

## Pan Healthcare Pvt. Ltd.

July 31, 2018

### Summary of rated instruments

Instrument*	Previous rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based-Term Loan	35.00	55.70	[ICRA]B+ (Stable); Reaffirmed
Fund-based-CAPEX LC as Sub-limit of Term Loan	(35.00)	(45.00)	[ICRA]B+ (Stable); Reaffirmed
Fund-based -Cash Credit	14.00	17.00	[ICRA]B+ (Stable); Reaffirmed
Fund based-Cash Credit against Book-Debts as a sub-limit	(5.00)	-	-
Non-Fund-based-Bank Guarantee/LC	3.00	3.00	[ICRA]A4; Reaffirmed
Non-Fund-based- LC (Within overall FBWC Limit of Rs'14'00 Cr)	(10.00)	(10.00)	[ICRA]A4; Reaffirmed
Non-Fund-based- Forward Contract Limit	-	(2.00)	[ICRA]A4; Reaffirmed
<b>Total</b>	<b>52.00</b>	<b>75.70</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B+ (pronounced ICRA B plus) to the Rs. 72.70-crore<sup>1</sup> (enhanced from Rs. 49.00-crore) fund-based facilities of Pan Healthcare Pvt. Ltd. (PHPL or the company)<sup>2</sup>. ICRA has also reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 3.00-crore non-fund based facilities of PHPL. The outlook on the long-term rating is Stable.

### Rationale

The ratings reaffirmation continues to remain constrained by PHPL's slower than expected ramp up of operations, stretched capital structure with gearing at 13.11 times as on March 31, 2018 and weak coverage indicators due to sizeable debt funded capex. The liquidity is expected to remain under pressure due to initial years of operations wherein the cash flows will remain lower in relation to impending debt repayments. Thus, support from promoters in terms of equity infusion and unsecured loans will remain critical. Further, the ratings are also constrained by PHPL's presence in the highly competitive and brand sensitive FMCG industry which exposes the company to stiff competition from large established players.

The ratings, however, continues to favourably factor in the established presence of the Pan Group across various businesses and the growth potential of diapers and sanitary napkins in the domestic market.

<sup>1</sup>For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup>100 lakh=1 crore=10 million

## Outlook: Stable

ICRA believes PHPL will continue to benefit from the experience of its promoters in different industries. Additionally, the company's scale of operation is likely to grow with an increase in installed capacity of the baby diapers manufacturing unit and the commencement of operations of two new product lines (adult diapers and sanitary napkins) in FY2019. The outlook may be revised to Positive if substantial growth in revenue and profitability lead to adequate net cash accruals and better working capital management strengthen the financial risk profile. Conversely, the outlook may be revised to Negative in case of lower than expected scale up of operations and profitability leads to lower-than-expected cash accruals thereby impacting repayments, or if any major debt-funded capital expenditure or stretch in the working capital cycle weaken the capital structure and the overall liquidity.

## Key rating drivers

### Credit strengths

**Established position of Pan Group in different industries** - The Group has over 35 years presence in different sectors such as cement, cotton, steel, construction, decorative laminates, power, agri commodities, solar power as well as edible oil manufacturing.

**Favourable long-term outlook on diapers and sanitary napkin industry** - The hygiene products market has shown substantial growth in recent years thereby increasing the demand for baby diapers, adult diapers and sanitary napkins.

### Credit challenges

**Nascent operation with slower than expected ramp-up** - PHPL's reported low operating income (OI) of Rs.16.59 crores in 9MFY2018 due to delay in receipt of requisite machinery.

**Stretched capital structure due to sizable debt funded capex** – The capital structure of the company remained stretched with gearing at 13.11 times as on March 31, 2018 mainly due to sizable debt funded capex and low net worth. Going forward the capital structure is expected to remain stretched due to additional debt funded capex of Rs. 61.40 crore to be incurred in FY2019. Thus, support from promoters in terms of equity infusion and unsecured loans will remain critical. Also, the coverage indicators remained weak with interest coverage at 0.93 times, NCA/TD at 1% and total debt/OPBDITA at 9.60 times as on March 31, 2018.

**Margins exposed to highly competitive and brand sensitive FMCG industry with competition from large international players** – PHPL operates in the highly competitive and brand sensitive FMCG-healthcare industry, which is characterised by the presence of large international players such as Proctor & Gamble, Unicharm, and Kimberly-Clark's. Besides, reputed and established players in the industry spend substantially on marketing and advertising to gain market share, thereby accentuating competition further. Thus, creating pressure for new entrant like PHPL, who has limited experience in this field.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

## About the company:

Rajkot (Gujarat) based Pan Healthcare Private Limited (PHPL) was incorporated in March 2016 as a private limited company and is engaged in manufacturing of baby diaper and sanitary napkins. The company also started manufacturing adult diapers in FY2019. PHPL is promoted by the Patel and Mahdavia family and has an installed capacity of manufacturing 3024 lac pieces per annum of baby diapers, 3871 lac pieces per annum of Sanitary Napkins and 605 lac pieces of adult diapers. The company is a part of the 'Pan Group,' which has diverse business interests across cement manufacturing, laminate manufacturing, agricultural equipment manufacturing, agro commodity trading etc. The Group is one of the leading market players in manufacturing and exports of cotton bales in India through its two major Group concerns — Jaydeep Cotton Fibres Private Limited (JCFPL).

In 9MFY2018, the company reported a net loss of Rs. 1.56 crore on an OI of Rs. 16.59 crore.

## Key financial indicators (Provisional)

	9MFY2018
Operating Income (Rs. crore)	16.59
PAT (Rs. crore)	-1.56
OPBDIT/OI (%)	9.90%
RoCE (%)	-
Total Debt/TNW (times)	13.11
Total Debt/OPBDIT (times)	9.60
Interest Coverage (times)	0.93

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

**Any other information: None**

### Rating history for last three years:

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Term Loan-I	Long Term	45.00*	NA	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	-
2 CAPEX LC as Sub-limit of Term Loan	Long Term	(45.00)	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	-
3 Term Loan -II	Long Term	10.70	10.70 <sup>^</sup>	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	-
4 Cash Credit	Long Term	17.00	2.99 <sup>^</sup>	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	-
5 Bank Guarantee/LC	Short Term	3.00	-	[ICRA]A4	[ICRA]A4	-	-
6 LC (Within overall FBWC Limit of Rs'14'00 Cr)	Short Term	(10.00)	-	[ICRA]A4	[ICRA]A4	-	-
7 Forward Contract Limit	Short Term	(2.00)	-	[ICRA]A4	[ICRA]A4	-	-

<sup>^</sup>as on April 30, 2018, \*Term loan not yet disbursed

### 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](http://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	Term Loan-I	FY2020	11.15%	FY2026	45.00	[ICRA]B+(Stable)
NA	CAPEX LC as Sub-limit of Term Loan	NA	NA	NA	(45.00)	[ICRA]B+(Stable)
NA	Term Loan-II	FY2019	11.15%	FY2024	10.70	[ICRA]B+(Stable)
NA	Cash Credit	NA	11.15%	NA	17.00	[ICRA]B+(Stable)
NA	Bank Guarantee/LC	NA	NA	NA	3.00	[ICRA]A4
NA	LC (Within overall FBWC Limit of Rs'14'00 Cr)	NA	NA	NA	(10.00)	[ICRA]A4
NA	Forward Contract Limit	NA	NA	NA	(2.00)	[ICRA]A4

Source: Pan Healthcare Private Limited

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