

Sunil Healthcare Limited

October 05, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	28.68	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Short-term Bank Facilities	15.25	CARE A3+ (A Three Plus)	Assigned
Total Facilities	43.93 (Rupees Forty Three crore and Ninety Three lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Sunil Healthcare Limited (SHL) derive strength from the long track record of operations with a highly experienced management team, consistent growth in total operating income along with comfortable profitability margins & debt coverage indicators. The ratings further derive strength from the wide product profile & revenue stream with established brand name and diversified customer base.

The ratings are, however, constrained by the small scale of operations of the company, working capital intensive nature of operations, inherent commodity price risk associated with its trading operation along with susceptibility of profitability margins to raw material price & foreign currency fluctuations and regulatory policy risk in a competitive pharmaceutical industry with increasing pricing pressure.

Going forward, the ability of the company to further grow its operations, manage its working capital requirements efficiently, improve its overall solvency position along with successful implementation of the ongoing project within cost and time estimates shall remain the key rating sensitivities. Furthermore, any new capex and funding mix for the same will also remain a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record of operations: SHL is promoted by Mr. Anil Khaitan (Chairman and Managing Director) who has nearly 4 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.

Wide product profile & revenue stream with established brand name in the market: SHL is the second largest EHGC (Empty Hard Gelatin Capsules) shell manufacturer in the domestic market with installed capacity of 11 billion shells per annum, as on March 31, 2017. The company sells its products under the brand name, 'Sunloc'. 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. The company has further diversified its revenue stream by starting trading of food products including raw cashew nuts, dehydrated vegetables, Almonds, pistachio, cardamom, etc., under brand 'Sunloc foods'.

Consistent growth in total operating income and healthy profitability: The scale of operations of the company marked by total operating income has grown at a healthy CAGR of ~19% in the FY14-17 period from Rs.61.80 crore in FY14 to Rs.103.23 Cr in FY17. To cater to the increased product demand, the company has continuously expanded its installed capacity from 7.7 billion shells per annum, as on March 31, 2015 to 11 billion shells per annum, as on March 31, 2017. The company is further increasing its installed capacity to 13 billion shells, proposed to be funded through a debt of Rs. 9.25 cr., while the remaining is proposed to be funded through internal accruals. The project is expected to start commercial operations by October-end, 2017. The PBILDT margins of the company have remained healthy in the past with margins of 16.90% in FY17 (PY: 19.01%). The PAT margins also remained comfortable at 5.91% in FY17. The capital structure of the company has remained moderate with long-term debt to equity and overall gearing ratios of 0.46x and 1.39x, respectively, as on March 31, 2017 (PY: 0.39x and 1.35x, respectively). The marginal deterioration in capital structure was in account of increase in vehicle loans, ICDs and higher utilization of cash credit limits. The debt coverage indicators of the

² Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications.

company, however, remained comfortable with total debt to GCA of 4.45x, as on March 31, 2017 (PY: 3.98x) and interest coverage ratio of 3.77x in FY17 (PY: 3.57x).

Diversified customer base: The company has a diversified customer base in terms of both number of customers catered to and the customer profile, with top-5 customers contributing ~28% of the total income in FY17 (~23% in FY16) with its top customer contributing ~7% of the total income during FY17 (~5% in FY16). The company has been getting repetitive orders from its existing clients due to its long track record of operations and established relations with its clients.

Key Rating Weaknesses

Working capital intensive nature of operations: The operations of the company are working capital intensive in nature with the average cash credit limit utilization of ~90% for the 12-month period ended August-17. Further, the operating cycle of the company remained elongated at 98 days during FY17.

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 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. Furthermore, the foreign currency exposure of the company is hedged to an extent on account of natural hedge from both export and imports. The company also enters into derivative contracts and also hedges its exposure using various instruments available to safeguard itself to some extent. 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: SHL is engaged in the manufacturing of capsule shells which is 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.

Furthermore, the company is undertaking a new capex for increasing its shell manufacturing capacity in FY18. Though the project is in same line of business, the ability of the company to complete the proposed capex within the projected time and cost estimates will also remain a key rating sensitivity.

Regulatory risk: 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. In FY17, the pharmaceutical industry faced slew of issues with increased scrutiny of regulatory authorities, increase in competition in generics market of one of its primary export destination, United States of America which impacted the credit profiles of various industry players. Also, the stricter enforcement of Drug Price Control Order has impacted revenue growth rate of the industry in domestic market. Further, in FY18, the industry is expected to continue to see pricing pressure in both domestic and exports markets.

Inherent commodity price risk associated with its trading operation: SHL is engaged in the trading of agro commodities and their prices are linked to the demand supply scenario in the domestic and international market. The company is exposed to the vagaries of nature and fluctuations in the prices of major raw materials in case of demand supply mismatch. However, the company's sales are largely order backed which mitigates the risk of carrying commodity at a price.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

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

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

[Criteria for Short Term Instruments](#)

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

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 (~81% of income in FY17) with an installed capacity of manufacturing approximately 11 billion shells per annum, as on March 31, 2017 at its sole unit at Alwar, Rajasthan.

The company is also 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'.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	81.93	103.23
PBILDT	15.57	17.45
PAT	5.23	6.10
Overall gearing (times)	1.35	1.39
Interest coverage (times)	3.57	3.73

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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	-	-	-	3.00	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	14.65	CARE A3+
Non-fund-based - ST-Forward Contract	-	-	-	0.60	CARE A3+
Fund-based - LT-Term Loan	-	-	March-2018	0.68	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	25.00	CARE BBB; Stable	-	-	-	-
2.	Fund-based - LT-Stand by Limits	LT	3.00	CARE BBB; Stable	-	-	-	-
3.	Non-fund-based - ST-BG/LC	ST	14.65	CARE A3+	-	-	-	-
4.	Non-fund-based - ST-Forward Contract	ST	0.60	CARE A3+	-	-	-	-
5.	Fund-based - LT-Term Loan	LT	0.68	CARE BBB; Stable	-	-	-	-

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