

Chandra Bhagat Pharma Limited
(erstwhile Chandra Bhagat Pharma Private Limited)

July 17, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	22.00	CARE B; ISSUER NOT COOPERATING* (Single B ; ISSUER NOT COOPERATING*)	Issuer not cooperating; Revised from CARE B+; ISSUER NOT COOPERATING (Single B plus; ISSUER NOT COOPERATING); Based on best available Information
Short-term Bank Facilities	5.00	CARE A4; ISSUER NOT COOPERATING* (CARE A Four; ISSUER NOT COOPERATING*)	Issuer not cooperating; On the basis of best available information
Total Facilities	27.00 (Rupees Twenty Seven Core Only)		

Details of instruments/facilities in Annexure I

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated May 9, 2019, placed the rating(s) of Chandra Bhagat Pharma Limited (CBPL) under the 'issuer non-cooperating' category as Chandra Bhagat Pharma Limited had failed to provide information for monitoring of the rating. CBPL continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and a letter/email dated June 8, 2020. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings have been revised on account of non-cooperation by CBL and CARE's efforts to undertake a review of outstanding ratings. CARE views information availability risk as a key factor in its assessment of credit risk.

Detailed description of the key rating drivers

At the time of last rating on May 9, 2019 the following were the rating strengths and weaknesses *(updated for the information available from Registrar of Companies)*:

Key Rating Weaknesses

Modest scale of operations with low capitalization, low and fluctuating profit margins: CBPLC's overall scale of operations stood modest marked by total operating income remained in the range of Rs.80.21 crore to Rs.106.28 crore from FY16 to FY19 and the same has increased from Rs.97.06 crore in FY18 to Rs.106.28 crore in FY19. Further PBILDT margin has declined and remained low in the range of 4.22% to 5.78% for last four years ended FY19. PBILDT margin has declined marginally by 57 bps from 4.79% in FY18 to 4.22% in FY19. Moreover, PAT margin remained fluctuating in the range of 0.44% to 1.08% for last four years ended FY19. On account of high interest expense incurred; the net profit margin has declined from 1.08% in FY18 to 0.65% in FY19.

Leveraged capital structure and debt coverage indicators: The overall capital structure of CBPL remained leveraged marked by overall gearing in the range of 1.80x to 4.17x for last four years ended as on March 31, 2019. Overall gearing has improved from 3.69x as on March 31, 2018 to 2.11x as on March 31, 2019, mainly on account of repayment of short term loans and advances. The overall net worth has improved (on account of capital infusion along with security premium received on IPO offered by company) and thereby improved its capital structure. Nevertheless, the capital structure continues to remain leveraged. Furthermore on account of high dependence on the bank facilities, the debt coverage indicators have remained weak with interest coverage stood in the range of 1.12x to 1.28x for last four years ended FY19. Further, total debt to GCA remained high at 42.58x in FY19 (vis-à-vis 27.86x in FY18).

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

*Issuer did not cooperate; Based on best available information

Elongated working capital cycle: CBPL maintains high level of inventory primarily to avoid adverse price fluctuations and to meet the demand on time. Further the high inventory level has led to stretched working capital cycle of 143 day in FY19 from 136 days in FY18. Operating cycle also elongated due to lower creditor period.

Susceptibility of margins to volatile raw material prices coupled with presence in highly competitive and regulated industry: The raw material is the major cost driver and the prices of the same are volatile in nature and prices have been fluctuating in the past & therefore cost base remains exposed to any adverse price fluctuations in the prices of the raw materials. Accordingly, the profitability margin of the company is susceptible to fluctuation in raw material prices. Furthermore, the company does not have any long-term contracts for purchase of material. With limited ability to pass on the increase in raw material costs in a competitive operating spectrum, any substantial increase in raw material costs would affect the company's profitability in the near term. Pricing pressure, increasing regulation, increased sensitivity towards product performance are the key issues in the pharmaceutical industry. Moreover, the company faces intense competition in the overseas as well as in domestic markets.

Key rating strengths

Experienced and well qualified management: CBC has an established track record of more than 10 years in the Pharmaceutical business. The company is headed by Mr. Hemant C Bhagat having an experience of more than two decade in the industry. Further the promoter is assisted by Mr. Pranav Bhagat and Ms. Prachi Bhagat, both being a Bachelor in Pharmacy by qualification and having a cumulative experience of about 15 years in the industry. Moreover the top management is supported by qualified professionals heading various verticals with adequate and relevant experience in their respective fields.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology – Manufacturing Companies](#)

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

About the Company

Incorporated in 2003, Chandra Bhagat Pharma Pvt. Ltd. (CBP) is engaged into manufacturing of formulations (forming 87.22% of the total revenue in 2016) and trading of API (forming 12.77% of the total revenue in 2016) for both domestic as well as international markets under the brand name of 'CBC'. The company manufactures formulations by outsourcing to third party on job work basis. The company has a well-diversified product portfolio marked by its presence across many therapeutic segments such as cardiovascular agents, antibiotics, anti-arthritis, anti-fungal, anti-viral, anti-malarial and miscellaneous drug. Under the trading segment, CBC procures its key API mainly from domestic market (forming 86% during FY16) and international market (forming remaining portion) and sells in the domestic market (forming 91.09% of the overall revenue during FY16) and rest in international market.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	97.06	106.28
PBILDT	4.65	4.49
PAT	1.04	0.69
Overall gearing (times)	3.69	2.11
Interest coverage (times)	1.28	1.12

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	22.00	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; ISSUER NOT COOPERATING* on the basis of best available information
Non-fund-based - ST-BG/LC	-	-	-	5.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	22.00	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; ISSUER NOT COOPERATING* on the basis of best available information	-	1)CARE B+; ISSUER NOT COOPERATING* (09-May-19)	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (03-Jan-18)
2.	Non-fund-based - ST-BG/LC	ST	5.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE A4; ISSUER NOT COOPERATING* (09-May-19)	-	1)CARE A4+; ISSUER NOT COOPERATING* (03-Jan-18)

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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