

Dhruv Wellness Limited

March 28, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	15.00	CARE BB; Stable; ISSUER NOT COOPERATING* (Double B; Outlook: Stable ISSUER NOT COOPERATING*)	Issuer not cooperating; Based on best available information
Total facilities	15.00 (Rs. Fifteen crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Dhruv Wellness Limited (DWL) to monitor the rating(s) vide e-mail communications/letters dated September 18, 2018, October 10, 2018, November 02, 2018, November 26, 2018, December 14, 2018 and January 2, 2019, January 22, 2019 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on Dhruv Wellness Limited bank facilities will now be denoted as **CARE BB; Stable/CARE A4; ISSUER NOT COOPERATING***.

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

The ratings take into account the modest scale of operations with low and fluctuating profit margins susceptible to volatility in prices of FMGC products, leveraged capital structure and weak debt coverage indicators, working capital intense of nature, presence in highly competitive & fragmented industry, established track record of over a decade of operations in trading of pharmaceutical & cosmetic products and diverse sourcing arrangements with multiple distributorships and diversified supplier base.

Detailed description of the key rating drivers

At the time of last rating on November 10, 2017 the following were the rating strengths and weaknesses (updated for the information available from Registrar of Companies & Stock exchange):

Key Rating Strength

Relatively modest scale of operations albeit continuous & healthy growth over last 3 years: The scale of operations of DWL stood modest in the range of Rs.25-100 crore over FY15-FY18. However, it has shown a continuous & healthy growth over FY14-FY17 owing to increase in distributorship tie-ups and increase in market demand. Nevertheless, owing to low profitability, the tangible net-worth stood small as on March 31, 2018.

Low & fluctuating profit margins susceptible to volatility in prices of FMGC products: The PBILDT margin of DWL stood low in the range of 0.39-0.89% over FY15-FY18, given the FMCG wholesale trading nature of operations. Moreover, the same has been fluctuating over the same period owing to proportionate fluctuations in various fixed costs and variable costs. Moreover, the profit margins are susceptible to volatility in prices of FMCG products, wherein the margin-sharing is at the discretion of the principal manufacturers against whom the company possesses low bargaining power.

Improvement in capital structure and weak debt coverage indicators: The capital structure of DWL has improved with an overall gearing of 0.52x as on March 31, 2018, owing to significant increase in tangible net worth on the back of equity infusion happen during FY18. However, due to low profitability, the debt coverage indicators continue to stood weak over the same period.

Working capital intensive nature of operations: The operations of DWL are working capital intensive in nature with majority of funds blocked in debtors. The inventory holding stood moderate, given the moderate level of inventory of

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

over 30 days required to be maintained by the company in order to fulfil the regular demand flow from its customers. The collection period stood high owing to higher credit period of over 40-60 days required to be extended to the customers, which is also prevalent to the FMCG trading industry. On the other hand, a moderate credit period of over 30-40 days is extended by the suppliers to the company, leading to a moderate operating cycle of over 40-45 days, and high utilization of working capital limits.

Presence in highly competitive & fragmented industry: DWL operates in a highly competitive & fragmented pharmaceutical & cosmetic wholesale industry wherein a number of players are engaged in trading of the said products. Moreover, the low degree of product differentiation intensifies the prevailing competition in the market.

Key Rating Strengths

Established track record of over a decade of operations in trading of pharmaceutical & cosmetic products: DWL possesses an established track record of over 12 years of operations in trading of pharmaceutical & cosmetic products. The said products include various ayurvedic medicines, cosmetics & personal care products (hair-oils, balms, energy-booster orals, shampoos, conditioners, perfumes, deodorants, soaps, powders, lotions, creams, dyes, pregnancy & contraceptive-related products and other personal care products), together comprising ~80% of the net sales annually; and homecare & general care products (detergents, cleaning liquids, air fresheners, insect repellents/sprays, etc.).

Highly experienced & resourceful promoters with over two decades of experience in trading of pharmaceutical & cosmetic products: The overall operations of DWL are looked after by the promoters – Mr. Pravinkumar Prajapati along with his wife – Mrs. Anita Prajapati and father – Mr. Narayan Prajapati, who possess an average experience of over 19 years in the field of trading of pharmaceutical & cosmetic products.

Established market presence with diverse marketing network and diversified product & customer base: DWL possesses an established market presence across the pharmaceutical wholesale & retail market in Mumbai, with its marketing network spread across 70 wholesalers and over 4,500 retailers across the city, especially the Western suburbs, who form to be the direct customers for the company. Moreover, the product portfolio of the company offers a diversified range of over 5,000 products across ayurvedic medicines, cosmetic & personal care products, and homecare & general care products.

Diverse sourcing arrangements with multiple distributorships and diversified supplier base: DWL has various sourcing arrangements in place with over 60 wholesalers and over 12 principal manufacturers from whom the company procures directly. The company acts as a distributor for over 12 pharmaceutical & cosmetic manufacturing companies.

Analytical approach: Standalone

Applicable Criteria

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

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

[CARE's Methodology for Wholesale Trading](#)

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

About the Company

Established in 2005 by Mr. Pravinkumar Prajapati as a proprietorship entity, Dhruv Agency (DA, with Mrs. Anita Prajapati as the proprietor) was later converted into a private limited company and renamed as Dhruv Wellness Private Limited (DWPL) in March 2015, thereafter which it was converted into a public limited company and renamed as DWL in July 2017. The company is now listed on BSE, trading at Rs.19 per share with a market capitalization of Rs.20.03 crore as on October 28, 2017. DWL is engaged in trading & distributorship of various pharmaceutical & cosmetic products which are sold to various retailers and wholesalers mainly in the Western suburbs of Mumbai and outskirts also. Some of the said products are procured by the company directly from the principal manufacturers of the same for whom the company acts as a distributor, whereas the rest of the products are procured from other wholesalers of the same. Moreover, the company also undertakes manufacturing of ayurvedic medicines under its own brand "Dhruv", however such manufacturing is completely outsourced to Savita Health Care Private Limited.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	101.94	103.68
PBILDT	1.90	2.71
PAT	0.40	0.54
Overall gearing (times)	2.11	0.52
Interest coverage (times)	1.46	1.38

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

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	15.00	CARE BB; Stable; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	15.00	CARE BB; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE BB; Stable (10-Nov-17)	-	-

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