



## Press Release

### Lotus Surgicals Private Limited (LSPL)

**May 18, 2023**

#### Ratings:

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long Term Facility – Fund Based – Term Loan	14.36	IVR BBB-/ RWDI (IVR Triple B Minus under rating watch with developing implications)	Rating Reaffirmed and placed on Rating watch with developing Implications	Simple
Long term Bank Facility – Cash Credit	24.00	IVR BBB-/ RWDI (IVR Triple B Minus under rating watch with developing implications)	Rating Reaffirmed and placed on Rating watch with developing Implications	Simple
Short term Fund based Bank Facility – Letter of Credit	4.00	IVR A3/ RWDI (IVR A Three under rating watch with developing implications)	Rating Reaffirmed and placed on Rating watch with developing Implications	Simple
<b>Total</b>	<b>42.36</b>	<b>(Rupees Forty-Two Crore and Thirty-Six Lakh only)</b>		

#### Details of Facilities are in Annexure 1

#### Detailed Rationale:

The rating is proposed to be placed under rating watch with developing implications to monitor the impact of the acquisition made by Tube Investments of India Limited and PI Opportunities Fund I Scheme II at enterprise value of Rs. 348.00 Crore. The new investors entered into a share purchase agreement to acquire LSPL from India Medical Consumables Holdings Limited and other shareholders on March 24, 2023. The acquisition was completed on May 10, 2023.

The ratings have been placed under rating watch with developing implications owing to the acquisition of the company by new investors and its overall impact on the operational and financial performance. Infomerics will continue to monitor the overall performance of the company.



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### **Key Rating Sensitivities:**

The rating watch will be resolved upon more detailed analysis of implications of transfer of shares of Lotus Surgicals Private Limited to Tube Investments of India Limited and PI Opportunities Fund I Scheme II managed by Premji Invest Limited on the overall operational & financial performance of the Lotus Surgicals Private Limited.

### **Key Rating Drivers with detailed description**

#### **Key Rating Strengths:**

##### **Extensive experienced promoters and established presence in the industry:**

Mr. Mehernosh Daruwalla and Mrs. Coomi M Daruwalla are the promoters of the company and carry over two decades of average experience in the industry. Also, the company benefits from their experience as promoters are having long standing relationship with their customers and suppliers which reduces the counterparty default risk. LSPL successfully procures orders from a dealer network and from government organizations i.e., bids and also gets tender based contracts, through its established presence in the market. The company also gets support from an experienced second line of management to support in day-to-day operations.

##### **Long track record in pharmaceutical industry with diversified client base and wide marketing network:**

The company has an about one and half decade-long track record of operations in the pharmaceutical industry. LSPL have established strong relations with reputable customers in the medical industry. The company presently has one super stockiest who distributes its products across the country. It has dealers in foreign country namely Germany, United Kingdom, Indonesia, Uzbekistan, Philippines, Mozambique, and Bangladesh. LSPL has also won many states level tenders Tamil Nadu Medical Services Corp. Ltd., Gujarat Medical Services Corp Limited, West Bengal Central Medical Service Organization and others. The company has participated in many international health care conferences i.e., Arab Health in Dubai and Medica in Italy.



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### **Improved scale of operations:**

The total operating income improved from Rs.84.26 crore in FY21 to Rs.116.16 crore in FY22 mainly because of the increase in top line and the expenses remaining at a stagnant rate. The proportion of expenses to total sales has also improved due to which there is a significant growth in the PAT margin. During H1FY23, the company has shown an increase in top line and in its PBT is more than double when compared with H1FY22. The EBITDA margin has improved significantly from 16.27% in H1FY22 to 24.29% in H1FY23 owing to optimization of various fixed costs on the back of an increase in the scale of operations in that period.

The Company has indicated that it has achieved a total operating income of around Rs.140.00 crores in FY23(Prov.) as against Rs.116.16 crores in FY22.

### **Improved Profit Margins and debt protection metrics:**

LSPL reported a substantial increase in operating and net profit of INR 12.84 crore on account of an increase in export sales and a decline in imports of raw material in FY22 and beyond as these raw materials are now available locally at better and cheaper rates. The EBITDA and PAT margin improved from 13.62% and 8.88% in FY21 to 17.94% and 11.03% in FY22. The debt protection metrics of the company improved with interest coverage at 10.18x in FY22 vis-à-vis 4.29x in FY21 respectively and Total debt to GCA at 1.47x in FY22 vis-à-vis 9.83x in FY21 respectively. The company has also indicated that it has achieved an EBITDA margin of 20.80% and PAT margin of 15.77% as on FY23(Prov.).

### **B. Key Rating Weaknesses**

#### **Working Capital Intensive Operations:**

Pharma manufacturing operations are working capital intensive in nature marked by high inventory holding require procuring raw materials for manufacturing variety of products simultaneously. Further, LSPL's operations are also affected due to its high collection period, which further elongates the operating cycle. Consequently, the operating cycle of the company improved from 227 days in FY21 to 179 days in FY22. To fund its working capital requirements the company is largely dependent on bank borrowings and consequently it has a working capital limit utilization at ~70% in the past 12 months ending July 2022.



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### **Foreign Exchange risk:**

LSPL is vulnerable to unfavorable movements in foreign exchange given its consequential imports with no proper hedging policy in place; although some of the risk is reduced due to presence of in-house treasury team which tracks the foreign exchange fluctuation. The Company does not have any hedging policy and the amount is naturally hedged.

### **Presence in fragmented and competitive industry along with tender driven nature of business operations:**

The company functions in an extremely competitive and fragmented medical equipment industry. LSPL observes high competition from both organized and unorganized players in the industry. This fragmented and extremely competitive industry derives from price competition. Hence, it affects the profit margins of the companies which are operating in the industry.

### **Analytical Approach:** Standalone Approach

#### **Applicable Criteria:**

[Criteria of Rating Outlook](#)

[Policy for placing ratings on Rating watch](#)

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

### **Liquidity – Adequate**

The liquidity position of the company remained adequate due to moderate cushion in gross accruals vis-à-vis repayment obligations. The Company maintains unencumbered cash and bank balances of INR 3.38 Crore as on March 31, 2022. Furthermore, the current ratio stood 1.86x as on March 31, 2022, and 1.51x as on March 31, 2021. The company's working capital utilisation also remains moderate at ~70% for the 12 months ended July 2022.

### **About the Company:**

Lotus Surgicals Private Limited (LSPL) incorporated in October 2005, located in Dehradun, Uttarakhand. The company is engaged in manufacturing of surgical and medical products primarily sutures, hernia mesh, skin staplers, handwash, handrub, hermosec clips, hermorrhoid stapler, and endoscopic linear cutter. The facility is WHOGMP, CE ISO certified.



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### Financials Standalone

For the year ended/ As On	(Rs. crore)	
	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Operating Income	84.26	116.16
EBITDA	11.44	20.84
PAT	2.62	12.84
Total Debt	25.71	25.67
Tangible Net-worth	31.46	46.30
<b>Ratios</b>		
EBITDA Margin (%)	13.58	17.94
PAT Margin (%)	3.11	11.03
Overall Gearing Ratio (x)	0.82	0.55

*\*Classification as per Infomerics Standards*

**Status of non-cooperation with previous CRA:** Brickwork Ratings in their press release dated November 10, 2022, have continued to classify Lotus Surgicals Private Limited as ISSUER NOT COOPERATING.

**Any other information:** Not Applicable

### Rating History for last three years:

Sr. No	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating assigned in 2022-23 (Dec 16, 2022)	Date(s) & Rating assigned in 2022-23 (Sept 15, 2022)	Date(s) & Rating assigned in 2021-22 (June 17, 2021)
1.	Long Term Fund Based Facility – Term Loan	Long Term	14.36	IVR BBB-/RWDI*	IVR BBB-/Stable	IVR BB+/INC	IVR BBB-/RWDI*
2.	Long Term Fund Based Facility- Cash Credit	Long Term	22.00	IVR BBB-/RWDI*	IVR BBB-/Stable	IVR BB+/INC	IVR BBB-/RWDI*
3.	Short Term Fund based Bank Facility – Letter of Credit	Short Term	4.00	IVR A3/RWDI*	IVR A3	IVR A4+/INC	IVR A3/RWDI*

*\*Rating watch with developing implications*



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### About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations. For more information visit [www.infomerics.com](http://www.infomerics.com)

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### Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Term Loan	--	--	August 2024	2.36	IVR BBB-/ RWDI*
Term Loan (pending disbursement)	--	--	March 2028	12.00	IVR BBB-/ RWDI*
Cash Credit	--	--	--	24.00	IVR BBB-/ RWDI*
Letter of Credit	--	--	--	4.00	IVR A3/ RWDI*

*\*Rating watch with developing implications*

**Annexure 2: List of companies considered for consolidated analysis:** Not Applicable

**Annexure 3: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/Len-LSPL-may23.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:** Not Applicable

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at <https://www.infomerics.com/>.