Nainani Medico

February 23, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	20.57 (Enhanced from 18.48)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**20.57 (Rs. Twenty Crore and Fifty-Seven Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Nainani Medico (NM) continue to remain constrained on account of its modest although growing scale of operations and constitution as a proprietorship concern. The rating, further, continues to remain constrained on account of moderate capital structure and debt coverage indicators, moderately working capital-intensive nature of operations, project implementation risk associated with it and its presence in the highly competitive and fragmented industry. The rating, however, continue to derives strength from the experienced management with its long-established relationship with its pharmaceutical companies, moderate profitability margin.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustained improvement in profitability margin with PBILDT margin more than 6% and PAT margin more than 3%
- Improvement in capital structure with overall gearing remaining below 0.90 times on sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in scale of operations below Rs.100 crore
- Deterioration in interest coverage below 2.00x
- Deterioration of profitability margin with PBILDT margin below 3% on a sustained basis

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operation: Total Operating Income (TOI) of the entity remained at Rs.155.20 crore in FY21 vis-à-vis Rs.152.15 crore in FY20. The same has increased on account of higher demand of pharmaceutical products along with continuous increase in range in pharmaceuticals distributorship. Further, addition of new of suppliers thereby resulting in enhanced product portfolio which has also supported volume growth for the entity. Although remains at modest level.

Moderately comfortable capital structure: The capital structure of the entity remained high with an overall gearing of 1.85 times as on March 31, 2021 as against 1.97 times as on March 31, 2020 mainly on account higher networth during the year with accretion of profit to reserves.

Moderately working capital intensive nature of operations: The entity maintains inventory of minimum a month for meeting the demands from retailers which remained at 25 days in FY21 vis-à-vis 22 days in FY20. The entity gives credit period of around 30-45 days to its retailers and collection period stood at 44 days in FY21 vis-à-vis 40 days in FY20. The creditors days remained at 26 days in FY21 vis-à-vis 24 days in FY20. The operating cycle of the entity stood at 44 days in FY21 vis-à-vis 38 days in FY20, which marginally increased owing to increase in average collection period and average inventory period.

Project Implementation Risk: The firm has taken a project for construction of warehouse facility with a total area of 60,000 square feet along with basement and 4 floors. firm. The entity has envisaged total cost of the project of Rs.20.00 crore. Till January 31, 2022 it is funded through term loan of Rs.13.00 crore, dropline overdraft of Rs.2.00 crore and remaining through promoter's contribution or unsecured loan. Till January 31, 2021, the entity has incurred total cost of Rs.15.00 crore which was funded through term loan of Rs.8.00 crore, dropline overdraft of Rs.2.00 crore and balance through unsecured loan. The project is majorly completed and only conveyor belt installation is pending, which entity is planning to do in next financial year. It will start distribution from new warehouse from March 15, 2022 onwards.

Presence in a highly competitive and fragmented industry and constitution as a proprietorship concern: The pharmaceutical distributorship industry is highly competitive and fragmented industry with presence of many small and large players, further, the prices are regulated by the principal along with government. Its constitution as a proprietorship concern restricts its overall financial flexibility in terms of limited access to external funds for any future expansion plans. Further, there is inherent risk of possibility of withdrawal of capital and dissolution of the firm in case of death/insolvency of proprietor.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Key Rating Strengths
Experienced and qualified management: Mr. Laxman Nainani, Proprietor, looks after overall affairs of the firm and has more than four decades of experience in the industry. Further, he is supported by his two sons. Mr.Pankaj Nainani, Master of Technology (Bio-chemical engineering) from University of Birmingham and MBA (Supply Chain Management) from University of Michigan by qualification, looks after warehousing division and Mr. Krishna Nainani, BBA by qualification, looks after the operations of the firm.

Established and long relationship with more than 270 pharmaceutical companies: NM deals with established brands in pharmaceutical industry since 1980 resulting in long and established relationship. The entity has wide marketing network to cater its products which is operating under the guidance of Mr. Laxman Nainani. Further, the entity also has advanced warehousing facility to safely store all its products. The entity deals with both national and international brands pharmaceutical companies such as Sun Pharmaceutical Industries Limited, Cipla Limited, Lupin Limited, Mankind Pharma, Abbott India Limited, Merck & Co., Bayer AG, Sanofi S.A. and lot more. Since, the entity deals with more than 270 pharmaceutical companies and so resulting into less concentration of revenue from any one type of medicine or company.

Moderate profitability margins: Owing to trading nature of operations, the profitability margins of the entity stood moderate marked by PBILDT and PAT margin of 4.30% and 2.68% respectively in FY21 vis-à-vis 4.25% and 2.85% respectively in FY20. During FY21, PBILDT margin of the entity has improved marginally mainly on account of sales of higher value-added products. Pat margin declined marginally owing to increase in depreciation expenses and interest cost.

Comfortable debt coverage indicators: The debt service coverage indicators of the entity stood comfortable with total debt to GCA and interest coverage ratio of 4.37 times and 3.94 times as on March 31, 2021 vis-à-vis 3.53 times and 3.94 times as on March 31, 2020. The same deteriorated marginally owing to higher interest cost and debt outstanding as on balance sheet date.

Liquidity: Adequate
The liquidity position remained adequate marked by cushion in accruals vis-à-vis repayment obligations and cash balance of Rs.2.13 crore as on March 31, 2021. Its cash credit limits is average utilized at 28.63% and maximum utilized at 53.33% during past twelve months ended December, 2021. Further, the current ratio and quick ratio stood moderate at 1.28 times and 0.80 times respectively as on March 31, 2021 vis-à-vis 1.19 times and 0.84 times respectively as on March 31, 2020. The cash flow from operations was positive at Rs.3.2 crore in FY21 (vis-à-vis positive at Rs.4.49 crore in FY20).

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology – Wholesale Trading Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis for Non-Financial Sector Entities

About the Company
Nainani Medico (NM) was formed as a proprietorship concern by Mr. Laxman Nainani in 1980. NM is an authorized distributor of pharmaceutical products for more than 270 pharmaceutical companies having total 860 divisions for four districts of Rajasthan which includes Kota, Bundi, Bara and Jhalawar. The entity caters its products to more than 2500 pharmaceutical retailers across the region and around 29,000 medicines. The service facility of the entity is located at Kota and provides all services from single location

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	10MFY22
Total operating income	152.15	155.20	155.80
PBILDT	6.46	6.67	7.11
PAT	4.34	4.16	5.45
Overall gearing (times)	1.97	1.85	0.84
Interest coverage (times)	4.01	3.94	7.56

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	October, 2027	5.48	CARE BB+; Stable
Fund-based - LT-Cash Credit		-	-	-	14.00	CARE BB+; Stable
Fund-based - LT-Bank Overdraft		-	-	-	1.09	CARE BB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (21-Sep-18)
2	Fund-based - LT-Term Loan	LT	5.48	CARE BB+; Stable	-	1)CARE BB+; Stable (12-Feb-21) 2)CARE BB+; Stable (07-Apr-20)	-	-
3	Fund-based - LT-Cash Credit	LT	14.00	CARE BB+; Stable	-	1)CARE BB+; Stable (12-Feb-21) 2)CARE BB+; Stable (07-Apr-20)	-	-
4	Fund-based - LT-Bank Overdraft	LT	1.09	CARE BB+; Stable	-	1)CARE BB+; Stable (12-Feb-21) 2)CARE BB+; Stable (07-Apr-20)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Non financial covenants	
1. Spread Revision	The bank has a right to revise the spread over external benchmark after three years from date of loan/ facility disbursal and thereafter after completion of every 3 years in case of long tenor loans.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Bank Overdraft	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here]

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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