchandise export. Directors are supported by experienced professionals who collectively look after the overall operations of the company. Further, DHLCL possess a team of professional's 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 finds its application 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 and healthy relationships with its customers based out in USA, UAE, Germany, Peru, Egypt, Kenya, Turkey. Further, in order to comply with quality standards, company procures certain portion of its raw material (Stainless Steel tubes and packaging material etc.)

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

requirements from reputed suppliers operating in overseas nations such Korea, China, Thailand, Taiwan, Japan and European Countries.

Growing scale of operations with healthy profitability margins: DHLCL has reported total operating income of Rs. 97.06 Cr in FY21 (PY Rs. 80.81 Cr) which improved due to increase in export business, further PBILDT margin of the company also improved to 20.00% in FY21 (PY 15.87%) driven by growth in high margin export business and ability to pass on increase in cost to its customers. The improvement in margins was also supported by inhouse production and R&D which resulted in decrease in decrease in cost of material consumed and manufacturing expenses. Improvement in PBILDT Margins coupled with decrease in finance cost resulted in better PAT Margin which improved to 8.83% during FY21 (PY 6.26%). Interest cost decreased due to lower utilisation of working capital limits coupled with repayment of term loans. During 8MFY22 (refers to April 2021 to November 2021), company has booked a sale of Rs. 65.80 Cr.

Comfortable financial risk profile: The capital structure of the company moderated yet remained comfortable with overall gearing of 0.73x as on March 21 (PY:0.66x). The moderation in capital structure was owning to increase in the debt due to capex which was partly funded through term loans. Interest coverage continues to remain comfortable and stood at 9.83x during FY21 (PY: 5.94X) which improved primarily due to improvement in profitability margin coupled with reduction in interest cost which was due to lower utilisation of working capital limit. However, total Debt to GCA moderated and stood at 1.92X as on March 31, 2021 (PY 1.90x) mainly on account of envisaged capex.

Further, DHLCL has a planned capex of Rs.38.00 Cr during the FY22 and FY23 for procurement of assembly automation machines. The company is also planning for further improvements which is expected to save around 4%-8% of the cost of raw material consumed in the initial years of installations which will improve gradually. The Capex is funded by the debt equity mix of 13:6.

Key Rating Weaknesses

Foreign exchange fluctuation risk: The company derives around 83% of its total sales from exports during FY21 (PY: 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 FY21 the company has reported a net gain of Rs. 0.39 crore (PY: Rs. 0.41 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 characterized by sufficient matched accruals against repayment obligations of Rs.3.57 crore during FY21 and modest cash and bank balance of Rs. 2.22 crores as on March 31, 2021. Going forward, the company has planned a capex of Rs. 38.00 crore in FY22 and FY 23 which will funded by debt equity mix of 13:6. The average utilisation of working capital limits stood low at 22.00% for the past twelve months ending September 30, 2021.
Operating cycle of the company stood at 41 days as on March 31, 2021 (48 days as on March 31, 2020), supported by advances received from the buyer of the goods and made advance payment to creditors which will support the operations of the business.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to credit ratings](#)
[CARE's Policy on Default Recognition](#)
[Financial ratios – Non-Financial Sector](#)
[Rating methodology for manufacturing companies](#)
[Criteria for Short Term Instruments](#)
[Liquidity Analysis of Non-Financial Entities](#)

About the Company

Disposafe Health and Life Care Limited (DHLCL) was 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.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22
Total operating income	80.82	97.07	51.86
PBILDT	12.83	19.42	10.32
PAT	5.06	8.57	5.13
Overall gearing (times)	0.66	0.73	-
Interest coverage (times)	5.94	9.83	11.34

A: Audited

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

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-Term Loan		-	-	July 2028	35.00	CARE BBB; Stable
Non-fund-based - ST-BG/LC		-	-	-	6.00	CARE A3
Fund-based - LT-Cash Credit		-	-	-	14.00	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-Term Loan	LT	35.00	CARE BBB; Stable				
2	Non-fund-based - ST-BG/LC	ST	6.00	CARE A3				
3	Fund-based - LT-Cash Credit	LT	14.00	CARE BBB; Stable				

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I Fund base limit and term loan	Not Applicable
B. Non-financial covenants	
I Cash Credit	Drawing power: The DP in the account would be arrived at after deducting the unpaid creditors, outstanding balance, if any, in the accepted DA L/C account. In case of book debts, no drawing would be allowed against book debts on sister concerns, unless specifically agreed to by the bank. Margin for domestic receivables is 25% and for export receivables is 10% Stock and book debt statements are to be submitted by 10th of the succeeding month along with monthly select operational data (MSOD)in banks prescribed formats

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	Non-fund-based - ST-BG/LC	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 Ratings Ltd. 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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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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