

Press Release

KonTest Chemicals Limited

March 01, 2022

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	6.00	ACUITE B+ Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	6.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE B**' (read as **ACUITE B**) on the Rs. 06.00 Cr bank facilities of KonTest Chemicals Limited (KCL). The outlook remains '**Stable**'.

The rating upgrade of KCL takes into account the improving business risk profile of the company as reflected from its increasing revenue on the back of improving demand for its product coupled with substantial increase in sales realisation. These strengths are partially offset by elongated working capital cycle and the intense competition in the pharmaceutical industry.

About the Company

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 trading of a wide range of pharmaceutical products such as tablets, capsules and oral powders. The company is also into manufacturing 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 profiles of KCL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced Management and long track record of operations

The company 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. Acuite derives comfort from the long experience of the promoters.

Weaknesses

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 tangible net worth of the company improved to Rs.1.93 crore as on March 31, 2021 from Rs.1.45 crore as on March 31, 2020 due to accretion of reserves. The gearing of the company stood high at 3.20 times as on March 31, 2021 as compared to 4.22 times as on March 31, 2020, mainly led by increasing reliance on external debt to support the working capital requirements. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 4.98 times as on March 31, 2021 as against 7.38 times as on March 31, 2020. The moderate debt protection metrics of the company is marked by Interest Coverage Ratio at 1.79 times as on March 31, 2021 and Debt Service Coverage Ratio at 1.15 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.12 times as on March 31, 2021. Acuité believes that financial risk profile of KonTest Chemicals is likely to improve on account of no major debt funded capex plans and better accruals.

Working capital intensive nature of operations

The working capital intensive nature of operations of the company is marked by high Gross Current Assets (GCA) of 150 days as on March 31, 2021 as against 205 days as on March 31, 2020. The high GCA days are on account of high inventory period of the company which stood at 80 days as on March 31, 2021 as compared to 154 days as on 31st March 2020. The debtor days stood at 53 days as on March 31, 2021, as against 24 days as on March 31, 2020. Going forward, Acuité believes that 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.

Intense competition from both MNCs and Indian companies

KCL faces intense competition and pricing pressure. Industry is facing severe price erosions, significant government pressures to reduce prices along with increasing regulation and increased sensitivity towards product performance.

Rating Sensitivities

Growth in revenue along with improvement in profitability margins
Elongation of working capital cycle

Material covenants

None

Liquidity Position: Adequate

KCL's liquidity is marked by moderate net cash accruals stood at Rs.0.73 crore as on March 31, 2021 as against long term debt repayment of Rs.0.50 crore over the same period. The current ratio stood moderate at 1.08 times as on March 31, 2021. The cash and bank balances of the company stood at Rs.0.49 crore as on March 31, 2021 as compared to Rs.0.18 crore as on March 31, 2020. The cash credit limit of the company remains utilized at ~ 87 per cent for last nine months ended December, 2021. Further, the company has availed loan moratorium and applied for additional covid loan. Acuité believes that the liquidity of KonTest Chemicals is likely to improve on account of no significant repayments over the near future and better accruals.

Outlook: Stable

Acuité believes the company's outlook will remain stable over the medium term on account of experience of the promoters and long track record. The outlook may be revised to 'Positive' in case the company continues to register consistent growth in revenues while

achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the company's financial risk profile and liquidity position or further deterioration in its working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	24.26	17.54
PAT	Rs. Cr.	0.58	0.13
PAT Margin	(%)	2.41	0.76
Total Debt/Tangible Net Worth	Times	3.20	4.22
PBDIT/Interest	Times	1.79	1.28

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Jun 2021	Proposed Bank Facility	Long Term	0.70	ACUITE B (Issuer not co-operating*)
	Cash Credit	Long Term	5.30	ACUITE B (Issuer not co-operating*)
13 Dec 2019	Cash Credit	Long Term	5.30	ACUITE B Stable (Assigned)
	Proposed Bank Facility	Long Term	0.70	ACUITE B Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
IDBI Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.30	ACUITE B+ Stable Upgraded
IDBI Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	0.70	ACUITE B+ Stable Upgraded

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About Acuité Ratings & Research

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