

Kumar Brothers Chemists Private Limited

January 31, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	19.00 (Reduced from 37.00)	CARE B; Stable (Single B; Outlook: Stable)	Rating removed from ISSUER NOT COOPERATING category and reaffirmed
Short Term Bank Facilities	-	-	Withdrawn*
Total Bank Facilities	19.00 (Rs. Nineteen Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Kumar Brothers Chemists Private Limited (KBCPL) continue to be constrained by the small and declining scale of operations, elongated operating cycle, weak solvency position, highly competitive & fragmented industry. The ratings, however, derive strength from experience of promoters in trading pharmaceutical products, moderate profitability margins and advantage of strategic location & long association with reputed pharmaceutical companies.

Rating Sensitivities

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

- Increase in scale of operations with total operating income of more than Rs.100.00 crore on a sustainable basis
- Improvement in capital structure marked by overall gearing ratio below 1.50x on a sustained basis
- Improvement in debt coverage indicators as marked by interest coverage ratio and total debt to GCA ratios above 2.00x and below 10.00x, respectively, on a sustained basis
- Shortening of operating cycle marked by operating cycle below 200 days, on a sustained basis

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

- Deterioration in profitability margins marked by PBILDT margins below 8.00x on sustained basis
- Decline in scale of operations by more than 20%, on sustained basis

Detailed description of the key rating drivers

Key Rating Weaknesses

Small and declining scale of operations: Despite being operational for nearly four decades, the scale of operations has remained low marked by a total operating income and gross cash accruals of Rs. 18.17 crore and Rs. 0.08 crore respectively during FY21. Further, the company's networth base was relatively small at Rs. 14.11 crore as on March 31, 2021. The small scale limits the company's financial flexibility in times of stress and deprives it from scale benefits. Further, the company has booked revenue of Rs.20.00 crore in 9MFY22.

Weak overall solvency position: The capital structure of the firm stood leveraged as on the past three balance sheet dates ending March 31, '19- '21 on account of higher reliance on external borrowings to fund the incremental working capital requirements of business against small net worth base. Overall gearing ratio stood at 3.50x as on March 31, 2021. On account of high debt levels and moderate profitability margins, the debt coverage indicators of the firm stood weak as marked by interest coverage ratio and total debt to GCA stood at 1.02x and 588.60x respectively in FY21 as against 1.31x and 42.74x respectively in FY20.

Highly fragmented and competitive industry: KBCPL operates in market cluttered with many small and wholesale players having better customer reach. This may reduce the market share ultimately affecting the top line of company. Further, the company provides additional discount to the institutional players thereby impacting the profitability of the company

Key Rating Strengths

Moderate profitability margins: The profitability margins of the company stood moderate marked by PBILDT margin of 28.09% and PAT margin of 0.16% in FY21 respectively as compared to PBILDT margin of 12.89% and PAT margin of 2.09 % in FY20 respectively. The PBILDT margin improved due to decrease in cost of goods traded, however PAT margin declined due to increased finance cost.

Experienced promoters in trading of pharmaceutical products: Mr. Ashwani Kumar Singla (Managing director) and Mr. Pramod Kumar (Director) have more than three decades of experience respectively in trading of pharmaceutical products. The promoters' contacts in the market have helped KBCPL to improve institutional sales backed by more tie-ups with private hospitals for supplying medicines.

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

Advantage of strategic location and long association with reputed pharmaceutical companies: KBCPL has one shop located near CMC hospital and other located close to PGI hospitals, which are the prime medical institutes in Chandigarh. Further company also has contracts with major pharmaceutical companies such as Ranbaxy laboratories Limited, Pfizer etc. to purchase products directly. With bulk and direct purchase KBCPL avails around 20% discount which is then extended to the wholesale and retail customers.

Liquidity: Stretched

The liquidity position of the company remained stretched as marked by tightly matched repayment vis-à-vis obligations. The company has generated the GCA of 0.08 Crores in FY21 and is expected to envisage GCA of Rs.0.50 against repayment of Rs.0.52 lakhs in same year. Further, the working capital limits of the company is 95% utilised for the past twelve months ending December 2021. The non-fund-based limits is withdrawn as it was converted as sublimit to cash credit facility. The Company has low cash and bank balance of 0.48 Crores as on March 31, 2021.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Wholesale Trading](#)

[Policy on Withdrawal of Ratings](#)

About the Company

Kumar Brothers (Chemists) Private Limited (KBCPL) was originally constituted as a partnership firm named as M/s. Kumar Brothers in the year 1980 and later was converted into private limited company in the year 1998. KBCPL is engaged in retail and wholesale trade of pharmaceutical products such as medicines, surgical equipment's, cosmetics and other related items through distribution contracts with pharmaceutical companies which are renewed annually. Apart from over-the-counter sales (retail), the company also supplies medicines to private as well as government institutions namely Post Graduation Institute of Education & Research (PGI, Chandigarh), various government hospitals and commando hospitals. Currently, KBCPL operates through one shop at Chandigarh and another one at Delhi. The shop at Delhi is exclusively for dealing with Army Hospitals.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22*
Total operating income	47.82	18.17	20.00
PBILDT	6.16	5.10	NA
PAT	0.99	0.03	NA
Overall gearing (times)	3.24	3.50	NA
Interest coverage (times)	1.31	1.02	NA

*Refers to the period from April 1, 2021 to December 31, 2021

A: Audited NA: Not Available

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-Cash Credit		-	-	-	19.00	CARE B; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	0.00	Withdrawn

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	19.00	CARE B; Stable	1)CARE B; Stable; ISSUER NOT COOPERATING* (09-Sep-21)	1)CARE B+; Stable (03-Aug-20)	1)CARE B+; Stable (09-Aug-19)	1)CARE BB-; Stable (03-Aug-18)
2	Non-fund-based - ST-Bank Guarantee	ST	-	-	1)CARE A4; ISSUER NOT COOPERATING* (09-Sep-21)	1)CARE A4 (03-Aug-20)	1)CARE A4 (09-Aug-19)	1)CARE A4 (03-Aug-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	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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