April 27, 2021

Hemant Surgical Industries Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loans	5.35	[ICRA]BB-(Stable); Assigned
Long-term – Fund based- Working capital	2.25	[ICRA]BB-(Stable); Assigned
Short-term – Non-fund based limits	21.60	[ICRA]A4; Assigned
Total	**29.20**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings are constrained by the modest scale of operations of Hemant Surgical Industries Limited (HSIL). HSIL's operating profit margins remained in the range of 4.5-5.0% because of low value addition activities and are expected to remain at similar levels in FY2021. However, the scale and margins are expected to improve in FY2022-FY2023 with the commercialisation of the company's assembly and manufacturing facility in Bhiwandi (Maharashtra). HSIL's capital structure remains leveraged because of its low net worth and high payables resulting in TOL/TNW[1] of over 3.0 times since FY2016. As on March 31, 2020, the TOL/TNW was recorded at 4.2 times because of higher payables at the onset of the pandemic in March 2020. Its modest accruals, ongoing capex requirements and high utilisation of working capital limits typically lead to a stretched liquidity profile. Furthermore, HSIL imports ~80% of its raw material requirement, exposing it to significant forex movements. Also, the medical equipment and devices sector is fragmented with multiple domestic and international players, which expose HSIL to intense competition.

The ratings, however, take comfort from the extensive experience of HSIL's promoters and its established relationship with its principal supplier, JMS Co. Limited (JMS). JMS is a leading Japanese company with a turnover of 58 billion Yen in FY2020, specialising in infusion and transfusion therapy, general medical supplies, hemodialysis and peritoneal dialysis, and cardiovascular therapies. Additionally, its diversified product profile comprises nebulisers, hemodialysis and sanitiser solutions, refurbished dialysis equipment, other renal care equipment, oxygen concentrators, air mattresses, skin staplers, and digital thermometers, among other products. The ratings also derive comfort from HSIL's diversified customer base with whom the company has enjoyed healthy relationships and attracted recurring revenues.

The Stable outlook factors in the company's diversified product profile, extensive experience of its promoter and strong relationship with its principal supplier, along with exclusive and technical collaboration with JMS Co. Limited.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters along with established and exclusive relationship with principal supplier - The company is promoted by the entrepreneur Mr. Hanskumar Shah, who has over 25 years' experience in the medical devices and equipment industry. The company is expected to benefit from its promoter's established association with its customer and supplier base. HSIL enjoys an established relationship with its principal supplier JMS, Japan, for more than 20 years. It is the exclusive supplier for JMS Medi-tape, JMS infusion sets and JMS disposable surgical products in India and Bangladesh. The company has also received a technical transfer from JMS for its medical tape, which is manufactured and exclusively distributed

[1] *Total Outside Liabilities/Tangible Net Worth*

by HSIL in India and Bangladesh. The company is further expanding its JMS manufacturing portfolio in technical collaboration with the principal supplier in FY2022 in Bhiwandi.

Diversified product profile, including surgical products and healthcare devices, among others – HSIL has a diversified product profile of JMS surgical disposables and infusion sets, renal care equipment, oxygen concentrators, air mattresses, skin staplers, and digital thermometers, among other products. The company manufactures JMS's Medi-tape and is the exclusive supplier for other JMS surgical disposable products. In addition, it manufactures nebulisers, hemodialysis and sanitiser solutions, coupled with refurbishing and supplying imported dialysis equipment. With the commercialisation of the Bhiwandi plant in FY2022, the manufacturing product portfolio is expected to expand.

Diversified customer profile resulting in minimal client concentration risks - HSIL's customer profile is diversified with its top ten customers driving ~33.2% of the company's revenues in FY2020. It has established relationships with its customers, which have continued down the years. HSIL derived ~10% of its operating income in FY2020 from direct sales to hospitals. The products supplied directly to hospitals include hemodialysis equipment, JMS products (since HSIL is the principal agent) and any tenders that the company had applied for. The company supplies its products across India.

Credit challenges

Modest scale of operations – The company has a modest scale of operations with an OI of Rs. 56.1 crore in FY2020, which grew at a CAGR of 2.2% during FY2017-FY2020. However, the OI is expected to improve in FY2022-FY2023 with commercialisation of the company's assembly and manufacturing facility for JMS and other products in Bhiwandi.

Low value addition in the business leading to modest profitability indicators; profitability vulnerable to forex fluctuations – The company's operating margins remained in the range of 4.5-5.0% in FY2017-FY2020 because of low value-added activities. Higher employee expenses, increased freight and logistic expenses during the lockdown are expected to lead to a similar operating margin profile in FY2021. With an increase in manufacturing revenues from the Bhiwandi plant, the margins are expected to improve slightly, going forward. HSIL imports ~80% of its raw material requirement, which exposes it to significant forex movements. Since the company has no hedging practices, it remains exposed to currency movements. The forex fluctuations can be passed on to an extent, with a lag of one quarter, based on the its agreement with long-term customers.

Leveraged capital structure, moderate coverage indicators along with elongated cash conversion cycle - The company's capital structure remains leveraged because of low net worth and high payables resulting in a TOL/TNW of over 3 times since FY2016. The TOL/TNW ratio increased to 4.2 times as on March 31, 2020, from 3.4 times as on March 31,2019 due to higher payables at the onset of the pandemic. The capitalisation and coverage ratios for the company are modest with TD/OPBITDA, interest coverage and DSCR of 5.5 times, 1.8 times and 4.2 times, respectively, in FY2020 and are expected to remain at similar levels in FY2021. Moreover, the cash conversion cycle for the entity is intensive because of elevated inventory days (90-100 days) in addition to an average of 35 days for receivable collections. Therefore, the modest accruals and elongated cash conversion cycle leads to a leveraged capital structure and high utilisation of working capital limits.

Fragmented industry structure characterised by intense competition – The medical equipment and devices sector is fragmented with multiple domestic and international players, exposing HSIL to intense competition. However, each company has its niche product offerings and customers. Similarly, HSIL remains competitive because of its established technical collaboration with JMS.

Liquidity position: Stretched

The accruals are expected to remain modest at Rs. 1.2–1.7 crore in FY2021 and FY2022. HSIL's modest accruals and ongoing capex requirements, coupled with high utilisation of fund-based and non-fund based limits, led to a stretched liquidity profile. It also has loan repayments of Rs. 2.4 crore and Rs. 2.5 crore in FY2022 and FY2023, respectively.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a sustained growth in operating scale along with improved profitability. An improved liquidity position will also be a trigger for a rating upgrade.

Negative factors – The ratings could be downgraded if there is any substantial decline in revenues along with profitability, or if there is any further deterioration in liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone financials

About the company

Incorporated in 1989, HSIL is a m**anufacturer, exporter, importer, trader, distributor and supplier of disposable surgical products, nebulisers, haemodialysis equipment and other products** for over **300 dealers across India. It is the exclusive** supplier of surgical disposables from JMS (Japan) and silicon foley catheters from Haiyan Knagyuan Medical Instrument Co. Limited (China). The company has also received technical transfer from JMS for its medical tape, which is manufactured and exclusively distributed by HSIL.

It also supplies dialysis equipment, renal care, oxygen concentrators, air mattresses and digital thermometers, among other products. Further, it also designs and manufactures a range of nebulisers, which are marketed under the company's own 'AERO' brand. HSIL also refurbishes second hand dialysis machines, and manufactures and supplies related accessories, dialysers and hemodialysis solutions. Its customers include hospitals, medical stores and clinics. The registered office of the company is in Mumbai, while it has three manufacturing and assembly units in Achhad, Atgaon and Bhiwandi in Maharashtra.

Key financial indicators (audited)

HSIL	FY2019	FY2020
Operating Income (Rs. crore)	55.7	56.1
PAT (Rs. crore)	1.1	0.9
OPBDIT/OI (%)	4.8%	4.6%
PAT/OI (%)	2.0%	1.5%
Total Outside Liabilities/Tangible Net Worth (times)	3.4	4.2
Total Debt/OPBDIT (times)	4.2	5.5
Interest Coverage (times)	1.9	1.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: India Ratings and Research Private Limited (Ind-Ra), vide its press release dated April 17, 2018, has mentioned that HSIL did not participate in the rating exercise, despite continuous requests and follow-ups by the rating agency. Thus, Ind-Ra has reviewed the ratings on the basis of the best available and it has migrated the ratings to the Non-Cooperating category. The ratings on the bank facilities of HSIL are now denoted as IND BB-(Issuer Not Cooperating)/IND A4+(Issuer Not Cooperating).

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					April 27, 2021	-	-	-
1	Term loan	Long-term	5.35	4.87	**[ICRA]BB-(Stable)**	-	-	-
2	Working capital facilities	Long-term	2.25	-	**[ICRA]BB-(Stable)**	-	-	-
3	Non-fund based facilities	Short-term	21.60	-	**[ICRA]A4**	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance/Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	October 2019	10.20%	April 2027	3.42	[ICRA]BB-(Stable)
NA	Term Loan-II	May 2020	10.20%	March 2021	0.34	[ICRA]BB-(Stable)
NA	Term Loan-III	May 2020	7.50%	June 2024	1.59	[ICRA]BB-(Stable)
NA	Cash Credit	NA	10.20%	NA	2.25	[ICRA]BB-(Stable)
NA	Letter of Credit	NA	NA	NA	21.50	[ICRA]A4
NA	Bank guarantee	NA	NA	NA	0.10	[ICRA]A4

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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