

Sunil Healthcare Limited

Instrument	Amount (Rs. Crore)	Rating Action
Term Loan	2.45	[ICRA]BBB(Stable) <i>reaffirmed</i>
CC/WCDL	20.10	[ICRA]BBB(Stable)/[ICRA]A3+ <i>reaffirmed</i>
PCFC/PSFC/PCL*	(13.00)	[ICRA]A3+ <i>reaffirmed</i>
Letter of Credit	16.50	[ICRA]A3+ <i>reaffirmed</i>
Bank Guarantee	0.25	[ICRA]A3+ <i>reaffirmed</i>
Unallocated	0.60	[ICRA]BBB(Stable) <i>reaffirmed</i>
Total	39.90	

* PCFC/PSFC/PCL is a sub-limit of CC/WCDL limits

ICRA has reaffirmed [ICRA]BBB/[ICRA]A3+ (pronounced ICRA triple B /ICRA A three plus) ratings for the Rs. 39.90 Crore bank facilities of Sunil Healthcare Limited (SHL)[†]. The outlook on the long-term rating is 'Stable'.

The reaffirmation of the ratings takes into account the company's leading position as the second largest manufacturer of Empty Hard Gelatine Capsules (EHGC) shells in India with a market share of ~10% in the domestic market. The ratings factor in favourably the geographic diversification of revenues with exports to more than 30 countries, including regulated as well as semi-regulated markets, apart from the domestic market. Additionally, the company has a well established and diversified customer base with the top ten customers accounting for ~41% of the total capsules sales in FY2016. Further, diversification into other products lines like Hydroxy Propyl Methyl Cellulose (HPMC) capsules and trading of food items provides avenues for healthy revenue growth going forward.

In FY2016, the company witnessed moderate revenue growth owing to delays in installation of capsule manufacturing machines as well as decline in export sales on account of currency depreciation in its key export markets in Africa. Additionally, the revenues from the foods business witnessed marginal decline due to correction in commodity prices, despite an increase in the trading volumes. Further, higher debt levels due to increase in the company's short term borrowings resulted in moderation of the debt coverage indicators despite an improvement in the operating profits. The company remains exposed to foreign exchange rate fluctuation risk; however, hedging through forward contracts apart from the natural hedge mitigates this risk to a certain extent. The ratings also remain constrained by the high competitive intensity in the industry with presence of a number of smaller players which restricts pricing flexibility. Further, the working capital intensity of the company continues to be high due to significant presence in the export markets which requires longer credit periods and higher inventory levels. The company also remains exposed to regulatory changes in the pharmaceutical industry as well as geo-political risks in its export markets, especially the African countries.

The company has moderate capital expenditure plans towards expansion of its manufacturing capacity from 9.7 billion capsules per annum to 11.0 billion capsules per annum in FY2017. The ability of the company to scale up its capsule business while maintaining the profit margins would remain the key rating sensitivity. The ability of the company to manage its working capital requirements and strengthen its liquidity profile would also be monitored by ICRA.

Company Profile

Sunil Healthcare Limited, incorporated in 1973, is engaged in the manufacturing of EHGC shells which are supplied in the domestic market as well as exported to more than 30 countries across the globe. The company is also engaged in the marketing of HPMC capsules which are manufactured under contract manufacturing agreements with Chinese players. SHL is the second largest manufacturer of EHGC shells in India with a manufacturing capacity of 9.7 billion capsules per annum. The company's manufacturing facility, located in Alwar, is certified by WHO-GMP¹ and also accredited with DMF IV registration by United States Food and Drug

[†] For complete rating scale and definitions, please refer to ICRA's Website www.icra.in or other ICRA Rating Publications

¹ WHO-GMP: World Health Organization – Good Manufacturing Practices



Administration (US FDA). SHL is also engaged in the trading of food items under the 'Sunloc Foods' brand name.

Recent Results

In FY2016 (provisional), SHL reported an Operating Income of Rs. 81.6 crore, Operating Profit before Depreciation, Interest and Tax (OPBDIT) of Rs. 14.3 crore and Profit after Tax (PAT) of Rs. 5.2 crore.

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