Sunil Healthcare Limited (Revised)

December 26, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	28.46 (reduced from Rs. 28.68 crore)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	18.90 (enhanced from Rs. 15.25 crore)	**CARE A3+ (A Three Plus)**	**Reaffirmed**
Total Facilities	**47.36 (Rupees Forty Seven crore and Thirty Six 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 its 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 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.

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'.

Growth in total operating income and healthy profitability in FY17: 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 the internal accruals generated. The commencement of the operations for the enhanced capacities was deferred from October-17 planned earlier owing to changes in scope of the project including the machineries procured. Going forward, the ability of the company to successful implement the ongoing project within cost and time estimates shall remain the key rating sensitivity

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

The PBILDT margins of the company have remained healthy in the past at 16.90% in FY17 (PY: 19.01%). The PAT margins have also remained comfortable at 5.91% in FY17. The capital structure of the company has, however, remained moderate and deteriorated marginally in FY17 (on a y-on-y basis) on account of increase in vehicle loans, ICDs (inter-corporate deposits) and higher utilization of the cash credit limits. The debt coverage indicators of the company, however, remained comfortable.
In H1FY18 (UA), however, the total operating income of the company declined to Rs. 45.58 cr. (PY: Rs. 49.29 cr.), while the PBILDT margins also deteriorated to 16.70% (PY: 17.41%). The same on account of lower sales realization due to pricing pressures owing to GST implementation and competitive nature of the industry. Further, the power cost incurred by the company also increased in H1FY18 compared to the same period last year which led to moderation in the PBILDT margins.

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 November-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 contacts 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 SynchemLimited, 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: NA

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.*

Analyst Contact:
Name: Mr Sudeep Sanwal
Tel: 0172-4904002
Cell: +91 9958043187
Email: sudeep.sanwal@careratings.com

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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	0.46	CARE BBB; Stable
Fund-based - ST-Standby Line of Credit	-	-	-	3.65	CARE A3+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	25.00	CARE BBB; Stable	-	1)CARE BBB; Stable (26-Dec-17) 2)CARE BBB; Stable (05-Oct-17)	-	-
2.	Fund-based - LT-Stand by Limits	LT	3.00	CARE BBB; Stable	-	1)CARE BBB; Stable (26-Dec-17) 2)CARE BBB; Stable (05-Oct-17)	-	-
3.	Non-fund-based - ST-BG/LC	ST	14.65	CARE A3+	-	1)CARE A3+ (26-Dec-17) 2)CARE A3+ (05-Oct-17)	-	-
4.	Non-fund-based - ST-Forward Contract	ST	0.60	CARE A3+	-	1)CARE A3+ (26-Dec-17) 2)CARE A3+ (05-Oct-17)	-	-
5.	Fund-based - LT-Term Loan	LT	0.46	CARE BBB; Stable	-	1)CARE BBB; Stable (26-Dec-17) 2)CARE BBB; Stable (05-Oct-17)	-	-
6.	Fund-based - ST-Standby Line of Credit	ST	3.65	CARE A3+	-	1)CARE A3+ (26-Dec-17)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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