Press Release

Pan Healthcare Private Limited

December 30, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 75.70 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB**' **(read as ACUITE double B)** and short-term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs. 75.70 crore bank facilities of PAN HEALTHCARE PRIVATE LIMITED (PHPL). The outlook is **'Stable'**.

Incorporated in 2016, PHPL is engaged in the manufacturing of baby diapers, adult diapers and sanitary napkins. The company is a part of Pan Group, which has presence across diversified industries such as cotton ginning, agro trading, cement manufacturing, laminate manufacturing, agricultural equipment manufacturing, power generation etc. PHPL has manufacturing facilities located in Rajkot, Gujarat.

Standalone (Unsupported) Rating

ACUITE B / Stable

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Pan Healthcare Private Limited (PHPL) to arrive at the rating and subsequently factored in benefits derived on account of financial support from Pan group. The rating has been notched up on account of group support.

Key Rating Drivers

Strengths

- **Experienced management and established group position**
  The promoters have been in various businesses for more than three decades. Their extensive experience has helped the group to forge long-term relations with customers and suppliers. Further, the group has diversified business interests across various sectors such as textile, agro trading, cement manufacturing, laminate manufacturing, agricultural equipment manufacturing, power generation etc.

  Acuité believes that the company will continue to benefit from established group presence and the extensive experience of management across various industries.

- **Funding support from promoters and group entities**
  The company has received funding support of around Rs.27.90 crores in the form of equity capital, preference capital and unsecured loans from its directors and group companies. These funds are expected to be in the business till the currency of the loan. Pan agri exports has also given corporate guarantee for loans availed by PHPL.

  Acuité believes that the funding support will be crucial for the company for timely servicing of debt obligations and maintain its credit risk profile and.

Weaknesses

- **Below average financial risk profile**
  The financial risk profile of PHPL is below average due to huge debt funded capex undertaken by the company. The financial risk profile is characterized by low networth, moderate gearing and weak

coverage indicators. The networth stood at Rs.20.51 crores including quasi equity of Rs.12.10 crores as on March 31, 2019. The total debt stood at Rs.54.88 as on March 31, 2019, which includes term loan and cash credit facility. The gearing stood at 2.68 times in FY2019 against 1.33 times in FY2018. The interest coverage ratio stood weak at 1.46 times in FY2019. Debt to EBITDA stood high at 10.07 times due to sizable debt funded capex and company's nascent stage of operations.

Acuite believes that ability of the company to quickly ramp up the operations amid intense competition in the industry will be the key rating sensitivity.

- **High competition from large FMCG players**
  The company operates in a highly competitive FMCG industry marked by presence of large players like Procter & Gamble, Kimberly Clarke and Unicharm. These large players already have strong brand recognition that poses challenges for new entrants like PHPL thereby exposing their margins to high competition.

Rating Sensitivities
- Insufficient cash accruals leading to increase in borrowings and weakening of capital structure.
- Substantial increase in the scale of operations and profitability margins leading to improvement in overall financial risk profile.

Material Covenants
None

Liquidity Position: Stretched
On a standalone basis, the company's liquidity is stretched. Since, the company has incurred losses; the net cash accruals are insufficient to service debt obligations. However, liquidity is enhanced due to funding support from directors and group entities. The working capital facilities were almost fully utilized during the last six months. The current ratio stood at 1.07 times as on March 31, 2019. The cash and bank balances stood low at Rs.0.02 crores as on March 31, 2019. Acuité believes that the liquidity of the company will improve over the near to medium term on account of promoter's strong resource mobilisation ability and increasing net cash accruals that will minimise reliance on external debt.

Outlook: Stable
Acuité believes that PHPL will continue to maintain a stable outlook over the near to medium term owing to its established group position and experienced management. The outlook may be revised to 'Positive' in case the company achieves sustained growth in revenues, higher-than-expected improvement in profitability and improvement in capital structure while effectively managing its working capital operations. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	39.67	16.59
PAT	Rs. Cr.	(6.11)	(1.28)
PAT Margin	(%)	(15.40)	(7.72)
Total Debt/Tangible Net Worth	Times	2.68	1.33
PBDIT/Interest	Times	1.46	1.35

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
Not Applicable

Applicable Criteria
- Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm
- Manufacturing entities - http://acuite.in/view-rating-criteria-4.htm
- Group and parent support - http://acuite.in/view-rating-criteria-47.htm

Note on complexity levels of the rated instrument
https://www.acuite.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	17.00#	ACUITE BB / Stable (Assigned)
Term Loan - I	Not Applicable	Not Applicable	Not Applicable	10.70	ACUITE BB / Stable (Assigned)
Term Loan – II	Not Applicable	Not Applicable	Not Applicable	45.00^	ACUITE BB / Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00*	ACUITE A4+ (Assigned)

#LC limit of Rs.10.00 crore is sublimit of cash credit.
^Capex LC of Rs.45.00 crore is sublimit of term loan.
**Bank guarantee limit of Rs.3.00 crore is interchangeable with letter of credit.*

Contacts

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About Acuité Ratings & Research:
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