# Sunil Healthcare Limited

October 05, 2020

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 6.28 | **CARE BBB-; Negative (Triple B Minus; Outlook: Negative)** | Assigned |
| Long-term Bank Facilities | 28.00 | **CARE BBB-; Negative (Triple B Minus; Outlook: Negative)** | Reaffirmed |
| Short-term Bank Facilities | 3.15 | **CARE A3 (A Three)** | Assigned |
| Short-term Bank Facilities | 18.35 | **CARE A3 (A Three)** | Reaffirmed |
| **Total Facilities** | **55.78 (Rs. Fifty Five crore and Seventy Eight 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) continue to derive strength from the experienced and resourceful promoters along with long track record of operations with a highly experienced management team. The ratings further derive strength from its wide product profile with an established brand name.

The ratings are, however, constrained by the small and declining scale of operations in FY20 (Audited; refers to April 01 to March 31), decline in PBILDT margins along with net losses in FY20, customer concentration risk, elongated operating cycle 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.

Rating Sensitivities

*Positive Factors*

- Sustained improvement in scale of operations with total operating income increasing to close to Rs.100 crore in the medium term.
- Sustained improvement in PBILDT margins to over 17% in the projected period.
- Improvement in the debt coverage indicators with Total Debt to GCA (TDGCA) ratio of below 6x.

*Negative Factors*

- PBILDT margins falling below ~5% 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.
- Significant reduction or discontinuance of the need-based financial support by the promoters.

**Outlook: Negative**

The outlook factors in competitive market environment which could lead to moderation in the operating performance of the company in the near term. The outlook may be revised to 'Stable' if SHL is able to achieve higher sales and profitability leading to improvement in its liquidity profile.

**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.

***Established brand name:*** SHL is the second largest EHGC (Empty Hard Gelatin Capsules) shell manufacturer in the domestic market with installed capacity of 13 billion shells per annum, as on March 31, 2020. 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.

**Key Rating Weaknesses**

***Decline in scale of operations, declining PBILDT margins and deterioration in overall solvency position along with customer concentration risk:*** In FY20, the scale of operations of the company declined by ~8% on a year-on-year (y-o-y) basis on account of decline in quantity sold coupled with lower sales realization achieved due to competitive nature of the industry. The PBILDT margins declined significantly to 6.03% in FY20 from 15.82% in FY19 on a y-o-y basis mainly on account of inability of the company to pass on the increase in raw material prices to its customers with company incurring higher cost of raw material during the year from previous year coupled with lower sales realization achieved during the year. Subsequently, the company was in losses at net level in FY20 compared to net profit of ~Rs. 0.18 cr. in FY19. However, the company earned cash profits in FY20.

The capital structure of the company continued to remain at a moderate level marked by debt to equity and overall gearing ratios of 0.40x and 1.42x, as on March 31, 2020 (PY: 0.48x and 1.38x, respectively). The overall gearing ratio of the company deteriorated slightly on a y-o-y basis on account of higher working capital outstanding at the end of the year. The debt-to-equity ratio, however, improved on a y-o-y basis on account of scheduled repayment of external term debt obligation during FY20. The debt coverage indicators of the company as marked by total debt to GCA ratio (48.42x, as on March 31, 2020; Previous Year: 11.42x) and interest coverage ratio deteriorated on a y-o-y basis on account of lower profitability achieved by the company in FY20. The operational & financial requirements of the company during FY20 were met by fund infusion by the promoters in the form of preference shares and unsecured loans. Going forward, any significant reduction or continuance of the need- based financial support by the promoters will remain a key rating sensitivity.

In Q1FY21 (Unaudited), the operational & financial performance of the company has improved on a year on year basis. The scale of operations increased by ~14% to Rs.21.15 cr. in Q1FY21 (UA) [Rs.18.54 cr. achieved in Q1FY20 (UA)]. This was on account of increase in quantities sold coupled with improved sales realization achieved by the company due to increase in the proportion of sale derived from Hydroxypropyl Methylcellulose (HPMC) capsules segment which is associated with better realizations. The PBILDT margins stood approximately at the previous level of 14.23% in Q1FY21 (14.56% in Q1FY20). The company remained in profit at the net level (Rs. 0.06 lakh) in Q1FY21 compared to net losses in Q1FY20 (UA) on account of improved profitability at PBILDT level (in absolute value terms) coupled with lower interest expenses incurred on account of scheduled repayment of external term debt obligation.

However, the operations of the company continued to remain exposed to customer concentration risk during FY20, with the proportion of income derived from top-5 clients at ~33% of total income (~32% in FY18) and the top-customer contributing ~11% of the total operating income in FY20. Any change in the procurement policy of these customers may adversely impact the business of the company.

***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:** The company had free cash and bank balance of Rs. 6.60 cr., as on September 25, 2020. It includes unencumbered term deposits of Rs.2.00 cr. and current account balance of Rs. 4.60 cr. Further, there was cushion of Rs.

10.11 cr. in cash credit limit (unutilized cash credit limit), as on September 25, 2020. However, the average cash credit limit utilization remained at a high level of ~99% for the 12 month period ended August-2020.
The company has a total debt repayment obligation of Rs. 4.90 cr. in FY21, proposed to be met through cash accrual generation and cash & bank balances maintained with the company. The operating cycle of the company stood elongated at 167 days, as on March 31, 2020 (PY: 164 days). The slight elongation was on account of elongation of average inventory days. The current ratio and quick ratio of the company stood weak as reflected by current ratio and quick ratio of 0.93x and 0.59x, respectively as on March 31, 2020 (PY: 0.96x and 0.73x respectively). The company had availed the moratorium offered by Reserve Bank of India (RBI) in light of Covid-19 for its debt obligation due in the April-August-2020 period. The company has availed covid emergency credit line of Rs. 3.15 cr. in August-2020 to be completely repaid in FY21 in a period of 6 months from October-2020 to March-2021. The company has also availed a working capital term loan under the guaranteed emergency credit line of Rs. 6.28 cr. in August-2020 to be repaid in 4 years starting from August-2021. The company is planning to undertake regular/replacement capex of ~Rs. 3.00 cr. in FY21 proposed to be met through term loan amounting to Rs. 1.40 cr. (already tied up) and remaining through the liquid investments maintained.

**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
Liquidity Analysis of Non-Financial Sector Entities

**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 during the period.

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated facilities is given in Annexure-3

| Brief Financials (Rs. crore) | FY19 (A) | FY20 (A) |
|---|---|---|
| Total operating income | 81.95 | 73.89 |
| PBILDT | 12.61 | 4.45 |
| PAT | 0.18 | -4.17 |
| Overall gearing (times) | 1.38 | 1.42 |
| Interest coverage (times) | 1.85 | 0.64 |

*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

**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-; Negative |
| Fund-based - LT-Stand by Limits | - | - | - | 3.00 | CARE BBB-; Negative |
| 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-Working Capital Demand loan | - | - | March-2021 | 3.15 | CARE A3 |
| Fund-based - LT-Working capital Term Loan | - | - | July-2024 | 6.28 | CARE BBB-; Negative |

**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 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Fund-based - LT-Cash Credit | LT | 25.00 | CARE BBB-; Negative | - | 1)CARE BBB-; Negative (07-Oct-19)<br>2)CARE BBB-; Stable (15-Jul-19) | 1)CARE BBB-; Stable (23-Nov-18)<br>2)CARE BBB-; Stable (14-Nov-18) | 1)CARE BBB; Stable (26-Dec-17)<br>2)CARE BBB; Stable (05-Oct-17) |
| 2. | Fund-based - LT-Stand by Limits | LT | 3.00 | CARE BBB-; Negative | - | 1)CARE BBB-; Negative (07-Oct-19)<br>2)CARE BBB-; Stable (15-Jul-19) | 1)CARE BBB-; Stable (23-Nov-18)<br>2)CARE BBB-; Stable (14-Nov-18) | 1)CARE BBB; Stable (26-Dec-17)<br>2)CARE BBB; Stable (05-Oct-17) |
| 3. | Non-fund-based - ST-BG/LC | ST | 14.25 | CARE A3 | - | 1)CARE A3 (07-Oct-19)<br>2)CARE A3 (15-Jul-19) | 1)CARE A3 (23-Nov-18)<br>2)CARE A3 (14-Nov-18) | 1)CARE A3+ (26-Dec-17)<br>2)CARE A3+ (05-Oct-17) |
| 4. | Non-fund-based - ST-Forward Contract | ST | 0.60 | CARE A3 | - | 1)CARE A3 (07-Oct-19)<br>2)CARE A3 (15-Jul-19) | 1)CARE A3 (23-Nov-18)<br>2)CARE A3 (14-Nov-18) | 1)CARE A3+ (26-Dec-17)<br>2)CARE A3+ (05-Oct-17) |
| 5. | Fund-based - LT-Term Loan | LT | - | - | - | - | 1)Withdrawn (23-Nov-18)<br>2)CARE BBB-; Stable (14-Nov-18) | 1)CARE BBB; Stable (26-Dec-17)<br>2)CARE BBB; Stable |

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| | | | | | | | | (05-Oct-17) |
| 6. | Fund-based - ST-Standby Line of Credit | ST | 3.50 | CARE A3 | - | 1)CARE A3 (07-Oct-19)<br>2)CARE A3 (15-Jul-19) | 1)CARE A3 (23-Nov-18)<br>2)CARE A3 (14-Nov-18) | 1)CARE A3+ (26-Dec-17) |
| 7. | Fund-based - ST-Working Capital Demand loan | ST | 3.15 | CARE A3 | - | - | - | - |
| 8. | Fund-based - LT-Working capital Term Loan | LT | 6.28 | CARE BBB-; Negative | - | - | - | - |

**Annexure-3: Detailed explanation of covenants of the rated facilities-** Not Applicable

**Annexure 4: Complexity level of various instruments rated for this company**

| Sr. No. | Name of the 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 |

***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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