

August 02, 2021

Healthium Medtech Private Limited: Long-term rating upgraded to [ICRA]A+ (Stable); Short-term rating 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	50.00	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable) [ICRA]A1; reaffirmed
Total	50.00	50.00	

*Instrument details are provided in Annexure-1

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of Healthium Medtech Private Limited (HMPL) and its subsidiaries (hereafter referred to as HMPL or the Group), including - Sironix Medical Technologies BV (Sironix- holding company of Clinisupplies Limited, Clinidirect Limited and Meditex Supplies Limited), Sironium Medical Technologies Limited and Healthium OEM Private Limited (HOPL- holding company of Quality Needles Private Limited), given the strong operational and financial inter-linkages among the entities.

The upgrade in the long-term rating considers the group's healthy revenue growth of 11.7% in FY2021 amidst the pandemic supported by its healthy geographic diversification, ramp up in revenues from both new and existing clients, new launches and early-to-market strategy adopted by the company post relaxation of lockdown norms after Covid first wave. Operating margins of the group revived to 20.6% in FY2021 from 16.9% in FY2020, supported by increase in scale of operations, and various other cost saving initiatives in addition to benefits from backward-integrated nature of operations. The net cash accruals of the Group improved in FY2021 on the back of lower-than-expected dividend payout (Rs. 31.3 crore in FY2021 as against 81.6 crore in FY2020). ICRA understands that going forward, there is no commitment from the company's end to pay dividend on a yearly basis to its shareholders. The quantum of dividend, if any, will be decided by the board after taking into account the financial performance and investment needs for growth, capex and any potential M&A.

The ratings continue to draw comfort from the Group's 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. The ratings also factor in the Group's technical expertise with an in-house development team, along with a strong sales and distribution channel, the group's comfortable financial risk profile characterised by healthy profitability, robust capital structure and comfortable debt coverage metrics. Further, ICRA takes note of the Group's strong liquidity position, supported by significant cash and liquid investments and low dependence on external debt. Although the recent resurgence of Covid-19 infections can play spoilsport on the segment's growth prospects, ICRA expects the Group to register healthy revenue growth in FY2022 while maintaining healthy margins.

The ratings remain partially constrained by the Group's scale of operations, moderate working capital intensity and competition from strong international players as well as domestic players. ICRA also notes that the Group's profitability is vulnerable to adverse movement in forex rates.

HMPL through its subsidiary Clinisupplies Limited has acquired 100% stake in Vital Group which consists of (VitalCare Trading (UK) Limited (Parent company); VitalCare Limited (subsidiary) and VitalCare (Nanjing) Limited (subsidiary) on July 01, 2021 for a consideration of 9.25 million pounds (Approximately Rs. 95 crore) out of which 8.0 million pounds (~Rs. 81.5 crore) has

already been paid out while the rest will be paid out in FY2023. With the acquisition of VitalCare, HMPL intends to strengthen its presence in the urology segment in Europe and the US. Funds for the immediate payout (Rs. 81.5 crore) towards acquisition has been provided by Quinag Acquisitions (FDI) Ltd through a term loan (whose bullet repayment will happen in FY2025). Balance payout will be funded through internal accruals.

HMPL has 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 for total consideration of Rs. 55.0 crore in August 2021. AbGel is engaged in the manufacturing of gelatin sponges for the Indian market. With AbGel business acquisition, HMPL aims to further expand the market access of this product portfolio using its wide distribution network across India. The acquisition is being funded through Rs. 50 crore term loans from banks while the Rs. 5 crore would be paid out from internal accruals of the company in FY2023.

HMPL 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.

Going forward, 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 as against its competitors. The outlook also reflects ICRA's expectation that the Group's revenue, margins, debt protection metrics and liquidity will improve going forward given the increasing demand for healthcare services across the globe.

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 four key product areas i.e. advanced surgery, arthroscopy, urology & wound care. HMPL 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-additive products over the past few years, ranging from anti-microbial gloves, barbed sutures, meniscus gun to ligation clips which has led to higher diversification in its product portfolio. Due to the pandemic, there was increase in demand for urology segment products and latex gloves in FY2021, which offset the marginal decline in demand for sutures in domestic market (due to deferment of elective surgeries in H1 FY2021). Further, HMPL's backward integration initiatives supported the volume and revenue growth and also aid in cost efficiency.

Healthy revenue growth supported by diversification in product mix and geographical base – HMPL witnessed 11.7% revenue growth in FY2021. The growth is attributable to the demand from the key end-user industry segments in the export market and domestic market, established relationship with existing clients, strong distribution network, launching of new products under different segments, early to market strategy post relaxation of lockdown norm and diversified product portfolio. The company has a strong position in tier 2-6 cities in India where the competitors have lower presence, thereby giving competitive advantage to the company. Furthermore, HMPL exports its products to 80 other countries. The Group derives 1/3rd of its revenues from India, 1/3rd from UK and remaining from rest of the world, thereby resulting in diversified geographical presence. In April and May 2021, the Group booked ~Rs. 66.6 and Rs. 65.2 crore of revenue respectively which is a YoY growth of 20% and 34% respectively. Going forward, the Group is expected to grow at healthy pace supported diversified product mix & client base, wide geographical base and continuous addition of new customers and products under different segments.

Comfortable debt protection metrics – The capital structure and coverage indicators of the Group remain comfortable due to low dependence on external debt. Its capital structure remained healthy with gearing and TOL/TNW of 0.1 times and 0.3 times as on March 31, 2021 (provisional), respectively. The coverage metrics were also comfortable with interest coverage, DSCR and TD/OBITDA at 15.7 times, 4.6 times and 0.8 times in FY2021 (provisional).

Wide geographic reach and diversified client base mitigate concentration risk – The Group exports its products to over 80 countries in Europe, South America, Africa & Asia; revenues in foreign currency constituted around 67% of its FY2021 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 33% of its total sales in FY2021 on a consolidated basis. The company has presence in 500+ districts in India. With top 10 customers constituting about ~30% of the total revenues in FY2021, the Group has low client concentration risk.

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 player in the surgical needles sector globally by volume. However, the market for sutures is primarily dominated by Johnson & Johnson, through its brand Ethicon, which is the market leader in India with about 55% market share. In addition, the Group faces competition from the other international as well as domestic players in other product segments, which restricts its margins. While ICRA understands that the company has gained market share in key products in FY2021, sustenance of same remains to be seen.

Moderate working capital intensity of operations – The Group's working capital intensity is moderate with high inventory and receivables position; however, the same has reduced from FY2020 level supported by backward integration, better control on inventory sourcing & forecasting process and improvement in debtor days. HMPL maintains one to two month finished goods supplies with all its consignee agents located across several locations in India. Further, the Group procures raw material in bulk owing to high lead time (3 months for imports) and cost advantage. However, this results in higher inventory. The debtors mainly relate to sales through Government tenders and to private hospitals, which normally take more than 45-60 days to realise. The working capital intensity stood at 26.5% in FY2021 (prov.) against 29.3% in FY2020.

Vulnerability to adverse movement in foreign exchange due to significant volume of exports – The Group's earnings from other countries constituted 67% of its total revenues in FY2021 (prov.) at a consolidated level. Hence, its profitability remains susceptible to the fluctuations in foreign exchange rates. Nevertheless, the Group has significant imports, which provides a natural hedge to an extent.

Liquidity position: Strong

The company's liquidity position is strong with improvement in fund flow from operations in FY2021 due to healthy revenue growth and improvement in OPM. HMPL has also pruned its operating costs considerably, thereby supporting its margin growth.

ICRA expects the company to maintain its strong liquidity, supported by buffer from cash and liquid investments (Rs. 141.0 crore as on May 30, 2021) as well as healthy cash accruals. It has adequate buffer in working capital limit with an average utilisation of 50% during the twelve-month period that ended in May 2021. With the recent acquisition and availment of term loan from banks for financing the AbGel business acquisition, the Group is expected to have repayment of Rs. 24-25 crore in FY2022 and FY2023. The Group has 30-35 crore of capex plans in FY2022 and FY2023. The same is to be funded through internal accruals of the Group. ICRA expects the Group to meet its near-term and medium-term commitments comfortably through internal sources of cash balances.

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/acquisition or stretch in working capital position resulting in a sustained deterioration in the credit metric would also be a negative. Specific credit metrics include total debt/OPBDITDA >2.0 on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of the various Group entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among these entities.

About the company

Incorporated in 1992, HMPL (erstwhile Sutures India Private Limited) manufactures, markets and sells wound closure products such as absorbable & non-absorbable sutures, mesh, tapes, skin staplers, ligation clips & other medical consumable products such as surgical gloves, tubular bandage and catheters. These products are sold domestically as well as 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 & staplers, one in Noida, Uttar Pradesh for manufacturing surgical needles, one at Sharjah, UAE for manufacturing surgical sutures, one at Kunigal (80 km from Bangalore) for manufacturing gloves, tubular bandages, urology collection devices and catheters and another at Sri City SEZ, which is located in Andhra Pradesh on the southern border adjoining Tamil Nadu.

In FY2013, HMPL 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 the Middle East. During FY2016 and FY2017, Sironix Medical Technologies Private Limited (Sironix) headquartered in Amsterdam, 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 of 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 HMPL. It is involved in manufacturing of a wide range of surgical suture needles.

Healthium Medtech Private Limited through its subsidiary Clinisupplies Limited has acquired 100% stake in Vital Group which consist of (VitalCare Trading (UK) Limited (Parent company); VitalCare Limited (subsidiary) and VitalCare (Nanjing) Limited (subsidiary) on July 01, 2021. With the acquisition of VitalCare, HMPL intends to strengthen its presence in the urology segment in Europe and the US.

In June 2018, Quinag Acquisition (FDI) Limited, a company backed by funds advised by Apax Partners acquired 99.80% stake in HMPL from TPG Growth, CX Partners, and the founding shareholders.

Key financial indicators

Consolidated	FY2020 audited	FY2021 provisional
Operating Income (Rs. crore)	646.5	722.2
PAT (Rs. crore)	36.8	85.4
OPBDIT/OI (%)	16.9%	20.6%
PAT/OI (%)	5.7%	11.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.3
Total Debt/OPBDIT (times)	1.0	0.8
Interest Coverage (times)	11.9	15.7

Source: the company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Note: all calculations are as per ICRA.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2019	
					Aug 02, 2021		Jun 30, 2020	Dec 31, 2018
1	Fund-based/ Non-fund Based	Long Term/ Short Term	50.0	20.2	ICRA]A+ (Stable)/ [ICRA]A1	ICRA]A (Stable)/ [ICRA]A1	-	-
2	Unallocated Limits	Long Term/ Short Term	-	-	-	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1
3	Interchangeable	ong Term/ hort Term	-	-	-	-	[ICRA]A+ (Stable)/ [ICRA]A1	-
4	Non-fund Based- Standby Line of Credit	ong Term	-	-	-	-	-	[ICRA]A+ (Stable)
5	Fund-based/ Non-fund Based Working Capital Facility	hort Term	-	-	-	-	-	[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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund-based/ Non-fund Based	Sep 19, 2019	7.95%	NA	50.0	ICRA]A+ (Stable)/ [ICRA]A1

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership held by	Ownership	Consolidation Approach
Healthium OEM Private Limited	HMPL	NA	Full Consolidation
Quality Needles Private Limited (QNPL)	Healthium OEM	99.78%	Full Consolidation
Sironix Medical Technologies BV	HMPL	100.00%	Full Consolidation
Clinisuppiics Limited	Sironix	100%	Full Consolidation
Clinidirect Limited	Sironix	100%	Full Consolidation
Meditex Supplies Limited (Meditcx')	CSL	100%	Full Consolidation
Sironium Medical Technologies Limited	HMPL	100%	Full Consolidation

Source: Company

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