January 31, 2024

Healthium Medtech Limited: Ratings reaffirmed; outlook revised to Positive from Stable

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	44.00	44.00	[ICRA]A+ (Positive)/[ICRA]A1; reaffirmed; outlook revised to Positive from Stable
Total	**44.00**	**44.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook to Positive from Stable takes into account the material improvement in Healthium Medtech Limited's(Healthium/ the company) credit profile post sale of its UK business and healthy financial performance in FY2023 and H1 FY2024 and ICRA's expectations that the same would sustain going forward. This is expected to be supported by the company's improving market position and established relationships with its customers supporting its business prospects and its healthy profit margins and debt metrics.

The ratings continue to take into account Healthium's strong market position as one of the largest manufacturers of surgical needles and sutures in the global market. The company has a diversified presence across products and geographies with exports to more than 90 countries. The ratings also factor in Healthium'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.

In FY2023, the company divested its UK business, the Clini group specialising in the urology segment, to Kohlberg Kravis Roberts (KKR). The divestment, effective from January 12, 2023, resulted in net proceeds (post debt repayment of Clini group) of Rs. 762.4 crore and gain of Rs. 490.3 crore. Healthium, on a consolidated basis (excluding the discontinued UK business), witnessed a revenue growth of 14.3% to Rs. 728.5 crore in FY2023 from Rs. 637.1 crore in FY2022, supported by healthy demand from the key end-user industry segments for wound closure, both in the domestic and export markets. Revenue growth was majorly supported by volume growth on the back of strong distribution network in the domestic markets, new product launches and established relationships with existing clients. The operating margin of the company improved to 28.4% in FY2023 from 23.0% in FY2022 on the back of favourable product mix with increased revenue contribution from the high-margin wound closure segment, sale of the UK business which had relatively lower margins, enhanced backward integration for sutures by improving the cost efficiency of needles manufacturing facility and healthy operating leverage. The company has generated a revenue of ~Rs. 394 crore with operating margin of 27.6% during H1 FY2024 and ICRA expects the company to register healthy revenue growth in FY2024, while maintaining its strong margins. Healthy operating margins combined with reduction in debt of the company with scheduled repayment of term loans and full repayment of promoter loans from the proceeds of sale of the UK business led to improvement in credit profile of the company as on September 30, 2023. Going forward, the company's debt coverage metrics are expected to remain comfortable, supported by healthy accruals and absence of any debt-funded capex. While the company has moderate capex plans for capacity expansion and small-scale inorganic growth plans, the same will be funded through internal accruals.

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 the increasing demand. The ratings are also constrained by the vulnerability of the company to any adverse movements in foreign exchange due to its significant exports; however, natural hedge through imports mitigate the risk to an extent. The revenue and profitability of the company remains concentrated as majority of its revenue is derived from the sale of sutures and needles. Although the continuous launch of new products by the company mitigates this risk to an extent, revenue ramp up from those remains a monitorable. The company has a track record of growing and diversifying through inorganic transactions. Additionally, the company is expected to continue dividend payout of ~Rs. 80-90 crore per annum to Quinag Acquisition (FDI) Limited (Quinag) for servicing the interest payment on the loan taken by Quinag for acquisition of Healthium. Any significant deviation in expected dividend payout and any debt-funded acquisition, impacting the company's liquidity and credit metrics, remains an event risk and would be evaluated on a case-by-case basis.

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 - Healthium has four key product areas, i.e., wound closure, arthroscopy, wound care and infection prevention portfolio. The company has a strong market position as one of the largest manufacturers of surgical needles and sutures in the global market. The company 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. The company launched arthroscopy products in FY2019 and has gained market share for this segment in the domestic market in a short period. With USFDA and EU MDR certifications for its core product portfolio, the company is focused on growing the advanced surgery segment by offering comprehensive range of products for pre and post-surgery care. Further, Healthium's backward integration initiatives supported the volume and revenue growth and aided its margins.

Significant improvement in debt metrics in FY2023 post sale of UK business – In FY2023, the company divested its UK business, the Clini group specialising in the urology segment, to KKR. The divestment, effective from January 12, 2023, resulted in net proceeds (post debt repayment of Clini group) of Rs. 762.4 crore and gain of Rs. 490.3 crore. The company sold its UK business as the same did not fit into the core product portfolio of the company as majority of the Clini group products were related to urology segment whereas Healthium's strategic focus is on surgical devices used in the operation theatre. As on September 30, 2023, the total debt reduced to Rs. 5.3 crore (Rs. 303.1 as on March 31, 2022) with full repayment of promoter loans from the UK sale proceeds, decline in lease liabilities linked to the UK business and scheduled amortisation of term loans, leading to improvement in debt metrics of the company. Net Debt /OPBDITA of the company improved to -1.3 times as on September 30, 2023, from 0.9 times as on March 31, 2022. This, combined with strong cash accruals supported by healthy margins, led to improvement in coverage ratios, with interest coverage ratio improving to 52.9 times in H1 FY2024 from 14.4 times in FY2022 and DSCR to 11.6 times in H1 FY2024 from 6.2 times in FY2022. Going forward, Healthium's debt coverage metrics are expected to remain comfortable, supported by healthy accruals and absence of any debt-funded capex. The company has a track record of growing and diversifying through inorganic transactions and thus any debt-funded acquisition, impacting the company's credit metrics, remains an event risk and would be evaluated on a case-by-case basis.

Healthy revenue growth with improved profitability in FY2023 and H1 FY2024 – Healthium, on a consolidated basis (excluding the discontinued UK business), witnessed a revenue growth of 14.3% to Rs. 728.5 crore in FY2023 from Rs. 637.1 crore in FY2022, supported by healthy demand from the key end-user industry segments for wound closure, both in the domestic and export markets. Revenue growth was majorly supported by volume growth on the back of strong distribution network in the domestic markets, new product launches and established relationships with existing clients The operating margin of the company improved to 28.4% in FY2023 from 23.0% in FY2022 on the back of favourable product mix with increased revenue contribution from the high-margin wound closure segment, sale of the UK business which had relatively lower margins, enhanced backward integration for sutures by improving the cost efficiency of needles manufacturing facility and healthy operating leverage. The company has generated a revenue of ~Rs. 394 crore with operating margin of 27.6% in H1 FY2024 and ICRA expects the company to register healthy revenue growth in FY2024, while maintaining its strong margins.

Wide geographic reach and diversified client base mitigate concentration risk – The company exports its products to over 90 countries including Europe, South America, Africa and Asia. Consequently, revenues in foreign currency constituted ~45% of its FY2023 revenues. The company has a network of ~80 international distributors selling its products, which contribute to a significant portion of its exports sales. The domestic market contributed to ~55% of its total sales in FY2023 on a consolidated basis. The company is present in more than 700 districts and over 450 cities across India. While the company has a strong position in tier 2-6 cities in India where competitors have lower presence, giving the company a competitive advantage, the company has also gained market share from some of the established MNC players in Tier 1 cities. With its top-10 customers generating ~21% of its total revenues in FY2023, the company 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 and smaller domestic players – The company is the second-biggest player in the surgical sutures segment in India and the largest in the surgical needles space globally by volume. However, the Indian market for sutures is primarily dominated by Johnson & Johnson through its brand, Ethicon. In addition, the company faces competition from other international as well as domestic players in other product segments, which restricts its margins to a certain extent. Nonetheless, the medtech industry has several entry barriers such as requirement of a strong distribution network, technical expertise, product acceptance among medical practitioners, which requires various certifications and takes considerable time. While ICRA understands that Healthium has gained market share in key products over the last few years from some of the established players with its strong product portfolio and wide distribution reach, sustenance of the same will be a key monitorable.

Moderate working capital intensity of operations – The company's working capital intensity remained moderate with high inventory position of 112 days in FY2023 and ~129 days in H1 FY2024. Healthium maintains one-to-two-month finished goods supplies with all its supplying locations across India. The company stocked up inventory to cater to the strong demand from clients reflected in its healthy growth. Further, Healthium 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 distributors to nursing homes and hospitals (including direct supplies to corporate hospitals) and to private hospitals, which are usually recovered in 45-60 days. The working capital intensity stood at 25.8% in FY2023 and ~28% in H1 FY2024. Going forward, the working capital intensity is expected to be in line with past trends.

Vulnerability to any adverse movements in foreign exchange due to significant volume of exports – The company's earnings from the export markets constituted ~45% of its total revenues in FY2023, at a consolidated level. Hence, its profitability remains susceptible to the fluctuations in foreign exchange rates. Nevertheless, the company's imports provide a natural hedge to an extent.

Sizeable dividend outflow to impact accruals – For acquiring Healthium, Quinag availed a loan and later additional debt was taken to infuse funds in the company via unsecured loans and equity for recent acquisitions carried out by Healthium. Following the UK business sale, with the dividend received from the company (~Rs.640.0 crore in H1 FY2024 with expected dividend of ~Rs. 80-90 crore in H2 FY2024), Quinag has partially repaid the debt, resulting in $ 115 million outstanding as on date. The interest on this debt is paid out by the dividend upstreamed from Healthium to Quinag. Going forward, the company is expected to continue paying an annual dividend of ~Rs. 80-90 crore for servicing the interest payment on Quinag's debt. The impact of such sizeable dividend outflows on the company's liquidity position will be a key monitorable. Further, any change in ownership structure of the company and resultant impact on the dividend payout and the financial profile of the company will also remain a monitorable.

Liquidity position: Adequate

Healthium's liquidity position remains adequate, with free cash and liquid investments of ~Rs. 144 crore as on September 30, 2023. The average working capital utilisation for Healthium at standalone level remained at ~10% for the 12 months ended September 2023 against sanctioned working capital limit of Rs. 44.0 crore. Following the sale of the UK business in January 2023, the company has completely repaid promoter loans and as on September 30, 2023, did not have any outstanding term loans. The company has capex plans of around Rs. 70-80 crore per annum, which are expected to be funded through internal accruals. The company has paid a dividend of ~Rs. 640 crore in H1 FY2024 and is expected to pay another dividend of ~Rs. 80-

90 crore in H2 FY2024. Post this dividend payout in H1 FY2024, the loans availed by Quinag for acquisition of Healthium and to infuse promoter loans and equity in the company to carry out acquisitions have been reduced to ~$ 115 million from ~$ 154 million. Going forward, ICRA expects the company to continue paying dividend of ~Rs. 80-90 crore every fiscal to service the interest payment on this loan. The impact of higher-than-expected dividend payout and the company's debt-funded future acquisition (if any) on its liquidity position and debt metrics will be a key monitorable.

Rating sensitivities

Positive factors– ICRA could upgrade the company's rating if there is a significant increase in scale of operations aided by product diversification while maintaining its strong profitability and debt metrics.

Negative factors – Pressure on the company's ratings could arise if there is a material decline in revenues and profits or high dividend pay-outs resulting in a significant deterioration in the liquidity position of the company 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 metric 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, Healthium (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 well as exported to over 90 countries in Europe, South America, Africa and Asia. The company and its subsidiaries have seven manufacturing facilities with three R&D centres.

The company has a track record of growing and diversifying through inorganic transactions. In March 2017, Quality Needles Private Limited (QNPL), a 100% subsidiary of TPG Growth, was acquired by Healthium. 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 a 99.80% stake in Healthium from TPG Growth, CX Partners, and the founding shareholders. In August 2021, the company 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 company 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	FY2022	FY2023	H1 FY2024*
Operating income	637.1	728.5	393.4
PAT	79.3	603.2**	68.9
OPBDIT/OI	22.8%	28.4%	27.6%
PAT/OI	12.4%	82.8%	17.5%
Total outside liabilities/Tangible net worth (times)	0.7	0.2	0.3
Total debt/OPBDIT (times)	2.1	0.1	0.0
Interest coverage (times)	14.2	21.5	52.9

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amounts in Rs. crore*

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

*** PAT of Rs.603.2 crore includes gain of Rs.490.3 crore from the sale of UK business*

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 Sep 30,2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 31, 2024	Nov 28, 2022	Aug 02, 2021	Jun 30, 2020
1	Fund-based/ Non-fund Based	Long term and short term	44.00	3.4	[ICRA]A+ (Positive)/ [ICRA]A1	[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+ (Positive)/ [ICRA]A1

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership held by	Ownership	Consolidation Approach
Quality Needles Private Limited (QNPL)	Healthium	100.0%	Full Consolidation
CareNow Medical Private Limited	Healthium	100.0%	Full Consolidation
Sironix Medical Technologies BV	Healthium	100.0%	Full Consolidation
Healthium Medtech UK Limited	Sironix	100.0%	Full Consolidation
Mena Medical Manufacturing FZC	Healthium	51.0%	Full Consolidation
Sironium Medical Technologies Limited	Healthium	100.0%	Full Consolidation

Source: Company

ANALYST CONTACTS

Shamsher Dewan
+91 12 4454 5328
shamsherd@icraindia.com

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

Mythri Macherla
+91 80 4332 6407
mythri.macherla@icraindia.com

Gaurav Kanade
+91 22 6114 3469
gaurav.kanade@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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