Press Release

Pan Healthcare Private Limited

May 24, 2021

Rating Reaffirmed

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

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating to **'ACUITE BBB-' (read as ACUITE triple B minus)** and the short-term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs. 75.70 crore bank facilities of Pan Healthcare Private Limited (PHPL). The outlook is **'Stable'**.

Rationale for rating reaffirmation

The rating reaffirmation reflects healthy business risk profile, 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) to PHPL.

Acuité has changed the rating approach and consolidated the business and financial risk profiles of PHPL and Pan Health and Hygiene Private Limited (PHHPL). PHHPL is a newly incorporated company with an aim to expand business line of hygiene products. Pan Health group's scale of operations have shown consistent improvement and operating income stood at 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, the group has reported an operating income of Rs. 198.58 Cr in FY2021, despite washout of sales in April and for most part of May due to Covid-19 induced lockdown across the country. The overall financial risk profile of the group has improved over the last three years. However, it is expected to moderate marginally though remain healthy on account of planned debt-funded capital expenditure in PHHPL. PHHPL is expected to expend Rs. 104.08 Cr of which Rs. 58.15 Cr would be by way of term loan and balance by way of funding from promoters. The rating also derives comfort from financial flexibility marked by low utilization of bank limits in PHPL and track record of infusion of funds by promoters when required.

Analytical Approach

Acuité has changed the rating approach of PHPL. Earlier, Acuité had considered the standalone business and financial risk profile of PHPL while subsequently factoring benefits derived on account of financial support from Pan group. At present, Acuité has considered the consolidated view of business and financial risk profiles of PHPL and PHHPL (hereinafter collectively referred to as Pan Health Group) to arrive at this rating and subsequently factored in the benefits derived on account of financial support from Pan Group. The consolidation is in view of common management, shared brand name, same line of business, operational synergies and financial synergies within the group. Extent of consolidation: Full.

About the Group: Pan Health Group

Pan Health Group is a subset of Pan Group and consists of PHPL and PHHPL. While Pan Group consists of Jaydeep Cotton Fibres Private Limited [JCFPL] (ACUITE BBB+/ Stable/ ACUITE A2), Pan Agri Exports [PAE] (ACUITE BBB+/ Stable/ ACUITE A2), PHPL, PHHPL and Pan Tex Nonwoven Private Limited (PTNWPL). JCFPL and PAE are engaged in the ginning, pressing & trading of raw cotton and trading of cotton bales and other agro-based commodities. PHPL started its operations in FY2018 while PHHPL is proposed to start operations in phased manner divided into 4 phases. Both the entities are engaged in the manufacturing of baby diapers, adult diapers and sanitary napkins. The group is promoted by Mr. Mansukhbhai Pan, Mr. Arvindbhai Pan and Dr. Anil Patel, who have more than three decades of experience in varied line of businesses. PTNWPL is proposed to manufacture non-woven textiles in order to backward integrate the process of manufacturing of hygiene products and is proposed to commence operations in April 2022.

About the Company: Pan Healthcare Private Limited
Incorporated in the year 2016, PHPL is engaged in 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 'Pan Health Group' which is a subset of Pan 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**

Pan group is promoted by Mr. Mansukhbhai Pan along with his family who have an experience of more than three decades in the aforementioned industry. 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. Promoters have experience of more than three decades in various businesses across various sectors such as cement, laminate manufacturing, agriculture equipment, agro-commodities trading and health sector.

Acuité believes that Pan Health group 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 Pan Health Group 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. Furthermore, the group has reported an operating income of Rs. 198.58 Cr in FY2021, despite washout of sales in April and for most part of May due to Covid-19 induced lockdown across the country. PHPL has a manufacturing facility located at Rajkot, Gujarat having an installed capacity of 4,500 lakh p.a. for baby diaper pants and 800 lakh p.a. for adult diaper, which are running at 100 per cent capacity since July 2020.

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**

There has been a track record of infusion of funds by promoters in the companies as and when required. Further, Pan Agri Export (ACUITE BBB+/ Stable/ ACUITE A2) has also provided corporate guarantee for loans availed by PHPL. Acuité believes that the funding support will be crucial for the group for timely servicing of debt obligations and maintain its credit risk profile.

- **Improvement in financial risk profile**

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

The net worth of the group 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.

The group 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 group 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.

Acuité believes that the financial risk profile of Pan Health Group will continue to remain healthy on account of healthy profitability despite planned debt-funded capex.

Weaknesses

- **Working capital intensive nature of operations**
  The group 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 the group stood at 1.44 times as on March 31, 2020. Acuité expects the working capital operations of the group to remain intensive on account of the level of inventory to be maintained and the credit given to its customers.

- **Project risk**
  The group in order to expand its business has formed a new company by the name of PHHPL. Its existing unit under the name of PHPL is operating at 100 per cent capacity since July 2020, thereby ensuring visibility of demand. Funding risk however, remains low as the group has sufficient cash accruals and promoters have planned healthy infusion of funds. Timely completion of project would remain a key rating sensitivity.

- **High competition from large FMCG players**
  The group 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.
- Timely completion of project
- Substantial improvement in working capital management.
- Substantial decline in profitability levels, thereby impacting group's debt coverage indicators.

Material Covenants

None

Liquidity: Adequate
The group has adequate liquidity profile marked by healthy net cash accruals to its maturing debt obligations. The group 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. The group'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 ~36 per cent during the last 12 months. In addition this, the group has not availed covid-19 moratorium. The current ratio of the group stood at 1.44 times as on March 31, 2020. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accruals against debt repayments over the medium term.

Outlook: Stable
Acuité believes that the group 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 group 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 group registers lower-than-expected growth in revenues and profitability or in case of deterioration in the group's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials (Consolidated)

	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
• Consolidation of Entities - https://www.acuite.in/view-rating-criteria-60.htm
• Parent and Group Support - https://www.acuite.in/view-rating-criteria-47.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
12 January 2021	Cash Credit	Long term	15.00#	ACUITE BBB-/ Stable (Upgraded)
	Term Loan-I	Long term	7.36	ACUITE BBB-/ Stable (Upgraded)

	Term Loan-II	Long term	28.90^	ACUITE BBB-/ Stable (Upgraded)
	Working Capital Demand Loan	Long term	1.50	ACUITE BBB-/ Stable (Assigned)
	Proposed Fund-based facilities	Long term	19.94	ACUITE BBB-/ Stable (Assigned)
	Bank Guarantee	Short Term	3.00*	ACUITE A3 (Upgraded)
30 December 2019	Cash Credit	Long term	17.00#	ACUITE BBB+/ Stable (Reaffirmed)
	Term Loan-I	Long term	10.70	ACUITE BBB+/ Stable (Reaffirmed)
	Term Loan-II	Long term	45.00^	ACUITE BBB+/ Stable (Reaffirmed)
	Bank Guarantee	Short term	3.00*	ACUITE A2 (Reaffirmed)

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

#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.*

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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 8,383 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.