June 27, 2023

Hemant Surgical Industries Limited: Ratings upgraded; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loans	5.35	-	-
Long-term – Fund based – Working capital	2.25	2.50	[ICRA] BB+; upgraded from [ICRA]BB; outlook revised to Positive from Stable
Short-term – Non-fund based limits	21.60	26.50	[ICRA]A4+; upgraded from [ICRA]A4
Unallocated limits	-	0.20	[ICRA]BB+; upgraded from [ICRA]BB [ICRA]A4+; upgraded from [ICRA]A4 outlook revised to Positive from Stable
Total	**29.20**	**29.20**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings upgrade and revision in outlook to Positive for Hemant Surgical Industries Limited (HSIL) factors in its steady revenue growth, improvement in operating profit margins (OPM), capital structure and liquidity position post equity infusion in June 2023 and ICRA's expectations that the company will continue to benefit from its diversifying product mix, resulting in higher accruals generation over the near to medium term, while maintaining a comfortable capital structure and adequate liquidity position. HSIL's financial profile has improved, marked by steady revenue growth and enhanced margins in the past two years, driven by widening of the product profile as well as increasing revenue contribution from manufacturing sales. It is expected to sustain this improvement going forward, with increasing efforts towards further value addition in its products. Moreover, the company has recently raised equity of Rs. 24.8 crore through the listing of its shares on the Bombay Stock Exchange, Small and Medium Enterprises (BSE SME) platform, resulting in an improvement in its capital structure and liquidity position. The ratings also continue to factor in the extensive experience of its promoters of more than three decades in the medical equipment and supplies industry. HSIL also has an established relationship of more than three decades as an exclusive manufacturer and supplier (for India and Bangladesh) of products of JMS Co. Limited (JMS)[1], a leading global medical consumables/equipment manufacturer. HSIL has also been able to develop a wide dealer network and other customers like hospitals and diagnostic centres.

However, the ratings are constrained by the competitive and fragmented nature of the medical equipment and supplies industry, which limits HSIL's revenues and profitability. HSIL has a moderate scale of operations with relatively lower value addition which also limits its margins. However, ICRA takes note of the increasing efforts by HSIL for further improving its product mix and manufacturing activities. This is expected to support its margin profile and provide benefits of economies of scale. Further, HSIL remains exposed to forex risk, given that the majority of its raw material requirements is being met through imports, primarily from Japan, China and few other countries.

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

Key rating drivers and their description

Credit strengths

Extensive experience of promoters along with an established, exclusive relationship with principal supplier – The founder and main promoter of HSIL, M. Hanskumar Shah, established HSIL in 1989 and has over three decades of experience in the medical equipment and supplies industry. HSIL is the exclusive supplier of JMS products in India and Bangladesh and has an established relationship with JMS of more than three decades in the industry. JMS reported a revenue of ~Yen 63.7 billion in FY2023. JMS products contributed around 50% to the revenues of HSIL in FY2023 with the key product being its porous medi-tape. The company also supplies other JMS products like JMS infusion sets and JMS disposable surgical products in India and Bangladesh. HSIL is improving the value addition in its JMS products through installing new machinery in Atgaon (for medi-tape) and Bhiwandi (for other products) in technical collaboration with its principal supplier, which is expected to support its revenue and margin improvement, going forward.

Diversified product profile, including surgical products and healthcare devices – HSIL has a diversified product profile consisting of JMS products, surgical disposables and infusion sets, renal care equipment, ultrasound machines, critical care and respiratory therapy equipment, among other products. The company manufactures JMS' medi-tape and is the exclusive supplier for it and other JMS surgical disposable products. While the demand for respiratory therapy equipment like ventilators, which surged during the Covid-19 pandemic, moderated post waning of infections, HSIL witnessed revenue growth supported by increasing demand of renal care equipment like dialysis machines. HSIL has invested in setting up marketing teams for these products and operated a few dialysis centres in Mumbai and better customer engagement and awareness have supported their sales over the last year.

Diversified customer profile – The customer profile of HSIL is well diversified with top-10 customers contributing ~45% to revenue in FY2023. The customers include an established network of around 80 dealers/distributors and others like hospitals and diagnostic centres. While the major focus of the company is towards sales in western India (Maharashtra, Goa, and Gujarat, etc.), the revenues are well diversified across other regions as well.

Strengthening of financial profile – HSIL got listed on the SME platform of the BSE on June 5, 2023, and raised equity of Rs. 24.8 crore by way of a primary issue. The equity infusion improved the company's liquidity position. Moreover, HSIL has prepaid its entire outstanding term loans (Rs. 4.7 crore as on March 31, 2023) and the utilisation of the fund-based working capital limits (sanctioned limits of Rs. 2.5 crore) will also reduce substantially going forward. This is expected to strengthen its debt protection metrics with HSIL likely to remain net-debt negative over the near to medium term. HSIL's financial profile is also supported by its increased accrual generation due to the increasing scale and improving profit margins, aided by diversification of its product basket and growing share of the manufacturing segment in its revenues. HSIL's focus towards value addition in its existing products by increasing automation at its manufacturing units is also expected to support revenue growth and improvement in operating margins going forward, translating into higher accrual generation.

Credit challenges

Moderate scale of operations – HSIL registered YoY revenue growth of 4.1% to Rs. 109.1 crore in FY2023. The company's moderate scale of operations results in limited economies of scale, thus impacting its profitability. While the revenue grew by 74.1% in FY2022 to Rs. 104.8 crore, the growth moderated in FY2023 due to lower demand of respiratory therapy equipment like ventilators post Covid. However, the increase in demand for renal care equipment, coupled with improvement in sales due to better customer engagement and awareness, resulted in higher growth for the segment, helping HSIL register a 4.1% growth during this year.

Moderate profit margins owing to low value addition; profitability also vulnerable to forex fluctuations – HSIL imports jumbo rolls from JMS, Japan and cuts and processes it in its Atgaon unit before selling. For most of its other equipment, the parts are imported from countries like China and then locally assembled. While this provides benefits in terms of import duty on the parts, relatively lower value addition limits the profitability of HSIL with margins historically remaining in the range of

4.0-5.0%. However, with a better product mix and increasing value addition, margins have improved to 9.7% in FY2023 and are expected to further improve going forward, supported by additional capex to be undertaken by HSIL in FY2024 onwards.

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

Environmental and social risks

Environmental considerations: Entities in the healthcare equipment and supplies industry are exposed to risks associated with their impact on the environment and health and safety, including both the manufacturing process and the end-of-life disposal of the products. Some of the key monitorables in terms of environmental impact for HSIL include waste material disposal, sustainable product packaging, material toxicity and energy efficiency.

Social considerations: From a social perspective, product quality and safety are other key monitorables, as they can expose the company to possible product liability claims, impacting revenues and profitability. Thus, it is important for the industry participants, including HSIL, to address the risks, while maintaining product quality, to ensure patient health and safety.

Liquidity position: Adequate

HSIL's liquidity is adequate, supported by steady internal accruals and infusion of Rs. 24.8 crore as equity, raised through recently concluded IPO. The funds raised are expected to be utilised for prepayment of outstanding term loan (Rs. 4.7 crore as on March 31, 2023) and capex of around Rs. 12-14 crore towards capacity enhancement and new product development, over FY2024 and FY2025.

Rating sensitivities

Positive factors – The ratings could be upgraded if HSIL reports healthy growth in revenue and earnings, leading to an improvement in debt protection metrics, while maintaining adequate liquidity.

Negative factors – The ratings could be downgraded, if there is any substantial decline in revenues or profitability, or any stretch in working capital cycle or sizeable debt-funded capex result in deterioration in its coverage metrics and liquidity position. Specific credit metrics include Debt/OPBDITA of above 3.5 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 80 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. HSIL was listed on the BSE SME platform by the way of an IPO in June 2023.

HSIL also supplies dialysis equipment, renal care, oxygen concentrators, air mattresses, ultrasound machines 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 haemodialysis solutions. 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)

Standalone	FY2022	FY2023
Operating income	104.8	109.1
PAT	4.6	7.7
OPBDIT/OI	7.2%	9.7%
PAT/OI	4.4%	7.0%
Total outside liabilities/Tangible net worth (times)	3.1	1.7
Total debt/OPBDIT (times)	1.3	0.7
Interest coverage (times)	4.6	5.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts 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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					June 27, 2023	June 02, 2022	April 27, 2021	-
1	**Term loan**	Long Term	-	-	-	[ICRA]BB(Stable)	[ICRA]BB-(Stable)	-
2	**Working capital facilities**	Long Term	2.50	-	**[ICRA]BB+(Positive)**	[ICRA]BB(Stable)	[ICRA]BB-(Stable)	-
3	**Non-fund-based facilities- LC/BG**	Short Term	26.50	-	**[ICRA]A4+**	[ICRA]A4	[ICRA]A4	-
4	**Unallocated limits**	Long Term/ Short Term	0.20	-	**[ICRA]BB+(Positive)/ [ICRA]A4+**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based working capital	Simple
Non-fund based – LC/BG	Very Simple
Unallocated Limits	NA

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	Cash Credit	NA	NA	NA	2.50	[ICRA]BB+(Positive)
NA	Letter of Credit	NA	NA	NA	26.50	[ICRA]A4+
NA	Unallocated Limits	NA	NA	NA	0.20	[ICRA]BB+(Positive)/ [ICRA]A4+

Source: Company

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

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