

Press Release

Kumar and Company (KC)

24th March, 2018



Rating Assigned

Total Bank Facilities Rated	Rs. 11.83crore
Long Term Rating	SMERA BB/ Stable (Assigned)

Rating Rationale

SMERA has assigned a long term rating of '**SMERA BB**' (read as **SMERA double B**) on the above mentioned bank facilities of Rs.11.83 Crore of **Kumar and Company (KC)**. The outlook is '**Stable**'.

About the company

M/s Kumar & Company (KC) was established in the year 2010 and is engaged in the business retail & wholesale trading of medicines, surgical equipment's, cosmetics & other related items. The operations of the firm however commenced from 2014. KC is managed by Mr. Karan Singla and Vinod Singla. The products are procured through distribution contracts with pharmaceutical companies which are renewed annually. Apart from over the counter sales (retail), the firm also supplies medicines to private as well as government hospitals and commando hospitals. Currently, KOC operates through its two outlets located in Chandigarh and New Delhi.

Key rating drivers

Strengths

Experience of partners in trading pharmaceutical products

KC was established as partnership firm in 2010 by Mr Vinod Kumar Singla and Mr Karan Singla. Mr Vinod Singla is a graduate and has around three decades of experience in trading of pharmaceutical products through his prior association with Kumar Brothers engaged in similar line of business since 1980. Mr Karan Singla is a graduate and has around half a decade of experience in trading of pharmaceutical products through his association with KC.

Healthy growth in revenues and vicinity to Postgraduate Institute of Medical Education and Research (PGIMER)

KC has shown a healthy growth in the operating revenues and reported a Compounded Annual Growth Rate (CAGR) of 138%. The operating revenues in FY15 being Rs.4.67 crore, in FY16 being Rs.36.49 crore and in FY17 operating revenues of Rs.63.02 crore. Also, KC is situated near PGIMER which is multispecialty hospital catering to numerous health related issues. Statistics show that the number of outpatients has increased manifolds owing to which SMERA believes that KC will enjoy stability in the revenue streams.

Growing healthcare demand in India

Healthcare has become one of India's largest sectors both in terms of revenue and employment. The industry is growing at a tremendous pace owing to its strengthening coverage, services and increasing expenditure by public as well as private players. This will mainly be driven by rise in per capita spending on healthcare, change in demographic profile, transition in disease profile, increase in health insurance penetration and fast growing medical tourism market. So, there is a huge opportunity for KC as it is indirectly catering to the healthcare industry.

Moderate financial risk profile

The financial risk profile is moderate marked by net worth of Rs. 5.67 crore as on 31 March, 2017. The gearing (debt-equity) stood at 1.82 times as on 31 March, 2017. The interest coverage ratio stood comfortable at 2.11 in FY17. Further, SMERA believes that the financial risk profile will remain moderate in the absence of debt funded capex owing to the nature of business i.e. trading.

Weaknesses

Highly competitive and fragmented industry

The industry of trading in medicines, drugs and surgical equipment's is a highly fragmented industry and there is a large number of organized and unorganized players which has led to high competition in the industry. The firm faces competition from few large players as well as numerous players in the unorganized segment. Also on account of its trading nature of business, the entry barriers are low, leading to stiff competition for the company.

Partnership nature of constitution

KC's constitution as a partnership firm has the inherent risk of possibility of withdrawal of the capital at the time of personal contingency. Moreover, partnership firms have restricted access to external borrowing as credit worthiness of the partners would be the key factor affecting credit decision for the lenders.

Analytical Approach

SMERA has considered the standalone financials of Kumar & Company (KC).

Outlook: Stable

SMERA believes the outlook on KC's facilities will remain 'Stable' over the medium term on account of the company's experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' if the company achieves a sustained growth in revenues and profit margins while maintaining its capital structure. Conversely, the outlook maybe revised to 'Negative' in case of a steep decline in the company's revenues and profit margins.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	63.02	36.49	4.67
EBITDA	Rs. Cr.	3.51	2.42	0.47
PAT	Rs. Cr.	1.50	0.99	0.05
EBITDA Margin	(%)	5.57	6.64	10.02
PAT Margin	(%)	2.37	2.70	1.17
ROCE	(%)	21.59	21.35	11.12
Total Debt/Tangible Net Worth	Times	1.82	3.04	3.42
PBDIT/Interest	Times	2.11	2.01	1.40
Total Debt/PBDIT	Times	2.88	4.09	11.52
Gross Current Assets (Days)	Days	125	181	834

Status of non-cooperation with previous CRA (if applicable)

In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the available information which is not sufficient to arrive at a fair rating. In line with the extant SEBI guidelines CARE's rating on Kumar and Company's bank facilities will now be denoted as CARE BB-; Stable; ISSUER NOT COOPERATING

Applicable Criteria

- Trading entities- <https://www.smera.in/criteria-trading.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>

- Default Recognition: <https://www.smerra.in/criteria-default.htm>

Note on complexity levels of the rated instrument: <https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.50	SMERA BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.33	SMERA BB / Stable

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ABOUT SMERA

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