

October 21, 2021

Vitromed Healthcare: Ratings upgraded to [ICRA]BBB (Stable)/ [ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based/Cash Credit	6.25	6.25	[ICRA]BBB (Stable) upgraded from [ICRA]BBB- (Stable)
Fund-based/Term Loan	5.84	2.21	[ICRA]BBB (Stable) upgraded from [ICRA]BBB- (Stable)
Non-fund Based/Bank Guarantee	4.00	4.00	[ICRA]A3+ upgraded from [ICRA]A3
Long-term - Unallocated	0.00	3.63	[ICRA]BBB (Stable) upgraded from [ICRA]BBB- (Stable)
Total	16.09	16.09	

*Instrument details are provided in Annexure-1

Rationale

The revision in the ratings follows the healthy improvement in Vitromed Healthcare's (Vitromed) scale of operations in FY2021, driven by increase in job-work sales to its group entity, Poly Medicare Limited (PML) as well as exports sale and direct domestic sales including sales of medical disposables to the local government. Sales was also boosted by the demand driven by Covid-19 related supplies. Further, the firm achieved sales of Rs. 53.7 core (provisional) in H1 FY2022 reflecting continuation of the momentum of sales traction. With increase in scale of operations and cost control measures undertaken by the firm, the margin for FY2021 also posted a rise to 9.9% in FY2021 against 8.0% in FY2020. The ratings draw comfort from Vitromed's assured offtake arrangement with its Group entity, Poly Medicare Limited (PML; contributed ~47% of the firm's total revenue in FY2021), and the proven experience of the promoters. The ratings also continue to derive comfort from the healthy capital structure and debt coverage metrics over the years due to its limited reliance on external term loans amid limited capital expenditure requirements.

The ratings, however, remained constrained by Vitromed's moderate scale of operations due to the low-value products in its portfolio and moderate net worth base of the firm. The margins also remained vulnerable to key raw material prices, which remain crude derivatives. In addition, the ratings consider the intensely competitive and fragmented nature of the industry, which is characterised by various small- and medium-sized players. Further, ICRA notes that Vitromed can be exposed to regulatory changes in its countries of export. The firm is also open to risks associated with foreign exchange (forex) rate fluctuations with ~26% of its revenues generated by export sales in FY2021. Moreover, the ratings factor in the risks associated with partnership firms, mainly related to the withdrawal of capital.

The Stable outlook on the rating reflects ICRA's belief that Vitromed will continue to benefit from the off-take arrangement with PML and the extensive experience of its promoters and its healthy financial profile.

Key rating drivers and their description

Credit strengths

Established track record as medical device manufacturer – Over the years, Vitromed has served as a qualified vendor for medical devices and enjoys repeat business from most of its customers. The firm has an established track record of more than two decades in manufacturing a broad range of medical devices, which ensures a diversified revenue base in domestic as well as export markets. The firm draws support from a professional and technically-qualified management that has considerable

experience in the field, facilitating cost efficiencies and repeat business. The promoters are also involved in the operations of PML, which is in the same business sector as Vitromed, but at a much larger scale (operating income of Rs. 786 crore in FY2021).

Robust top-line growth reported in FY2021 – The firm witnessed strong revenue growth of Rs. 109.2 crore in FY2021 over Rs. 82.1 crore in FY2020 on account of healthy demand for Covid related products in FY2021. With increase in revenues, the firm also reported healthy margins of 9.9% in FY2021 against 8.0% in FY2020. The firm achieved sales of Rs. 53.7 crore (provisional) in H1 FY2022, reflecting continuation of the momentum of sales traction.

Assured off-take arrangement with PML – The firm's Group entity, PML, has a diversified product portfolio of medical devices and is a much bigger player than Vitromed. PML gives orders on job-work basis for IV sets, urine collection bags, tubes, blood collection sets, etc, to Vitromed, alongside providing the raw material for the same. The job-work business is backed by a pre-decided annual off-take amount. PML drove ~47% of Vitromed's overall revenues in FY2021.

Healthy capital structure and debt coverage metrics – Vitromed's capital structure remained comfortable in the last five years on account of stable profitability margins and low reliance on long-term loans because of limited capex requirements that supported its capital structure. The modest working capital cycle is aided by favourable terms with PML. The financial risk profile of the firm remains comfortable with comfortable debt protection metrics. Its gearing, interest coverage and Net cash accruals/ Total debt (NCA/TD) were 0.3 time, 6.1 times and ~59.9%, respectively, in FY2021.

Credit challenges

Moderate scale and net worth base of the firm – Despite the growth in scale of operations in FY2021, the firm remains a moderate sized player with a revenue base of Rs. 109.2 crore in FY2021. Its scale of operations remains moderate because it operates with a limited portfolio of products and the segment deals in moderate volume of low-value products. Further, the net worth base also remains moderate at Rs. 40.1 crore (as on March 31, 2021) owing to limited net profits over the years.

Margins remains vulnerable to key raw material fluctuations – The key material for Vitromed remains polypropylene granules, whose prices are linked to crude oil prices. Hence, the margin for Vitromed remains vulnerable to movement in prices of crude. The firm's margin, other than benefits of higher top-line, was also benefited by lower input prices in FY2021, due to lower crude prices. However, given the sharp rise in crude prices in the current fiscal, the margin is expected to moderate to an extent.

Risks associated with partnership constitution – Vitromed's constitution as a partnership firm exposes it to discrete risks, including the possibility of withdrawal of capital by the partners and the risk of dissolution upon the death, retirement or insolvency of the partners. The partners withdrew Rs. 3.9 crore in FY2017 to settle dues with another partner, who exited in FY2015. However, ICRA notes that there have been minimum withdrawals thereafter.

Susceptibility to regulatory changes, forex risks and intense competition – The firm typically generates above 25% of its overall revenue from exports and is susceptible to regulatory changes in its countries of export, as the healthcare sector is highly regulated. Though the demand prospects for medical equipment remain healthy, Vitromed remains exposed to intense competition from various large- and small-sized players. In addition, the firm is exposed to risks associated with forex rate fluctuations.

Liquidity position: Adequate

The firm's liquidity is adequate, driven by sufficient buffer as on its drawing power as well as sanctioned limits. The average utilisation of working capital facilities of its drawing power and sanctioned limits in the 12-month period ending August 2021 stood at 30% and 50%, respectively. The repayments also remain in the range of Rs. 1-4 crore for next 2-3 fiscals, which is expected to be funded by cash accruals.

Rating sensitivities

Positive factors – ICRA could upgrade Vitromed's ratings if the firm reports significant growth in scale, while maintaining healthy profitability levels and coverage indicators.

Negative factors – ICRA could downgrade Vitromed's ratings if there is a material decline in its scale and profitability, impacting its credit profile. Deterioration in its working capital cycle could put downward pressure on the ratings. Its ratings could also be downgraded if sizeable withdrawals put pressure on the firm's liquidity profile. Specific credit metrics that could exert negative pressure on the firm's ratings include DSCR below 1.5 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

About the firm

Established in 1972 as Shailendra Engineering Works by Mr. Jugal Kishore Baid, Vitromed initially began by manufacturing miscellaneous metal products. The firm gradually switched to manufacturing disposable medical products from 1997 and was renamed as Vitromed Healthcare in November 2005.

The firm has two segments—medical disposables and biotech. The firm's medical disposables segment manufactures low-to-moderate risk products, such as IV cannula, catheters, urine collection bags, tubes and blood collection sets. The firm manufactures its products on a job-work basis for its Group company, PML, as well as for direct sales (domestic as well as exports) to retail customers.

The firm launched its biotech division in FY2008, with a new manufacturing facility at the Sitapura industrial area in Jaipur, Rajasthan. This division produces natural personal care products, such as aloe vera juice, hand disinfectants, rose water and aloe skin gels under the 'Vitro Naturals' brand.

Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	82.1	109.2
PAT (Rs. crore)	2.3	5.2
OPBDIT/OI (%)	8.0%	9.9%
PAT/OI (%)	2.8%	4.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.5
Total Debt/OPBDIT (times)	1.7	1.1
Interest Coverage (times)	4.1	6.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

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 on September 22, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019		
				21-Oct-2021	16-July-2020	9-July-2019	25-Jun-2019	15-Jan-2019	6-Apr-2018	
1 Fund-based/Cash Credit	Long-term	6.25	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
2 Fund-based/Term Loan	Long-term	2.21	2.21	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
3 Non-fund Based/Bank Guarantee	Short-term	4.00	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	
5 Unallocated	Long-term	3.63	-	[ICRA]BBB (Stable)	-	-	-	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based/Cash Credit	Simple
Fund-based/Term Loan	Simple
Non-fund Based/Bank Guarantee	Very Simple
Long-term - Unallocated	Not Applicable

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	6.25	[ICRA]BBB (Stable)
NA	Term Loan	2019	NA	2024	2.21	[ICRA]BBB (Stable)
NA	Bank Guarantee	NA	NA	NA	4.00	[ICRA]A3+
NA	Unallocated	NA	NA	NA	3.63	[ICRA]BBB (Stable)

Source: Firm

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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