



Press Release

Lotus Surgicals Private Limited (LSPL)

June 17, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term/Fund Based Bank Facility-Term Loan	4.56	IVR BBB-/Credit watch with developing implications (IVR Triple B Minus under credit watch with developing implications)	Assigned
2.	Long Term/Fund Based Bank Facility-Cash Credit	22.00	IVR BBB-/Credit watch with developing implications (IVR Triple B Minus under credit watch with developing implications)	Assigned
3.	Short Term /Non-Fund Based Bank Facility-Letter of Credit	2.25	IVR A3/ Credit watch with developing implications (IVR Single A Three under credit watch with developing implications)	Assigned
4.	Short Term /Non-Fund Based Bank Facility-Bank Guarantee	1.75	IVR A3/ Credit watch with developing implications (IVR Single A Three under credit watch with developing implications)	Assigned
	Total	30.56		

Details of Facilities are in Annexure I

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Lotus Surgicals Private Limited derives comfort from its extensive experienced promoters and established presence in the industry, comfortable capital structure, long track record in pharmaceutical industry with diversified client base and wide marketing network. However, the rating strengths are partially offset by modest scale of operations, moderate profit margins, moderate but improving debt protection metrics, working capital intensive operations, foreign exchange risk, presence in fragmented and competitive industry along with tender driven nature of business operations.

The ratings have been placed under credit watch with developing implications owing to auditor qualification for delay in depositing undisputed statutory dues in FY20 audit report though



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none were outstanding at the year-end for a period of more than half yearly from the date they become payable. Infomerics will continue to monitor the steps taken by the company to avoid such delays.

Key Rating Sensitivities

Upward Factors

- Substantial & sustained improvement in revenue & profitability leading to improvement in debt protection metrics.

Downward Factors

- Any decline in revenue & profitability leading to sustained decline in debt protection metrics.

List of Key Rating Drivers with detailed description

Key Rating Strengths

Extensive experienced promoters and established presence in the industry:

Mr. Mehernosh Daruwalla, Mrs. Coomi M Daruwalla are the promoters of the company and carrying over two decades of experience in the industry. Also, the company is getting benefitted from their experience as promoters are having long standing relationship with their customers and suppliers. LSPL successfully procures orders by dealer network and by government organizations i.e., bids and also gets tenders-based contracts, through its established presence in the market. The company also benefited from 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 about one and half decade-long track record of operations in the surgical & medical products industry. LSPL have established strong relations with reputed customers in the medical industry. The company works on a super stockiest model who is distributing its products across the country. It has dealers in foreign country namely Germany, United Kingdom, Indonesia, Uzbekistan, Sri Lanka, Philippines, Mozambique and Bangladesh. LSPL has also won many states level tenders from Tamil



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Nadu Medical Services Corp. Ltd., Gujarat Medical Services Corp Limited, West Bengal Central Medical Service Organization and others.

Comfortable capital structure:

The debt profile of the company mainly comprised working capital borrowings due to its working capital-intensive nature of operations. The overall gearing ratio stood moderate at 0.62x as on March 31, 2021 (Provisional) (FY20:0.86x). Further, total indebtedness of the company as reflected by TOL/TNW also stood moderate at 1.06x (1.54x).

Key Rating Weaknesses

Modest scale of operations:

The total operating income was at INR 84.00 crore in FY21 (INR84.07 crore). Revenue remains muted due to impact of Covid-19 and subsequent lockdown in the 1QFY21. There was a substantial decline in the revenue in FY19 due to company planned change in the sales & distribution model, which is expected to benefit in the medium to long run.

Moderate Profit Margins

LSPL reported substantial increase in operating and net profit of INR 11.07 crore and INR 7.09 crore respectively on account of increase in export sales and decline in import of raw material in FY21 (Provisional). Furthermore, in FY20, LSPL had reported operating and net profit of INR 6.00 crore and INR 0.97 crore respectively vis-à-vis operating and net loss of INR 5.90 crore and INR 15.85 crore respectively in FY19. Losses in FY19 was primarily due to change in sales & distribution model leading to inventory losses.

Moreover, in FY21 (Provisional), the company reported EBITDA and PAT margin of 13.17% and 8.43% respectively on account of increase in export sales from 12% to 24% in FY21, decline in marketing and advertising expenses and decline in import of raw material. Furthermore, in FY20, LSPL had reported EBITDA and PAT margin of 7.13% and 1.14% respectively vis-à-vis negative EBITDA and PAT margin of 9.63% and 25.83% respectively in FY19.



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Moderate but improving debt protection metrics:

The debt protection metrics of the company remained moderate with an interest coverage at 3.63x in FY21 (Provisional) vis-à-vis 1.92x in FY20 respectively and Total debt to GCA at 2.91x in FY21 (Provisional) vis-à-vis 10.15x in FY20 respectively.

Working Capital Intensive Operations

Pharma manufacturing operations are working capital intensive in nature marked by high inventory holding require to procure 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 remained elongated at 223 days in FY20. To fund its working capital requirements the company is largely dependent on bank borrowings and consequently it has a working capital limit utilisation at ~89.44% in the past 12 months ended March 2021.

Foreign Exchange risk:

LSPL is vulnerable to unfavourable 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. Furthermore, LSPL has made no foreign exchange gain/loss in FY20 as against foreign exchange gain of Rs. 0.24 in FY19. The open position of forex as on 31st March 2021 reported as Creditor's: INR 3.18 Crore and Debtor's: INR 0.95 Crore.

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 observe high competition from both organized and unorganized players in the industry. This fragmented and extremely competitive industry derives into price competition. Hence, it affects the profit margins of the companies which are operating in the industry.

Analytical Approach: Standalone



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Applicable Criteria

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 1.06 Crore as on March 31st, 2020. Furthermore, the current ratio stood 1.37x as on March 31st, 2020, and 1.71x (Provisional) as on March 31st, 2021. The company's working capital utilisation also remains moderate at ~89.44% for the 12 months ended March 2021.

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 WHO-GMP, CE ISO certified.

Financials: Standalone

(Rs. Crore)

For the year ended/ As On	31-03-2020 (Audited)	31-03-2021 (Provisional)
Total Operating Income	84.07	84.00
EBITDA	6.00	11.07
PAT	0.97	7.09
Total Debt	28.45	23.51
TNW	30.92	38.04
Ratios		
EBITDA Margin (%)	7.13	13.17
PAT Margin (%)	1.14	8.43
Overall Gearing Ratio (x)	0.92	0.62

* Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Brickwork Ratings in their press release dated January 31st, 2020 have classified Lotus Surgicals Private Limited as ISSUER NOT COOPERATING.



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Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loan	Long Term	4.56	IVR BBB-/Credit watch with developing implications (IVR Triple B Minus under credit watch with developing implications)	--	--	--
2.	Cash Credit	Long Term	22.00	IVR BBB-/Credit watch with developing implications (IVR Triple B Minus under credit watch with developing implications)	--	--	--
3.	Letter of Credit	Short Term	2.25	IVR A3/ Credit watch with developing implications (IVR Single A Three under credit watch with developing implications)	--	--	--
4.	Bank Guarantee	Short Term	1.75	IVR A3/ Credit watch with developing implications (IVR Single A Three under credit watch with developing implications)	--	--	--

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 www.infomerics.com.



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Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure I: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based - Term Loan	-	-	June 2021	0.56	IVR BBB-/Credit watch with developing implications (IVR Triple B Minus under credit watch with



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					developing implications)
Long Term Fund Based - WCTL (ECLGS Scheme)	-	-	April 2024	4.00	IVR BBB-/Credit watch with developing implications (IVR Triple B Minus under credit watch with developing implications)
Long Term Fund Based - Cash Credit	-	-	Revolving	22.00	IVR BBB-/Credit watch with developing implications (IVR Triple B Minus under credit watch with developing implications)
Short Term Non-Fund Based – Letter of Credit	-	-	--	2.25	IVR A3/ Credit watch with developing implications (IVR Single A Three under credit watch with developing implications)
Short Term Non-Fund Based – Bank Guarantee	-	-	--	1.75	IVR A3/ Credit watch with developing implications (IVR Single A Three under credit watch with developing implications)

Annexure II: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Lotus-surgicals-lenders-17june21.pdf>