

January 22, 2025

## Hemant Surgical Industries Limited: [ICRA]BBB-(Stable)/[ICRA]A3; assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based cash credit	3.50	[ICRA]BBB- (Stable); assigned
Long-term fund-based term loans	5.00	[ICRA]BBB- (Stable); assigned
Long-term fund-based limits	27.00	[ICRA]BBB- (Stable); assigned
Short-term non-fund based limits	34.50	[ICRA]A3; assigned
<b>Total</b>	<b>70.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings assigned to Hemant Surgical Industries Limited (HSIL) factor in the extensive experience of its promoters of more than three decades in the medical equipment and supplies industry. Benefiting from this, HSIL has established a strong relationship with JMS Co. Limited (JMS)<sup>1</sup>, a leading global medical consumables/equipment manufacturer, as an exclusive manufacturer and supplier of its products in India. 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 ratings also factor in its comfortable financial profile, as reflected by its healthy debt protection metrics and an adequate liquidity position. ICRA notes HSIL's plans to expand its manufacturing set-up by establishing a new facility in Aurangabad, Maharashtra with a capex of around Rs. 25.0 crore over FY2025 and FY2026. This is expected to drive its revenue growth (including in export markets) and improve its margin profile over the medium term. While the capex is expected to be partially funded through debt, which may result in some moderation in HSIL's debt protection metrics, its overall financial profile is likely to continue to remain adequate.

The ratings, however, 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. While the upcoming facility at Aurangabad, Maharashtra is expected to support HSIL's revenues and margins, completion of the project without any significant delay and adequate scale-up in line with the expectations would continue to remain a key for achieving this. Further, HSIL remains exposed to forex risk, as the major portion of its raw material requirements is met through imports, primarily from Japan, China and few other countries.

The Stable outlook on the long-term 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 the industry.

<sup>1</sup> 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** – Mr. Hanskumar Shah, the founder and main promoter of HSIL, established the company 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 has an established relationship of more than three decades with JMS. Products of JMS contributed 50-55% to HSIL's overall revenues between FY2023 and H1 FY2025 with the major portion of sales driven by its porous medi-tape. The company also supplies other JMS products like infusion sets and disposable surgical products. Through the planned capex in Aurangabad with technical collaboration from JMS, HSIL is improving the value addition in its JMS products, which is expected to support its revenue and margin over the medium-to-long term.

**Diversified product profile, including surgical products and healthcare devices** – While JMS medi-tape continues to remain a key segment for HSIL, it has been able to diversify its product profile with addition of several new products over the past few years. Supported by this, the contribution of JMS products to HSIL's overall revenues has reduced to 50-55% in the recent times from 65-70% five years ago. The product profile includes JMS products (like medi-tape, infusion sets, disposable surgical products), renal care equipment, ultrasound machines, critical care products and respiratory therapy equipment, among others. HSIL benefitted from the increased demand for respiratory therapy and critical care equipment during the Covid-19 pandemic, leading to an increase in its revenues to Rs. 104.8 crore in FY2022 from Rs. 60.2 crore in FY2021. However, it has been able to maintain stable revenue generation through other segments like renal care and radiology after the intensity of the pandemic waned.

**Adequate financial profile** – HSIL's financial profile is supported by its moderate debt levels and adequate liquidity profile. As on September 30, 2024, it had a total debt/ tangible net worth of 0.2 times and total debt/ OPBDITA of 1.0 times. HSIL also had an interest coverage of 9.0 times in H1 FY2025. Its liquidity position is also adequate, supported by steady cash flow generation and cash, cash equivalents and liquid investments of Rs. 7.8 crore as on September 30, 2024. While HSIL's planned capex of up to Rs. 35-40 crore over the medium term (including around Rs. 25 crore towards the Aurangabad facility) is expected to be partially funded through debt, its capitalisation and coverage metrics are likely to continue to remain healthy. However, timely completion and successful scale-up of the project would remain important for HSIL to maintain its credit profile.

### Credit challenges

**Moderate scale of operations** – Post the strong growth of revenues in FY2022 due to the surge in demand of respiratory therapy and critical care equipment, HSIL's revenues have remained in the range of Rs. 100-110 crore with revenue of Rs. 105.6 crore in FY2024 and Rs. 48.9 crore in H1 FY2025. The moderate scale of operations results in limited economies of scale, thus impacting HSIL's profitability.

**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 the same 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, increasing value addition, lower marketing expenses and the recent price increases undertaken by the company, the operating profit margin (OPM) has improved to 9.9% in FY2024 and 14.2%<sup>2</sup> in H1 FY2025. Going forward, OPM is expected to be supported by the higher value addition to HSIL's products with the

<sup>2</sup> Excluding the impact of the losses recognized on account of the fire incident at HSIL's manufacturing facility at Bhiwandi, Maharashtra in Q2 FY2025

commissioning of the Aurangabad facility. Considering its sizeable imports and the absence of a strong hedging mechanism, HSIL’s profitability also remains vulnerable to forex fluctuations.

**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, pricing power and profitability. However, HSIL remains competitive because of its established technical collaboration with JMS.

### Environmental and social risks

**Environmental considerations** – Environmental risks for companies in the healthcare equipment and supplies industry include risks associated with the manufacturing process and the end-of-life disposal of their products. Some of the key monitorable in terms of environmental impact for HSIL include energy efficiency, disposal, product packaging and toxicity of materials. HSIL might have to incur additional costs in the future to adhere to the evolving guidelines on the same.

**Social considerations** – Product quality and safety are other key monitorable for HSIL as the same may lead to product liability claims. It is important for companies in the industry to address other challenges while ensuring product quality to ensure patient health and safety.

### Liquidity position: Adequate

HSIL’s liquidity is **adequate**, aided by steady cash flow generation and cash, cash equivalent and liquid investments of Rs. 7.8 crore as on September 30, 2024. The company is expected to incur a capex of up to Rs. 35-40 crore over the medium term, which would be partially funded through debt and partially through internal accruals and available funds. HSIL has repayment obligations of around Rs. 2.1 crore per annum pertaining to its existing debt while the debt contracted to fund the ongoing capex might increase its repayment obligations in the future.

### Rating sensitivities

**Positive factors** – The ratings could be upgraded if HSIL reports a healthy growth in revenues and earnings, leading to sustenance 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 the 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 3.0 times, on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
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. The company has exclusive agency of manufacturing and distributing medi-tape and other products of JMS. HSIL was listed on the BSE SME platform 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, Gujarat and Atgaon and Bhiwandi, Maharashtra.

### Key financial indicators

HSIL – Standalone	FY2023	FY2024	H1 FY2025
Operating income	109.1	105.6	48.9
PAT	7.6	9.8	3.2
OPBDIT/OI	9.7%	9.9%	14.2%*
PAT/OI	7.0%	9.3%	6.5%
Total outside liabilities/Tangible net worth (times)	1.8	0.8	1.0
Total debt/OPBDIT (times)	0.7	0.6	1.0
Interest coverage (times)	5.3	10.8	9.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; All ratios as per ICRA calculations

\* Excluding the impact of the losses recognized on account of the fire incident at HSIL's manufacturing facility at Bhiwandi, Maharashtra in Q2 FY2025

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

		Current rating (FY2025)		Chronology of rating history for the past 3 years											
				FY2025			FY2024			FY2023			FY2022		
Instrument	Type	Amount Rated (Rs Crore)	Jan 22, 2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund based cash credit	Long term	3.50	[ICRA] BBB- (Stable)	-	-	-	-	-	-	-	-	-	-	-	-
Fund based term loan	Long term	5.00	[ICRA] BBB- (Stable)	-	-	-	-	-	-	-	-	-	-	-	-
Fund based limits	Long term	27.00	[ICRA] BBB- (Stable)	-	-	-	-	-	-	-	-	-	-	-	-
Non-fund-based limits	Short term	34.50	[ICRA] A3	-	-	-	-	-	-	-	-	-	-	-	-
Term loan	Long Term	-	-	Oct 15, 2024	-	Aug 30, 2024	-	Aug 18, 2023	-	June 27, 2023	-	June 02, 2022	[ICRA]BB (Stable)	April 27, 2021	[ICRA] BB- (Stable)
Working capital facilities	Long Term	2.50	-	Oct 15, 2024	[ICRA] BB+ (Stable); INC; Withdrawn	Aug 30, 2024	[ICRA] BB+ (Stable); INC	Aug 18, 2023	[ICRA] BB+ (Positive); INC	June 27, 2023	[ICRA] BB+ (Positive)	June 02, 2022	[ICRA]BB (Stable)	April 27, 2021	[ICRA] BB- (Stable)
Non-fund-based	Short Term	26.50	-	Oct 15, 2024	[ICRA] A4+; INC;	Aug 30, 2024	[ICRA] A4+; INC	Aug 18, 2023	[ICRA] A4+; INC	June 27, 2023	[ICRA] A4+	June 02, 2022	[ICRA]A4	April 27, 2021	[ICRA]A4

facilities- LC/BG				Withdra wn											
<b>Unallocat ed limits</b>	Long Term/ Short Term	0.20	-	Oct 15, 2024	[ICRA] BB+ (Stable)/ [ICRA] A4+; INC; Withdra wn	Aug 30, 2024	[ICRA] BB+ (Stable) / [ICRA] A4+; INC	Aug 18, 2023	[ICRA] BB+ (Positive) / [ICRA] A4+; INC	June 27, 2023	[ICRA] BB+ (Positive) / [ICRA] A4+	June 02, 2022	-	April 27, 2021	-

INC – Issuer not cooperating

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based cash credit	Simple
Long-term fund-based term loans	Simple
Long-term fund-based limits	Simple
Short-term non-fund based limits	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: [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	3.50	[ICRA]BBB- (Stable)
NA	Term loans	FY2025	11.65%	FY2032	5.00	[ICRA]BBB- (Stable)
NA	Proposed long term limits	NA	NA	NA	27.00	[ICRA]BBB- (Stable)
NA	Letter of credit	NA	NA	NA	34.50	[ICRA]A3

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

## ANALYST CONTACTS

**Shamsher Dewan**

+91 124 4545328

[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Kinjal Shah**

+91 22 61143400

[kinjal.shah@icraindia.com](mailto:kinjal.shah@icraindia.com)

**Deepak Jotwani**

+91 124 4545328

[deepak.jotwani@icraindia.com](mailto:deepak.jotwani@icraindia.com)

**Gaurav Kushwaha**

+91 40 45474829

[gaurav.kushwaha@icraindia.com](mailto:gaurav.kushwaha@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## HELPLINE FOR BUSINESS QUERIES

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

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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