

Press Release

Pan Healthcare Private Limited

January 12, 2021

Rating Upgraded & Assigned



Total Bank Facilities Rated*	Rs. 75.70 crore*
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Upgraded & Assigned)
Short Term Rating	ACUITE A3 (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to **'ACUITE BBB-' (read as ACUITE triple B minus)** from **'ACUITE BB' (read as ACUITE double B)** and short-term rating to **'ACUITE A3' (read as ACUITE A three)** from **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs. 54.26 crore bank facilities of Pan Healthcare Private Limited (PHPL). The outlook is **'Stable'**.

Further, Acuité has assigned the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs. 21.44 crore bank facilities of Pan Healthcare Private Limited (PHPL). The outlook is **'Stable'**.

Rationale for rating upgrade

The rating upgrade reflects healthy business risk profile, improvement in the profitability margins, healthy financial risk profile and adequate liquidity position. The rating also factors in comfort derived from established brand name in the baby diapers segment, i.e. Little Angels. Furthermore, there exists support from group companies in the form of unsecured loans from group companies and corporate guarantee by Pan Agri Exports (ACUITE BBB+/ Stable/ ACUITE A2). PHPL's scale of operations have improved to Rs. 88.33 crore in FY2020 as against Rs. 39.67 crore in FY2019 and Rs. 16.59 crore, resulting in growth at a CAGR of 130.76 per cent over the last three years. Further, PHPL has reported an operating income of Rs. 91.09 crore in 7MFY2021 as against Rs. 29.32 crore during the same period in the previous year, despite washout of sales in April and for most part of May due to COVID-19 induced lockdown across the country. Operating profit margins have improved to 20.11 per cent in FY2020 as against 12.95 per cent in FY2019 and 10.44 per cent in FY2018, indicating improvement in bargaining power due to improvement in business risk profile of the company. Also, the company has reported a net profit of Rs. 5.62 crore in FY2020 as against net loss of Rs. (6.11) crore in FY2019 and Rs. (1.28) crore in FY2018.

The overall financial risk profile of PHPL has improved and stood healthy, owing to moderate net worth, moderate gearing and healthy debt-coverage indicators. Gearing improved from 2.68 times as on March 31, 2019 to 1.70 times as on March 31, 2020 supported by healthy debt coverage indicators with improvement in interest coverage ratio to 5.05 times in FY2020 as against 1.46 times in FY2019 and debt service coverage ratio of 2.24 times in FY2020 as against 1.04 times in FY2019.

The rating also derives comfort from financial flexibility marked by low utilization of bank limits and track record of infusion of funds by promoters when required. The liquidity position of the company is healthy as evident from healthy net cash accruals of Rs. 15.01 crores in FY2020 against maturing debt obligations of Rs. 5.32 crore during the same period. Further, the fund-based limits are utilized at an average of 26.21 per cent during the six months till November, 2020.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of PHPL to arrive at this rating and subsequently factored in benefits derived on account of financial support from Jaycot group. The rating has been notched up on account of group support.

About the Company: Pan Healthcare Private Limited

Incorporated in the year 2016, Pan Healthcare Private Limited (PHPL) is engaged in the manufacturing of baby diapers, adult diapers and sanitary napkins. The directors of the company Mr. Alpeshbhai Vallabhbhai Pan, Mr. Chirag Mansukhbhai Pan, Mr. Amber Anilbhai Patel and Mr. Riteshbhai Mansukhbhai Patel. The manufacturing facility of the company is located at Rajkot, Gujarat. The company caters to retail segment under the brand name of "Little Angel" for baby diapers, "Liberty" for adult diapers and "Everteen" for sanitary napkins. PHPL is distributing its goods in Pan India through distribution centers located at 23 different location in the country.

The company is a part of 'Jaycot Group', which has diverse business interests across cotton ginning, cement manufacturing, laminate manufacturing, agricultural equipment manufacturing, agro commodity trading, etc.

Key Rating Drivers

Strengths

• Experienced management

Jaycot group is promoted by Mr. Mansukhbhai Pan along with his family who have an experience of more than three decades in varied line of businesses such as cement, laminate manufacturing, agriculture equipment, agro-commodities trading and health sector. With extensive experience, active participation and their in-depth understanding of the industry has helped the group in developing long-term relationships with its customers and suppliers.

Acuite believes that PHPL will continue to benefit from the extensive experience of the promoters in the varied line of business.

• Improvement in business risk profile

The operations of the company have improved substantially marked by an increase in the operating income to Rs. 88.33 crore in FY2020 as against Rs. 39.67 crore in FY2019. The operating income of the company has improved at a CAGR of 130.76 per cent over the past three years. In addition to this, the company has reported healthy improvement in EBITDA margins to 20.11 per cent in FY2020 from 12.95 per cent in FY2019 and 10.44 per cent in FY2018.

The improvement in overall business risk profile is on account of stabilized business operations, implementation of various marketing strategies such as signing Esha Deol as the brand ambassador for the "Little Angel" brand and healthy demand for the products in the market.

• Funding support from promoters and group entities

The company has received funding support of around Rs.27.07 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.

Further, Pan Agri Export (ACUITE BBB+/ Stable/ ACUITE A2) has also provided corporate guarantee for loans availed by PHPL. Acuite believes that the funding support will be crucial for the company for timely servicing of debt obligations and maintain its credit risk profile.

• Improvement in financial risk profile

The financial risk profile of the company is moderate marked by moderate net worth, gearing and healthy debt protection metrics and coverage indicators.

The net worth of PHPL is moderate, estimated at around Rs. 27.07 crore as on March 31, 2020. The net worth levels have seen significant improvement over the last three years through FY2020 on account of healthy profitability.

PHPL has followed a moderately aggressive financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 2.68 times and 2.98 times as on March 31, 2019, over the past three years. The leverage levels have improved to remain moderate at 1.70 times as on March 31, 2020. The total debt of Rs. 46.08 crore as on 31 March 2020 comprised of long-term borrowings of Rs. 36.65 crores and working capital borrowings of Rs. 9.44 crores. Unsecured loans from related parties of Rs. 13.05 crore are classified as quasi equity as the amount would remain invested in the business in the long-run.

Healthy profitability has led to healthy debt coverage indicators of the PHPL marked by debt-service-coverage-ratio of 2.24 times as on 31st March, 2020 as against 1.04 times as on 31st March, 2019 and interest coverage ratio of 5.05 times as on 31st March, 2020 as against 1.46 times as on 31st March, 2019.

Acuite believes that the financial risk profile of PHPL will continue to remain moderate on account of healthy profitability and moderate net worth.

Weaknesses

• Working capital intensive nature of operations

PHPL has intensive working capital requirements, though improved from gross current assets (GCA) of 190 days in FY2019 as compared to 139 days in FY2020. This is on account of decrease in inventory days from 118 days in FY2019 to 64 days in FY2020. While the debtors' days have increased marginally to 61 days in FY2020 as against 57 days in FY2019.

This intensive requirement for working capital is however mitigated to an extent on account of healthy profitability leading to lower reliance on working capital limits. The working capital limits are utilized at ~26 per cent during the six months ended November, 2020. Further, the current ratio of PHPL stood at 1.44 times as on March 31, 2020. Acuite expects the working capital operations of the company to remain intensive on account of the level of inventory to be maintained and the credit given to its customers.

• 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 Sensitivity

- Deterioration in the scale of operations.
- Substantial improvement in working capital management.
- Substantial decline in profitability levels, thereby impacting group's debt coverage indicators.

Material Covenants

None

Liquidity: Adequate

The company has adequate liquidity profile marked by healthy net cash accruals to its maturing debt obligations. The company has generated cash accruals of Rs. 15.01 crore for FY2020, while its maturing debt obligations were Rs. 5.32 crore during the same period. PHPL's working capital operations are intensive marked by Gross Current Asset (GCA) of 139 days for FY2020. The fund-based working capital limit of the group remains utilised at ~26 per cent are utilized to the extent of 39.33 per cent. In addition this, the company has not availed covid-19 moratorium. The current ratio of the group stood at 1.44 times as on March 31, 2020. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against debt repayments over the medium term.

Outlook: Stable

Acuite believes that PHPL will maintain a 'Stable' outlook over the medium term on the back of promoters' extensive experience in the industry and long-standing relationships with its customers. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	88.33	39.67
PAT	Rs. Cr.	5.62	(6.11)
PAT Margin	(%)	6.36	(15.40)
Total Debt/Tangible Net Worth	Times	1.70	2.68
PBDIT/Interest	Times	5.05	1.46

Status of non-cooperation with other CRA

None

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Up to previous three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
30 December 2019	Cash Credit	Long term	17.00#	ACUITE BB/ Stable (Assigned)
	Term Loan-I	Long term	10.70	ACUITE BB/ Stable (Assigned)
	Term Loan-II	Long term	45.00^	ACUITE BB/ Stable (Assigned)
	Bank Guarantee	Short term	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

***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	15.00#	ACUITE BBB-/ Stable (Upgraded)
Term Loan-I	April 2018	11.15%	March 2024	7.36	ACUITE BBB-/ Stable (Upgraded)
Term Loan-II	April 2018	11.15%	March 2026	28.90^	ACUITE BBB-/ Stable (Upgraded)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB-/ Stable (Assigned)
Proposed Fund-based facilities	Not Applicable	Not Applicable	Not Applicable	19.94	ACUITE BBB-/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00*	ACUITE A3 (Upgraded)

#LC limit of Rs.10.00 crore is sublimit of cash credit.

^Capex LC of Rs.45.00 crore is sublimit of term loan.

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About Acuite Ratings & Research:

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