

Press Release

Hemant Surgical Industries Limited

August 05, 2020



Rating Reaffirmed and Assigned

| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs.23.00 Cr. (Enhanced from Rs.14.75 Cr.) |
| Long Term Rating | ACUITE BB / Outlook: Stable (Reaffirmed & Assigned) |
| Short Term Rating | 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.

Acuité 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

Acuité 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

Acuité 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) |

Contacts

| Analytical | Rating Desk |
|--|--|
| Aditya Gupta Vice President- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in | Varsha Bist Senior Manager – Rating Desk Tel: 022-49294011 rating.desk@acuite.in |
| Aditya Sahu Analyst - Rating Operations Tel: 022-49294055 aditya.sahu@acuite.in | |

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,200 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable

sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.