

June 08, 2017

Quality Needles Private Limited

Summary of Rated Instruments

Instrument*	Rated Amount (in crore)	Rating Action
Long term – Unallocated Limits	30.0	[ICRA] A (Stable); Assigned
Total	30.0	

*Instrument Details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]A (pronounced ICRA A)¹ on the Rs. 30.0-crore² unallocated limits of Quality Needles Private Limited (QNPL). The outlook on the long-term rating is Stable.

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of Quality Needles Private Limited and its parent –Healthium Medtech Private Limited (HMPL), given the strong operational and financial inter-linkages between the entities.

The assigned rating takes into account the established position of the company as one of the largest surgical needle manufacturer across the globe with ~15% market share by volume and its healthy financial profile characterised by strong profitability, conservative capital structure and sound coverage indicators. Further, the rating derives strength from QNPL's experienced promoters with strong technical background who facilitate cost efficiencies and repeat business for the company. The rating also factors in the presence of a diversified product portfolio with an ability to manufacture over 3000 varieties of surgical needles and a well-diversified customer base and established relationships with major sutures manufacturers both in the domestic as well as in the overseas market.

The rating is, however, constrained by the company's small scale of operations and the upcoming debt-funded capital expenditure to be taken up which is expected to weaken the capital structure and coverage indicators to some extent. Also, with ~73% of its revenues during 10MFY2017 coming from exports, QNPL's revenues are susceptible to foreign exchange rate volatility. The ratings also take into account the company's moderately high working capital intensity (NWC/OI of 39.6% in FY2016), mainly on account of stretched receivables, high inventory holding and limited credit available from suppliers. ICRA also takes note of high supplier concentration risk with the entire raw materials being supplied by two global companies. The rating is also constrained by the high dividend payout to the tune of Rs. 37 crore and Rs.27 crore in FY2016 and FY2017 respectively and the same policy may continue in the future though the quantum of outflows is uncertain.

This apart, the company's ability to harness the synergies through integration with HMPL, execute its planned capex in a timely manner while maintaining its working capital and debt-coverage metrics will be the key rating sensitivities.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

- One of the largest surgical needle manufacturer across the globe with ~15% market share by volume
- Experienced management team with long experience in the industry
- Presence of well-equipped manufacturing facilities along with required quality certifications
- Diversified product portfolio with an ability to manufacture over 3000 varieties of surgical needles
- Diversified customer base and established relationships with major sutures manufacturers both in the domestic as well as in the overseas markets
- Comfortable financial profile marked by strong profitability, debt-free status and sound coverage indicators

Credit weaknesses

- Susceptibility of revenues and profits to exchange volatility with exports forming bulk of the revenues
- Upcoming substantial debt-funded capital expenditure to be taken up by the company is expected to weaken the capital structure and coverage indicators to an extent
- Moderately high working capital intensity due to elongated receivables and high inventory holding
- High supplier concentration risk with the entire raw materials supplied by two global companies
- High dividend payout during FY2016 and FY2017

Description of key rating drivers:

Incorporated by Mr. Viney Sagar Sahgal, QNPL has been in the business of manufacturing surgical sutures needles since 1984. The promoters' experience in the business and strong technical background have been beneficial in ensuring cost efficiencies as well as generating repeat export business in the company. QNPL manufactures 3000 variant of needles covering the whole gamut of surgical procedures including ophthalmic, cardiovascular, and postmortem among others. The total installed capacity of the company is 150 million needles per annum, which was increased from 130 million per annum in FY2015. The production levels had declined in FY2016 owing to reduction in sales during the period. The capacity utilisation has, however, improved during 10M FY2017 to 90% as against 79% in FY2016 with increased traction of business from the domestic segment.

The company has a strong position in the surgical needles market and supplies mainly to the large national and multinational companies across several geographies. QNPL's customer profile consists of global majors in the suture-manufacturing segment like Johnson & Johnson, Polysuture Industria E Commercio LTDA (Medtronic), International Farmaceutica, Mexico (Atramat), Alto Development Corporation, New Jersey, Centenial Surgical Suture Limited, Pune and many others. By virtue of its large customer base, the company's customer concentration is very low with the top-10 customers contributing to about 46% of the company's revenues during the same period.

Going forward, the company envisages a capital expenditure of about Rs.19.9 crore during FY2018 towards increasing its capacity to 200 million needles per annum and improving its quality control measures. The same is planned to be funded by mix of debt and equity in the ratio of 3:1. Although the quantum of debt envisaged for the outlined capital expenditure by the company is Rs.15 crores, it has requested for sanction of Rs.30 crore to keep buffer for any contingencies. Healthy capacity utilisation (especially of the enhanced production) backed by increased offtake from existing customers and addition of new customers will remain crucial for timely ramp-up of revenues and meeting its financial obligations.



Analytical approach: For arriving at the ratings of Quality Needles Private Limited, ICRA derives comfort from the credit profile of its parent company, Healthium Medtech Private Limited, as they operate in similar line of business, have significant operational and financial linkages and share a common management.

Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology

Impact of Parent or Group Support on an Issuer’s Credit Rating

About the company:

Quality Needles Private Limited (QNPL) manufactures a wide range of surgical suture needles. QNPL has a manufacturing unit in Noida, Uttar Pradesh with a production capacity of 150 million needles per annum and is currently being managed by Mr. Viney Sagar Sahgal who has over three decades of experience in the industry. QNPL is an ISO 9001: 2008 and ISO 14001:2004 certified company. It also has quality certifications from DNV³, OHSAS⁴ and BIS⁵. The company manufactures a wide range of products with 3,000 different types and sizes of needles, covering the whole gamut of surgical procedures. In FY2016 and FY2017, private equity (PE) investor, TPG Growth, had picked up a 99.9% stake in QNPL. During March, 2017, the company was completely acquired by HMPL wherein TPG Growth has a majority stake.

In FY2016, the company reported a net profit of Rs 19.1 crore on an operating income of Rs 79.0 crore at the standalone level.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

³ DNV is an independent foundation involved in quality certifications. QNPL has a “Management System” Certification from DNV, under which they assess the company’s systems compliance with international standards and measure how well the key systems support the company’s business processes

⁴ OHSAS, Occupational Health and Safety Assessment Series, (officially BS OHSAS 18001) is an internationally applied British Standard for occupational health and safety management systems. QNPL conforms to OHSAS standards and have received certification for the same.

⁵ The Bureau of Indian Standards (BIS) is the national Standards Body of Indi. QNPL conforms to BIS standards and has received certification for the same.

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Month-year & Rating FY2018	Month- year & Rating in FY2017	Month- year & Rating in FY2016	Month- year & Rating in FY2015	
				June 2017	-	-	-	
1	Unallocated Limits	Long Term	30.0	[ICRA]A (Stable)	-	-	-	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Unallocated Limits	-	-	-	30.0	[ICRA]A (Stable)



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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.

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