

## Press Release

### Hemant Surgical Industries Limited

August 05, 2020



#### Rating Reaffirmed and Assigned

<b>Total Bank Facilities Rated*</b>	Rs.23.00 Cr. (Enhanced from Rs.14.75 Cr.)
<b>Long Term Rating</b>	ACUITE BB / Outlook: Stable (Reaffirmed & Assigned)
<b>Short Term Rating</b>	ACUITE A4+ (Reaffirmed & Assigned)

\* Refer Annexure for details

#### Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.19.25 Cr. bank facilities and assigned the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.3.75 Cr. bank facilities of Hemant Surgical Industries Limited (HSIL). The outlook is '**Stable**'.

Hemant Surgical Industries Limited (HSIL) was established by Mr. Hanskumar Shamji Shah as a proprietorship firm in 1983. It was later reconstituted as a closely held public limited company in 1989. The Mumbai based company Imports, Manufactures and Markets Surgical Disposables & Equipments to various organizations across India, Africa, Middle East, Europe and South East Asia.

#### Analytical Approach

Acuité has considered the standalone financial and business risk profile of HSIL to arrive at the rating.

#### Key Rating Drivers

##### Strengths

##### • Experienced Management

HSIL benefits from the extensive experience of its promoter, Mr. Hanskumar Shah, who has been in this industry for more than 30 years, which has helped to gain long-standing association with its customer and supplier base. The promoter is well supported by his two sons Mr. Hemant Shah and Mr. Kaushik Shah in the day to day operations of the company.

Acuité believed that the company would continue to benefit from promoter's experience in the industry and its established market presence over the medium term.

##### • Diversified product profile

HSIL has a diversified product profile which includes medi-tapes, urology and anaesthesia products, respiratory machines, injectable formulations, dialysis machines & consumables, RO plants, renal care products, surgical disposables, blood infusion sets, ventilators, portable concentrators, sanitizers, pulse oximeters, disinfectants and PPE Kits. The company also plans to manufacture and market face masks for exports.

##### Weaknesses

##### • Working capital intensive nature of operations

The operations of HSIL is working capital intensive in nature. The company has high GCA days of 161 days in FY2020 (Provisional) which has deteriorated from 122 days in FY2019. The deterioration in GCA days is on account of increase in inventory days to 105 days in FY2020 (Provisional) from 62 days in FY2019. The debtor days have however stood stable at 36 days both in FY2020 (Provisional) and FY2019. The high GCA has resulted in increased reliance on the working capital borrowings, which were fully utilised for the past 12 months ended June 2020.

Acuité believes that efficient working capital management will be crucial for the company to maintain a

stable credit profile.

#### • Moderate Financial Risk Profile

HSIL has moderate financial risk profile with a net worth at Rs.8.60 crore as on March 31, 2020 (Provisional) compared to Rs.7.59 crore as on March 31, 2019. Its Gearing Ratio deteriorated marginally to 1.66 times as on March 31, 2020 (Provisional) from 1.50 times as on March 31, 2019 due to increasing reliance on debt capital for expansion. The Interest Coverage Ratio (ICR) stood at 2.49 times in FY2020 (Provisional) as against 2.26 times in FY2019. The TOL/TNW has deteriorated marginally to 3.90 times as on March 31, 2020 (Provisional) from 3.36 times as on March 31, 2019. The NCA/TD has remained stagnant at 0.14 times as on March 31, 2020 (Provisional) compared to 0.15 times as on March 31, 2019.

Acuite believes that the financial risk profile of the company will continue to remain moderate over the near term in the absence of any major future debt-funded capex.

#### Liquidity position: Stretched

Acuite believes that HSIL's liquidity will remain stretched over the near term mainly due to full utilisation of its working capital limits. The company has had near 100 percent utilization of both Fund based and Non-Fund based limits during the last 12 months ended in June, 2020. The liquidity pressure is mainly on account of delayed realisations from its clients. The cash and bank balance stood at Rs.0.18 crore as on March 31, 2020 and the current ratio stood low at 0.96 times as on March 31, 2020 (Provisional).

#### Rating Sensitivities

- Improvement, sustainability and healthy growth of revenues and profitability margins.
- Deterioration in the working capital cycle leading to stress on the liquidity position.
- Regulatory challenges faced from the importing countries.

#### Material Covenants

None

#### Outlook: Stable

Acuite believes that HSIL will maintain a stable outlook in the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the firm registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or if the financial risk profile deteriorates due to higher than expected working capital requirements and further elongation in the working capital cycle further impairing its ability to meet its debt obligations in a timely manner.

#### About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	56.07	55.66
PAT	Rs. Cr.	1.36	1.13
PAT Margin	(%)	2.42	2.03
Total Debt/Tangible Net Worth	Times	1.66	1.50
PBDIT/Interest	Times	2.49	2.26

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

None

#### Any other information

None

#### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

#### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
08-Jan-2020	Cash Credit	Long term	4.75	ACUITE BB (Indicative)
	Letter of Credit	Short term	10.00	ACUITE A4+ (Indicative)
05-Oct-2018	Cash Credit	Long term	4.75	ACUITE BB (Indicative)
	Letter of Credit	Short term	10.00	ACUITE A4+ (Indicative)
15-Sept-2017	Cash Credit	Long term	4.75	ACUITE BB / Stable (Assigned)
	Letter of Credit	Short term	10.00	ACUITE A4+ (Assigned)

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.75	ACUITE BB / Stable (Reaffirmed)
Term Loan	September, 2019	11.30%	April, 2027	3.62	ACUITE BB / Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	14.50 (Enhanced from 10.00)	ACUITE A4+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE A4+ (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.03	ACUITE BB / Stable (Assigned)

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### About Acuite Ratings & Research:

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