June 02, 2022

Hemant Surgical Industries Limited: Long-term rating upgraded to [ICRA]BB(Stable); short-term rating reaffirmed at [ICRA]A4

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in the healthy revenue growth registered by Hemant Surgical Industries Limited (HSIL) in FY2022 aided by strong demand for critical care equipment, especially during the second wave of the pandemic in Q1 FY2022; and widening of its product portfolio. There has also been some reduction in HSIL's debt levels in FY2022, leading to an improvement in its coverage indicators. The rating continues to factor in extensive experience of HSIL's promoters in the medical equipment industry and the company's established relationship with its principal supplier, JMS Co. Limited (JMS)[1], a leading global medical consumables/ equipment manufacturer. Over the years, HSIL has also developed a wide customer base including hospitals, diagnostic centres, as well as a well-entrenched dealer network.

However, the ratings are constrained by the highly competitive and fragmented nature of the industry and the company's moderate scale of operations and low profit margins, leading to limited economies of scale. Diversification of the product portfolio and scaling up of manufacturing activity at its recently commissioned Bhiwandi facility (Maharashtra) are expected to support the scaling up of operations, going forward. While the company's capital structure remains leveraged, envisaged equity infusion by the promoters in FY2023 is likely to result in an improvement in the company's capital structure and debt protection metrics. Also given that sizeable part of the raw material requirement is being met through imports, the company remains exposed to adverse movement in foreign exchange rates, in the absence of a firm hedging policy.

The Stable outlook on the rating reflects ICRA's opinion that HSIL will continue to benefit from its established relationship with JMS, its diverse product portfolio and steady demand outlook of its industry sector.

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 Mr. Hanskumar Shah, who has over 25 years' experience in the medical devices and equipment industry. The company also benefits from its almost two-decade long association with its principal supplier, JMS. JMS reported revenues of ~ Yen 58.0 billion in FY2021. HSIL is an exclusive supplier for JMS Medi-tape, JMS infusion sets and JMS disposable surgical products in India and Bangladesh. HSIL is expanding its JMS product portfolio through increased manufacturing at its Bhiwandi facility, in technical collaboration with its principal supplier.

[1] *JMS is a Japanese company specialising in infusion and transfusion therapy, general medical supplies, hemodialysis and peritoneal dialysis, and cardiovascular therapies.*

Diversified product profile, including surgical products and healthcare devices– 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' Medi-tape and is the exclusive supplier for other JMS surgical disposable products. In addition, it manufactures nebulisers, hemodialysis, sanitiser solutions, and refurbished dialysis equipment. Driven by the surge in demand during the second wave of the pandemic in Q1 FY2022, HSIL also added critical care equipment like ventilators, ultrasound machines, x-ray machines, anesthesia machines, etc, to its portfolio. This also supported the revenue growth for the company in FY2022. With the commissioning of the Bhiwandi plant in FY2023, the manufacturing product portfolio is expected to expand further.

Diversified customer profile - HSIL's customer profile is diversified with its top 10 customers driving ~39% of the company's revenues in FY2022. It has established relationships with its customers, who have continued with HSIL down the years. The company supplies its products across India with major focus on western India (Maharashtra, Goa, and Gujarat, etc).

Credit challenges

Moderate scale of operations, despite healthy revenue growth in FY2022 – The company has a moderate scale of operations, resulting in limited economies of scale. It has reported strong revenue growth in FY2022 supported by expansion of the product portfolio with considerable sales of new products in the critical care equipment division; also supported by strong demand during the second wave of the pandemic. However, sustainability of the same and scaling up of production in the recently set up Bhiwandi facility will be key in supporting the increase in HSIL's scale of operations, going forward.

Modest profit margins owing to low value addition, increased raw material price, and sales and marketing expenses; profitability also vulnerable to forex fluctuations – The company's operating margins have largely remained in the range of 4–5.0% in recent years because of relatively limited value addition in the nature of its operations and limited economies of scale owing to moderate scale of operations. While raw material price volatility and selling expenses are expected to continue to exert pressure on margins, increase in manufacturing revenues and improved economies of scale are likely to provide some cushion. Moreover, HSIL imports ~80% of its raw materials, which exposes it to significant forex movements. Since the company has no firm hedging policy, it remains exposed to forex risk.

Leveraged capital structure and moderate coverage indicators – Due to low net worth base and high payables, the company's capital structure has remained leveraged in recent years. Coupled with modest profitability, this has led to moderate coverage indicators. However, with partial prepayment of bank debt, HSIL's debt levels have reduced in FY2022, leading to some improvement in its coverage metrics.

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: Adequate

HSIL reported estimated internal accruals of Rs. 3.0–3.5 crore in FY2022, which are expected to improve further over the medium term aided by increase in scale of operations. Coupled with low capex requirements and reduction in finance costs and repayment obligations due to some pre-payment of debt in FY2022, this has led to an **adequate** liquidity profile. Given the strong revenue growth and elevated funding requirements, the company's working capital limits have remained highly utilised over the past year. However, it is in the process of getting incremental limits sanctioned and equity infusion by the promoters is also envisaged in FY2023, supporting the company's liability profile. Moreover, HSIL's internal accrual generation is expected to be sufficient to meet its loan repayments of ~Rs. 1.0 p.a. over the medium term.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is material increase in revenue and earnings, along with improvement in debt protection metrics and liquidity profile.

Negative factors – The ratings could be downgraded if there is any substantial decline in revenues along with profitability, or if there is any deterioration in liquidity position. Specific credit metrics include Debt/OPBDITA of above 4.0 times on a sustained basis.

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 manufacturer, exporter, importer, trader, distributor and supplier of disposable surgical products, nebulisers, hemodialysis 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 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. With the advent of Covid-19, the company diversified its product portfolio to include critical care equipment like ventilators, anesthesia machines, x-ray machines, face masks, etc. 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	FY2020	FY2021
Operating Income (Rs. crore)	56.1	59.8
PAT (Rs. crore)	0.9	1.4
OPBDIT/OI (%)	4.6%	5.3%
PAT/OI (%)	1.5%	2.3%
Total Outside Liabilities/Tangible Net Worth (times)	4.2	2.9
Total Debt/OPBDIT (times)	5.5	4.5
Interest Coverage (times)	1.8	1.9

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 26, 2021, 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 information, migrating 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 (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					June 02, 2022	April 27, 2021	-	-
1	Term loan	Long-term	5.35	-	[ICRA]BB(Stable)	[ICRA]BB-(Stable)	-	-
2	Working capital facilities	Long-term	2.25	-	[ICRA]BB(Stable)	[ICRA]BB-(Stable)	-	-
3	Non-fund based facilities- LC/BG	Short-term	21.60	-	[ICRA]A4	[ICRA]A4	-	-

Complexity level of the rated instrument

Instrument	Complexity indicator
Term Loans	Simple
Fund-based working capital	Simple
Non-fund based – LC/BG	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's 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 Loans	May 2020	7.5-9.0%	June 2024	5.35	[ICRA]BB(Stable)
NA	Cash Credit	NA	10.50%	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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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