November 28, 2022

Healthium Medtech Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short -term – Fund based/Non-Fund Based	50.00	44.00	[ICRA]A+ (Stable)/[ICRA]A1; reaffirmed
Total	**50.00**	**44.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings takes into account the Group's strong market position as the largest manufacturer of surgical needles in the global market by volume. It is one of the largest manufacturers of surgical sutures in India and has a diversified presence across products and geographies with exports to more than 80 countries. The ratings also factor in the Group's technical expertise with an in-house development team, along with a strong sales and distribution channel which continue to aid its revenue growth and market presence. During FY2022 and H1 FY2023 (provisional), the company witnessed healthy revenue growth of 30% and ~24%, respectively, at consolidated level. ICRA expects the Group to register healthy revenue growth in FY2023 while maintaining healthy margins driven by improving, particularly in the needles and sutures business. The ratings also continue to consider the established relationship with existing clients, strong distribution network and diversified product portfolio. ICRA expects the growth prospects for the company to remain favourable with the recent acquisitions (Vital Group, AbGel Gelatine Sponge and CareNow Medical Private Limited), which would support the expansion of its product portfolio and foray into new geographies. However, higher level of debt on account of bank borrowing and additional promoter loan utilised for the recent acquisitions led to moderation in the debt coverage metrics to a certain extent. The coverage indicators moderated with interest coverage and net debt/OBITDA at 10.1 times and 0.7 time in FY2022 over 15.3 times and 0.1 time in FY2021. Nevertheless, the debt indicators continue to remain comfortable.

The ratings are, however, constrained by the competitive nature of the industry marked by presence of various strong international players, including Johnson and Johnson, in addition to smaller domestic players. Further, the working capital intensity of the company continues to be moderate due to higher inventory levels to support pent-up demand. The ratings are also constrained by the vulnerability of the company to adverse movement in foreign exchange due to its significant exports; however, natural hedge through imports mitigate the risk to an extent. The group has a track record of growing and diversifying through inorganic transactions. Any significant debt-funded acquisition impacting the company's credit metrics remains an event risk and would be evaluated on a case-by-case basis. During H1 FY2023 (provisional), the company paid dividend of ~Rs. 60.0 crore and further expected to pay a dividend of ~Rs. 50.0 crore in H2 FY2023. The impact of the company's future acquisitions (if any) and sizable dividend outflow on its liquidity position and debt metrics will be a key monitorable.

The Stable outlook reflects ICRA's expectation that the Group's revenue and margins are expected to remain healthy, going forward, given the increasing demand for healthcare services across the globe. ICRA expects the Group to continue to benefit from the extensive experience of the promoters and the management in the industry, healthy business position with its customers and competitive pricing against its competitors.

Key rating drivers and their description

Credit strengths

Long track record of operations, strong market position and launch of new products along with backward-integrated nature of operations - The Healthium Group has five key product areas, i.e., advanced surgery, arthroscopy, urology, wound care and consumables. HML is the largest manufacturer of surgical needles in the global market by volume and is one of the largest manufacturers of surgical sutures in India. The Group has steadily introduced higher value-added products over the past few years, ranging from anti-microbial gloves and barbed sutures to meniscus guns and ligation clips, which has led to higher diversification in its product portfolio. Post Covid abatement, there has been an increase in demand for advanced surgical products on the back of recovery in elective surgeries, which were deferred during the pandemic. Further, HML's backward integration initiatives supported the volume and revenue growth and aided in cost efficiency.

Healthy revenue growth supported by diversification in product mix – HML witnessed 30.3% revenue growth in FY2022. The growth is attributable to the demand from the key end-user industries, established relationship with existing clients, increase in market share, strong distribution network and diversified product portfolio. The company has a strong position in tier 2-6 cities in India where competitors have lower presence, giving the company a competitive advantage. During H1 FY2023, the Group booked revenues of Rs. 530.1 crore (provisional), a YoY growth of ~24%. Going forward, the Group is expected to grow at healthy pace supported by diversified product mix and continuous addition of new products under different segments.

Wide geographic reach and diversified client base mitigate concentration risk – The Group exports its products to over 80 countries in Europe, South America, Africa and Asia. Consequently, revenues in foreign currency constituted around 59% of its FY2022 revenues. The company has a network of about ~80 international distributors selling its products, which contribute to a significant portion of its exports sales. The domestic market contributed to around 41% of its total sales in FY2022 on a consolidated basis. The company is present in more than 500 districts across India. With its top 10 customers generating about ~31% of its total revenues in FY2022, the Group has moderate client concentration risk. Going forward, its diversified client base and wide geographical reach are expected to support the revenue growth.

Credit challenges

Competition from both large international players and smaller domestic players – The Group is the second biggest player in the sutures segment in India and the largest in the surgical needles sector globally by volume. However, the Indian market for sutures is primarily dominated by Johnson & Johnson through its brand, Ethicon. In addition, the Group faces competition from other international as well as domestic players in other product segments, which restricts its margins to a certain extent. While ICRA understands that HML has gained market share in key products in recent years, sustaining the same remains to be seen.

Moderate working capital intensity of operations – The Group's working capital intensity remained moderate with high inventory position in FY2022. HML maintains one to two-month finished goods supplies with all its consignee agents across India. The Group stocked up inventory to cater to the strong demand from clients as reflected in its healthy growth. Further, the Group procures raw material in bulk owing to high lead time (three months for imports) and to secure cost advantages. However, this results in higher inventory holding. The debtors mainly relate to sales through Government tenders and to private hospitals, which are usually recovered in 45-60 days. The working capital intensity stood at 29.9% in FY2022 against 28.7% in FY2021.

Vulnerability to adverse movement in foreign exchange due to significant volume of exports – The Group's earnings from other countries constituted 59% of its total revenues in FY2022, at a consolidated level. Hence, its profitability remains susceptible to the fluctuations in foreign exchange rates. Nevertheless, the Group's imports provide a natural hedge to an extent.

Sizable dividend outflow to impact accruals in FY2023 – For acquiring HML, Quinag Acquisition (FDI) Limited availed a loan from Goldman Sachs. Hence, the outstanding further increased as on September 30, 2022, on account of additional debt obtained for funding recent acquisitions via unsecured loans and equity infusion to HML, leading to higher interest payment obligation. This interest payment is entirely funded by the dividend payout from HML, which in turn takes dividend payment from Quality Needles Private Limited (QNPL). In FY2022, there was no dividend payout. During H1 FY2023 (provisional), the company paid dividend of ~Rs. 60.0 crore. Further, the company is expected to pay dividend of ~Rs. 50.0 crore in H2 FY2023. Overall, the dividend outflow of Rs. 110.0 crore is expected in FY2023. The impact of such sizable dividend outflows on its liquidity position will be a key monitorable.

Liquidity position: Adequate

The company's liquidity position is adequate with improvement in fund flow from operations in FY2022 and H1 FY2023 due to healthy revenue growth and stable OPM. HML has also pruned its operating costs considerably, supporting its margin growth. ICRA expects the company to maintain its adequate liquidity, supported by buffer from cash and liquid investments (Rs. 120.3 crore as on September 30, 2022) as well as healthy cash accruals. It has adequate buffer in working capital limit with an average utilisation of 57% during the 12-month period that ended in August 2022. Including the availment of term loan from banks and promoter loan for financing the recent acquisition, the Group is expected to have repayment of Rs. 49.9 crore and Rs. 49.4 crore in FY2023 and FY2024, respectively. The Group plans to incur ~Rs. 30.0 crore capex in FY2023 and further ~Rs. 40.0 crore in FY2024. The same is expected to be funded through internal accruals. The Group paid out dividend of ~Rs. 60.0 crore in H1 FY2023 (provisional) and is expected to pay another dividend of ~Rs. 50.0 crore in H2 FY2023. Overall, the Group is expected to pay dividend of Rs. 110.0 crore in FY2023. ICRA expects the Group to meet its near-term obligation through internal accruals and cash balances. The impact of the company's future acquisitions (if any) and sizable dividend outflow on its liquidity position and debt metrics will be a key monitorable.

Rating sensitivities

Positive factors – ICRA could upgrade the Group's rating if it demonstrates substantial revenue growth while maintaining its strong profitability and debt metrics.

Negative factors – Pressure on the Group's ratings could arise if the revenues and profits are materially lower than expected or dividend pay-out is significantly higher than expected such that it results in a significant deterioration in the liquidity position of the Group on a sustained basis. Any major debt-funded capital expenditure (capex)/ acquisition or stretch in working capital position resulting in a sustained deterioration in the credit metric would also be a negative. Specific credit metrics for a downgrade include total debt/ OPBITDA >2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of the various Group entities (as mentioned in Annexure-II) given the close business, financial and managerial linkages among these entities.

About the company

Incorporated in 1992, HML (erstwhile Sutures India Private Limited) manufactures, markets and sells wound closure products such as absorbable and non-absorbable sutures, mesh, tapes, skin staplers, ligation clips and other medical consumables such as surgical gloves, tubular bandages and catheters. These products are sold domestically as wells exported to over 80 countries in Europe, South America, Africa and Asia. The company and its subsidiaries have six manufacturing facilities, viz., two at Peenya Industrial Area, Bangalore, for manufacturing sutures, tapes, mesh and staplers, one in Noida, Uttar Pradesh, for manufacturing surgical needles, one at Sharjah, the UAE, for manufacturing surgical sutures, one at Kunigal (near Bangalore) for manufacturing gloves, tubular bandages, urology collection devices and catheters, and another at Sri City SEZ, Andhra Pradesh.

In FY2013, HML invested in a joint venture (JV) in the Sharjah Airport International Free Zone (SIAF-zone), and Mena Medical Manufacturing (MMM), to expand its manufacturing presence in West Asia. During FY2016 and FY2017, Sironix Medical Technologies Private Limited (Sironix) headquartered in Amsterdam, the Netherlands, a subsidiary of the company, acquired a 100% equity stake in CSL and CDL, which are UK-based medical devices companies specialising in manufacturing and marketing products for the primary and secondary healthcare sectors. In March 2017, Quality Needles Private Limited (QNPL), a 100% subsidiary of TPG Growth, was acquired by HML. It manufactures a wide range of surgical suture needles.

In June 2018, Quinag Acquisition (FDI) Limited, a company backed by funds advised by Apax Partners, acquired 99.80% stake in HML from TPG Growth, CX Partners, and the founding shareholders. During FY2022, HML acquired three separate entities. In July 2021, through its subsidiary, Clinisupplies Limited, HML acquired 100% stake in Vital Group, which consists of VitalCare Trading (UK) Limited (parent company), VitalCare Limited (subsidiary) and VitalCare (Nanjing) Limited (subsidiary). VitalCare is the manufacturer and supplier of urology products to HML's UK business. In August 2021, the group acquired the Gelatin Sponge business of Sri Gopal Krishna Labs Private Limited (SGKL) (the AbGel business) as a going concern on a slump sale basis. Later in August 2021, the Group also acquired a 100% equity stake in CareNow Medical Private Limited, which is engaged in the designing, manufacturing, marketing and sale of advanced wound management and infection prevention products.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income	713.4	929.3
PAT	85.4	79.3
OPBDIT/OI	20.4%	19.6%
PAT/OI	12.0%	8.5%
Total outside liabilities/Tangible net worth (times)	0.3	0.5
Total debt/OPBDIT (times)	0.9	1.7
Interest coverage (times)	15.3	10.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

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 of Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Nov 28, 2022	Aug 02, 2021	Jun 30, 2020	-
1	**Fund-based/ Non-fund Based**	Long term and short term	44.00	-	**[ICRA]A+ (Stable)/ [ICRA]A1**	**[ICRA]A+ (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based/ Non-fund Based	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based/ Non-fund Based	NA	NA	NA	44.00	[ICRA]A+ (Stable)/ [ICRA]A1

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership held by	Ownership	Consolidation Approach
Healthium OEM Private Limited*	HML	NA	Full Consolidation
Quality Needles Private Limited (QNPL)	HML	100.0%	Full Consolidation
CareNow Medical Private Limited	HML	100.0%	Full Consolidation
Sironix Medical Technologies BV	HML	100.00%	Full Consolidation
Clinisupplies Limited (including Meditex and VitalCare UK)	Sironix	100.00%	Full Consolidation
Clinidirect Limited	Sironix	100.00%	Full Consolidation
Sironium Medical Technologies Limited	HML	100.00%	Full Consolidation
Mena Medical Manufacturing FZC	HML	51.00%	Full Consolidation

Source: Company; merged with HML

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Mythri Macherala
+91 80 4332 6407
mythri.macherala@icraindia.com

Harshit Sureka
+91 80 4332 6418
harshit.sureka@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

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