

February 25, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	2.25	SMERA B+/Stable (Assigned)
Term Loan	0.75	SMERA B+/Stable (Assigned)
Letter of Credit	6.00	SMERA A4 (Assigned)

SMERA has assigned ratings of '**SMERA B+**' (read as **SMERA B plus**) and '**SMERA A4**' (read as **SMERA A four**) to the above-mentioned bank facilities of Farmachem (FCM). The outlook is '**Stable**'. The ratings are constrained by the firm's moderate operating scale and low profitability amidst intense competition prevalent in the bulk drugs trading industry. The ratings are further constrained by the firm's negative operating cash flows, low net worth and proprietorship constitution. However, the ratings derive comfort from the firm's experienced management and moderate liquidity position.

FCM, established in 2001, is a Mumbai-based proprietorship firm engaged in trading of bulk drugs. FCM has a moderate operating scale, as reflected in revenues of Rs.52.71 crore in FY2012-13 (refers to financial year, April 01 to March 31). The firm's net profit margin is low at 0.32 per cent in FY2012-13. FCM operates in a highly competitive environment, which limits the firm's bargaining power against customers. The firm has reported negative operating cash flows since FY2011-12 due to increase in working capital requirements. FCM's total outside liabilities to tangible net worth (TOL/TNW) ratio is high at 8.36 times as on March 31, 2013; which includes interest-bearing unsecured loans of Rs.1.32 crore from family & friends. Further, the firm's financial risk profile is susceptible to withdrawal of capital, an inherent risk in proprietorship entities. However, the management plans to convert FCM into a private limited company.

FCM benefits from its experienced management. Mr. Narendra Zota, proprietor of FCM, has over two decades of experience in the bulk drug trading industry. FCM's working capital cycle is comfortable at ~30 days in FY2012-13. The firm has a moderate liquidity position, as reflected in average working capital limit utilisation of ~50 per cent during June 2013 to December 2013.

Outlook: Stable

SMERA believes the outlook on FCM's rated facilities will remain stable over the medium term. The outlook may be revised to 'Positive' in case the firm expands its scale of operations while maintaining a comfortable liquidity position and achieving a satisfactory capital structure. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the firm's financial risk profile.

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About the firm

FCM, established in 2001, is a Mumbai-based proprietorship firm promoted by Mr. Narendra Zota. FCM is engaged in trading of bulk drugs.

For FY2012-13, FCM reported net profit of Rs.0.17 crore on total income of Rs.52.71 crore, as compared with net profit of Rs.0.18 crore on total income of Rs.39.87 crore for FY2011-12. Further, FCM registered revenues of Rs.43.19 crore during April 2013 to December 2013. The firm's net worth stood at Rs.1.85 crore as on March 31, 2013, as compared with Rs.1.71 crore a year earlier.

Contact List:

Media / Business Development	Analytical Contacts	Rating Desk
Virendra Goyal Vice President - SME Sales Tel : +91 22 6714 1177 Cell : +91 99300 74009 Email : virendra.goyal@smera.in Web: www.smera.in	Umesh Nihalani Head - Corporate Ratings, Tel: +91-22-6714 1106 Email: umesh.nihalani@smera.in	Tel: +91-22-6714 1170 Email: ratingdesk@smera.in

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