

Press Release

Hemant Surgical Industries Limited

September 15, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 14.75 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (read as **SMERA BB**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 14.75 crore bank facilities of Hemant Surgical Industries Limited. The outlook is '**Stable**'.

Hemant Surgical Industries Limited (HSIL), a proprietorship firm established by Mr. Hanskumar Shamji Shah in 1983 was reconstituted as a public limited company in 1989. The Mumbai-based company distributes medical equipments, disposables and also manufactures injectable formulations.

Key Rating Drivers

Strengths

- **Strong track record of operations with experienced management**

The promoter has experience of nearly 25 years in the pharmaceutical industry. The extensive experience of the management has helped the company maintain long standing relations with customers and suppliers.

- **Healthy operating income growth**

The operating income stood at Rs.51.49 crore in FY2017 (Provisional) compared to Rs.39.62 crore in FY2016, registering a growth of ~30 per cent on account of increase in order book value.

Weaknesses

- **Declining profitability margins**

The operating margins (EBIDTA) declined to 4.64 percent in FY2017 (Provisional) from 5.86 percent in FY2016 on account of increase mainly in the cost of dialysis machines, which were imported from Germany. The PAT margins stood at 1.47 percent in FY2017 (Provisional) compared to 1.58 percent in FY2016.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by net worth of Rs.5.77 crore as on 31 March, 2017 (Provisional) compared to Rs. Rs.4.90 crore as on 31 March, 2016. The gearing (debt to equity ratio) stood at 1.88 times as on 31 March 2017 (Provisional) as compared to 2.26 times as on 31 March 2016. The Interest coverage ratio (ICR) stood at 1.69 times for FY2017 (Provisional) and 1.49 times for FY2016.

- **Moderate working capital operations**

The operations are working capital intensive with Gross Current Assets (GCAs) of 108 days for FY2017 (Provisional) compared to 165 days in FY2016. The debtor days stood at 55 days in FY2017 as compared to 54 days in FY2016. Further, the average working capital utilisation has been about

~90 percent in the last six months ended June 2017.

• **Regulatory risks in the domestic market**

HSIL is exposed to regulatory risks. However, the same is mitigated to an extent considering the 25 years of business operations.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of company to arrive at the rating.

Outlook: Stable

SMERA believes that HSIL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company sustains healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues or profit margins, or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), the company registered profit after tax (PAT) of Rs.0.76 crore on operating income of Rs.51.49 crore as against net profit after tax of Rs.0.63 crore on operating income of Rs.39.62 crore in the previous year. The net worth stood at Rs.5.77 crore as on 31 March, 2017 as against Rs.4.90 crore as on 31 March, 2016.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.75	SMERA BB / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A4+

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ABOUT SMERA

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