Disposafe Health and Life Care Limited

December 30, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	49.00 (Enhanced from 42.92)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	6.00	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**55.00 (₹ Fifty-Five Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and 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 FY22 operational performance being in line with envisaged scale and profitability albeit on a low base, though growing 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 delay in 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 more than 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 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.

Detailed description of the key rating drivers

Key rating strengths

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 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.) requirements from reputed overseas suppliers including Korea, China, Thailand, Taiwan, Japan and other European Countries.

Growing scale of operations with healthy profitability margins: DHLCL has reported total operating income of Rs. 104.88 Cr in FY22 (PY Rs. 97.46 Cr) which improved due to increase in export business, further PBILDT margin of the company also improved to 20.14% in FY22 (PY 20.35%) driven by growth in high margin exports 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 margin coupled with decrease in

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

finance cost resulted in better PAT margin which improved to 9.49% during FY22 (PY 8.80%). Interest cost decreased due to lower utilisation of working capital limits coupled with scheduled repayment of term loans. During H1FY23 (refers to April 2022 to September 2022), company has booked a sale of Rs. 59.61 Cr. Further, the company also has production capacities of surgical blades and IV sets which has been installed but validation of product is under process and market registration in overseas market (US) is under process and same will be completed in next 12 month. The same will further lead to better revenue visibility and global reach.

Comfortable financial risk profile: Despite debt funded ongoing capex, the capital structure of the company improved slightly and continued to remain at comfortable levels as marked by overall gearing ratio of 0.67x as on March 22 as against 0.73x as on balance sheet date March 2021. Interest coverage ratio continued to remain comfortable as marked by increase in profitability margin and decline interest expenditure with very low utilisation of working capital limit, Interest coverage ratio is 13.64x in FY 22 (PY 10.04x). However, total Debt to GCA moderated and stood at 2.02X as on March 31, 2022 (PY 1.92x) mainly on account of envisaged capex.
Further, DHLCL has a ongoingg capex of Rs.38.00 Cr during the FY22-FY24 for procurement of assembly automation machines and inhouse manufacturing of Stainless-steel tubes (SS Tubes). The company is expecting to save around 1-1.5% in labour cost and 4%-8% of the cost of raw material consumed in the initial years of installations which will improve gradually. COD of the capex has been delayed from March-23 to June-23 due to covid pandemic related implication

Key rating weaknesses

Foreign exchange fluctuation risk: The company derives around 80-85% of its total sales from exports for last 3 years. 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 FY22 the company has reported a net gain of Rs. 0.95 crore (PY: Rs. 0.39 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.3.53 crore during FY22 and modest cash and bank balance of Rs. 2.86 crores as on March 31, 2022. Going forward, the company has ongoing capex of Rs. 38.00 crore in FY22-FY24. The average utilisation of working capital limits stood low at 5-10% for the past twelve months ending November 30, 2022. Operating cycle of the company stood at 58 days as on March 31, 2022 (42 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

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

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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY22	H1FY23
Total operating income	97.46	104.88	51.86	59.61
PBILDT	19.84	21.13	11.18	11.97
PAT	8.57	9.96	5.13	5.44
Overall gearing (times)	0.73	0.67	NA	NA
Interest coverage (times)	10.04	13.64	12.29	12.34

A: Audited; NA: Not aPPLICABLE

Status of non-cooperation with previous CRA: Brickworks vide PR dated March 12, 2022
Any other information: Not Applicable
Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (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	35.00	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	35.00	CARE BBB; Stable	-	1)CARE BBB; Stable (29-Dec-21)	-	-
2	Non-fund-based - ST-BG/LC	ST	6.00	CARE A3	-	1)CARE A3 (29-Dec-21)	-	-
3	Fund-based - LT-Cash Credit	LT	14.00	CARE BBB; Stable	-	1)CARE BBB; Stable (29-Dec-21)	-	-

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I Fund base limit and term loan	I Fund base limit and term loan
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	Fund-based - LT-Term Loan	Simple
3	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 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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