

Press Release
KonTest Chemicals Limited

13 December 2019

Rating Assigned



Total Bank Facilities Rated	Rs.6.00 crore
Long Term Rating	ACUITE B/Stable (Assigned)

Refer Annexure for details

Rating Rationale

Acuite has assigned a long term rating of '**ACUITE B**' (read as **ACUITE B**) on the Rs.6.00 crore bank facilities of KonTest Chemicals Limited. The outlook is '**Stable**'.

KonTest Chemicals Limited (KCL) was established in 1972, currently promoted by Mr. Sandip Kumar Ghosh, Mr. Aniruddha Sarkar and Mr. Amitava Sen. It is engaged in manufacturing of a wide range of pharmaceutical products such as tablets, capsules and oral powders. The company is also into trading of pharmaceutical products which they get through contract manufacturing. The company has its manufacturing facility located at Hyderabad.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of KCL to arrive at the rating.

Key Rating Drivers

Strengths

• **Experienced Management and long track record of operations**

The company was incorporated in 1972 and has a long track record of more than four decades in the field of manufacturing and trading of pharmaceutical products. The Managing Director, Mr. Sandip Kumar Ghosh along with other directors Mr. Aniruddha Sarkar and Mr. Amitava Sen has experience of over three decades in the pharmaceutical industry.

Weaknesses

• **Working capital intensive operations**

The company's operations are working capital intensive in nature as reflected in gross current assets (GCA) of 237 days in FY2019 as compared to 302 days in FY2018. These high GCA days emanate from high inventory days of 132 days in FY2019 and 115 days in FY18. The debtor days stood at 40 days in FY 2019 as against 102 days in FY 2018. The company's operations are expected to remain capital intensive, as the company is engaged in manufacturing and trading of pharmaceuticals products, so they have to maintain certain amount of inventory.

• **Below average financial risk profile**

The financial risk profile of the company is below average marked by low net worth, high gearing and moderate debt protection metrics. The net worth of the company stood low at Rs.1.32 crore as on 31st March, 2019 as against Rs.1.30 crore as on 31st March, 2018. The gearing of the company stood high at 5.10 times as on 31st March 2019 as compared to 5.14 times as on 31st March 2018, mainly due to low net worth of the company. The total debt facility of Rs.6.74 crore includes short term debt of Rs.5.14 crore and unsecured loans from body corporates of Rs1.60 crore. The Interest Coverage Ratio (ICR) stood moderate at 1.17 times in FY2019 as against negative 2.88 times in FY2018. Debt Service Coverage Ratio (DSCR) stood low at 0.73 times as against negative 1.60 times as on 31st March 2018. Net Cash Accruals to total Debt (NCA/TD) stood low at 0.03 times as on 31 March, 2019 as against negative 0.58 times as on 31

March, 2018. Acuite believes that financial risk profile of KonTest Chemicals is likely to improve on account of no major debt funded plans and better accruals.

Rating Sensitivity

- Sustainability of the profitability margins
- Working capital management

Material Covenants

No

Liquidity position: Stretched

KonTest has stretched liquidity marked by low cash accruals of Rs.0.18 crore as compared to maturing debt obligation of Rs.0.40 crore in FY 2019. The company's working capital operations are marked by high gross current asset (GCA) days of 237 in FY 2019 backed by high inventory days of 132 days in FY 2019. This working capital intensive nature of operation has led to higher reliance on working capital borrowings. The cash credit limit of the company remains utilized at ~ 97 percent for last six months ended 30th September 2019. The company maintains cash and bank balances of Rs.0.16 crore as on March 31, 2019. The current ratio of the company stands at 1.11 times as on March 31, 2019. Acuite believes that the liquidity of KonTest Chemicals is likely to improve on account of no huge repayments over the near future and better accruals.

Outlook: Stable

Acuite believes that KonTest's outlook will remain 'Stable' over the near term due to their improvement in profitability margins and experienced management. The outlook may be revised to Positive in case of further improvement in profitability margin which leads to improvement in financial risk profile of the company. The outlook may be revised to 'Negative' in case of change in formulation standards leading to decline in profitability and continuing intensive working capital requirements and deteriorating financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	17.38	14.31
PAT	Rs. Cr.	0.02	(4.07)
PAT Margin	(%)	0.13	(28.41)
Total Debt/Tangible Net Worth	Times	5.10	5.14
PBDIT/Interest	Times	1.17	(2.88)

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.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	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.30	ACUITE B/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.70	ACUITE B/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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