Rating Rationale

19 Feb 2020

Everest Organics Ltd

Brickwork Ratings assigns ratings for the bank loan facilities of Rs. 44.99 Crs of Everest Organics Ltd ('EOL' or the 'Company')

Particulars:

Facility^	Amount (Rs Crs)	Tenure	Ratings*
Fund based:		Long term	**BWR BBB-/Stable**
Cash Credit	4.00		
Term Loan	7.49		
Proposed Cash Credit	5.00		
Proposed Term Loan	10.00		
Fund based:		Short term	**BWR A3**
EPC/PCFC/Bill Discounting	7.50		
Proposed EPC/PCFC/BD	5.00		
Non Fund based:			
Letter of Credit	5.50		
Bank Guarantee	0.10		
Proposed Bank Guarantee	0.40		
Total	**44.99**	**Rupees Forty Four Crores and Ninety Nine Lakhs Only**	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings; ^ Details of Bank facilities are provided in Annexure-I

Rating Action/Outlook

The ratings draw comfort from the experienced management, established track record in the pharmaceuticals industry, consistent performance, modest financial risk profile and long standing relationships with reputed customers. The ratings, however, are constrained by the inherent risks related to the highly regulated pharmaceuticals industry, increased competition in the fragmented Active Pharmaceutical Ingredients (API) industry, susceptibility to operational risks in the manufacturing plants and foreign exchange fluctuation risks. The ratings are also constrained by the limited pricing power of the company due to high exposure to the matured antiulcerative therapeutic segment and stretched liquidity position owing to elongated receivables days.

The '**Stable**' outlook indicates a low likelihood of rating change over the medium term. The outlook may be revised to Positive if a sustained increase in scale of operations, improved product/geographical diversification through the implementation of proposed expansion project, timely realisation of receivables and higher than envisaged improvement in profitability result in an improved financial risk profile. The outlook may be revised to ‘Negative’ if the company reports significantly lower than expected performance, resulting in lower than estimated coverage indicators and a weaker liquidity position. Further, any delay in the completion of the expansion project resulting in time and cost overruns, major debt-funded expenditure resulting in deterioration in capital structure and debt coverage indicators and/or a sharp reversal in industry conditions and/or delay or non realisation of receivables thereby weakening the credit risk profile may exert a downward pressure on the ratings.

Key rating drivers

Credit Strengths:

- **Experienced management and long operational track record-** The management is well experienced in the pharmaceuticals industry and the company has an established track record of around three decades.
- **Established relationships with reputed and diversified clientele-** The Company has established relationships ranging from 10-20 years with reputed clients in domestic & export markets viz. Aurobindo Pharma Ltd, Lee Pharma Ltd (India), Square Pharmaceuticals (Bangladesh), Pliva (Croatia) etc. The Company’s products received approval from US-FDA during FY18 & China-FDA in FY20. This is expected to augment the company's plans to scale up the business into new geographies.
- **Capacity utilization levels and medium term revenue visibility-** Capacity utilisation of the facilities for the Antiulcerative drugs was around ~85%. The proposed capacity expansion of Anti Ulceratives segment and the setting up of a new plant for production of drugs in the Anticoagulant, Antidiabetic, Antipsychotic segments, thereby diversifying the product portfolio, is expected to provide revenue visibility in the medium term. Although the revenue is expected to improve in the medium term owing to the proposed addition of new products and enhanced capacities, it would remain moderate.
- **Moderate financial risk profile-** The company’s financial risk profile is moderate reflected by modest networth, adequate gearing and debt protection metrics. Total operating income improved to Rs. 156.26 Crs and PAT increased to Rs. 7.51 cr during FY19 as against Rs. 112.55 Crs and Rs. 1.71 Crs respectively for FY18. Tangible net worth was Rs. 25.98 Crs as on 31st March 2019. Gearing was comfortable with Total debt/ Tangible net worth of 0.93 times. However, moderately high TOL/TNW of 3.03 times as on 31 Mar 2019, shows that the company is financially leveraged to some extent. This is mainly on account of the high levels of payables. The company enjoys a high credit period with domestic suppliers, who account for ~80% of the raw material supplies. Debt servicing capabilities were adequate as reflected by DSCR and ISCR of 2.19 and 5.68 times respectively for FY19.
- **Accreditations and Certifications-** EOL is an ISO 9001-2008 certified company. The manufacturing facilities comply with GMP standards and are certified by the Drug Control Authority of the Government of Andhra Pradesh. The products are US & China FDA approved and comply with various pharmacopoeial standards like BP, USP, EP and IP Standards. Necessary statutory approvals and clearances for manufacturing of Bulk drugs and Active pharmaceutical ingredients (APIs) are reported to be in place.

Credit Challenges:

- **Limited diversity in the product profile:** The company's products are limited to the already matured antiulcerative therapeutic segment. During the past 3 years, sales of the top 3 products in this segment viz. Omeprazole, Esomeprazole and Pantaprazole contributed to more than 60% of revenues. However, the company proposed plans to manufacture drugs belonging to Anticoagulant, Antidiabetic, Antipsychotic segments is expected to improve the diversification of the product profile in the medium term.
- **Exposure to regulatory and operational risks inherent in the pharmaceuticals industry -** The Pharmaceutical Industry is highly regulated with respect to prices, patents and quality. Further, various approvals, licenses, registrations and permissions are required for routine business activities. Any delay or failure in getting approval could adversely affect the business prospects of the company. Telangana State Pollution Control Board (TSPCB) had issued Closure Orders of the company's factory on 20 Oct 2018 with regards to non-compliances of pollution norms. However, this Closure Order was subsequently permanently revoked on 28 Mar 2019. BWR notes that the company has taken corrective steps to avert improper discharge of spent solvents going forward. The Company faces operational risks related to the critical equipment breakdowns, power breakouts, short supply of any input material or consumable fire and natural calamities or non compliance of pollution control norms.
- **Highly competitive API Industry -** The Active Pharmaceutical Ingredients (API) market is highly competitive and fragmented and the intense competition constrains the pricing flexibility. However, the promoters' extensive experience in the industry, proposed expansion plans and established relationships with customers and suppliers mitigates this risk to an extent.
- **Project execution and completion risks :**The project for the proposed expansion of the manufacturing facilities is funded through a mix of debt and equity. The project is in the initial stages of development. Timely financial closure, and the company's ability to commence project within stipulated timeline with no cost overrun is crucial. Also ensuring stabilisation of the plant operations and ramping up the sales will be crucial.
- **Exposure to foreign exchange fluctuations -** Exports contributed ~25% to the total revenues in FY19 and the Company is thus exposed to foreign exchange fluctuation risks. Forex risk is mitigated by way of natural hedging as the packing credit facilities are availed in foreign currency.
- **Impact of COVID 19:** The outbreak of COVID 19 in China, the largest exporter of APIs globally, has impacted the pharmaceutical industry. EOL is indirectly affected as some of their suppliers import from China. However, the impact on the company's business is stated to be minimal at present as exports to the majorly affected countries are limited. But, in the current scenario, the company's plan to penetrate into the Chinese market following the receipt of China FDA approval will face a temporary setback and may have an impact on the sales for FY21. On the other hand, the company is hopeful of benefitting from the increased demand-supply gap in the API industry segment that may arise out of any prolonged lockdown of Chinese manufacturing facilities.

Analytical approach and Applicable Rating Criteria

BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale). The Company does not have any subsidiaries.

Rating sensitivities:

Ability of the company to implement the proposed expansion plan within the expected costs and timelines, achieve product/geographical diversification, ensure steady revenue growth while managing regulatory risks and maintain its moderate financial risk profile will remain the key rating sensitivities.

Positive

- Successful commissioning of the proposed facilities without any cost overruns and timely rampup of the expanded capacity resulting in healthy revenue growth while maintaining its margins.
- Improved product profile or client diversity strengthening the business profile
- Efficient realisation of receivables.

Negative

- Any delay in funding tieup , change in project's funding mix or project commissioning.
- Subdued demand or any sharp decline in realisations resulting in lower than expected accruals, stretch in working capital cycle or any large, debt-funded capital expenditure, leading to deterioration of credit profile and and impacting liquidity position

Liquidity - Stretched: EOL's utilization of working capital is ~90-95% over the last 12 months, mainly due to the elongated receivables days. The company has applied for enhancement of the working capital facilities. Current ratio was 0.93 times and Net cash accruals to total debt was 0.52 times as on 31 Mar 2019. Current ratio was high due to the high levels of payables as the company enjoys a high credit period with domestic suppliers. Cash Equivalents were low at ~Rs. 1.18 cr as on 30 Sep 2019. Projected cash accruals of ~Rs. 13 Cr and ~Rs. 17 Cr are sufficient to meet the debt repayment obligations of ~Rs. 2 Cr each for FY20 & FY21 respectively. Timely enhancement of working capital limits will be critical in easing the liquidity. .

About the Company

Everest Organics Ltd (EOL), incorporated in 1993 at Hyderabad, is engaged in the manufacturing of active pharmaceutical ingredients (APIs) viz. Omeprazole, Dichloroflurobenzene, Benzimidazole, etc and bulk drugs viz. Ciprofloxacin, Rivaroxaban, etc. Commercial production commenced in 1996. The ISO 9001-2008 certified company has its Corporate office at Madhapur, Hyderabad and the factory at Sadasivpet Medak District Hyderabad, which is WHO-GMP certified. The company is listed on BSE. EOL mainly exports to Bangladesh, Croatia, Middle East countries, etc and exports contributed approximately 25% to the total revenue in FY19.

Dr. S.K. Srihari Raju is the Managing Director and Sri. Ramakrishnam Raju Kounparaju is the Chairman.

Key Financial Indicators

Parameters		31 Mar 2018 Audited	31 Mar 2019 Audited	9MFY20* Unaudited/ Limited Review
Total Income	Rs. Crs	112.55	156.26	121.75
EBITDA	Rs. Crs	7.46	18.24	15.29
PAT	Rs. Crs	1.71	7.51	6.94
Tangible Net Worth (TNW)	Rs. Crs	18.68	25.98	-
Total Debt/TNW	Times	1.23	0.93	-
Current Ratio	Times	0.86	0.94	-

**During Q3FY20, domestic sales turnover was Rs. 26.12 Cr and export sales turnover was Rs. 13.57 Cr.*

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA - NA

Rating History for the last three years:

Facility^	Current Rating (Feb2020)			Rating History		
	Amount (Rs Crs)	Tenure	**Rating**	**2019**	**2018**	**2017**
Fund based		Long Term	**BWR BBB-/ Stable**	Nil		
Cash Credit	4.00					
Proposed Cash Credit	5.00					
Term Loan	7.49					
Proposed Term Loan	10.00					
Fund based		Short Term	**BWR A3**	Nil		
EPC/PCFC/BD	7.50					
Proposed EPC/PCFC/BD	5.00					
Non Fund based						
Letter of credit	5.50					
Bank Guarantee	0.10					
Proposed Bank Guarantee	0.40					
Total	**44.99**	**Rupees Forty Four Crores and Ninety Nine Lakhs Only**				

Complexity Levels of the Instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

General Criteria	Manufacturing Companies
Approach to Financial Ratios	Short Term Debt

Analytical Contacts	Investor and Media Relations
Naveen S Senior Ratings Analyst Board: +91 80 4040 9940 Ext: 346 naveen.s@brickworkratings.com Rajee R Senior Director - Ratings B: +91 80 4040 9940 rajee.r@brickworkraings.com	Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com
1860-425-2742	

Annexure I: Details of Bank Facilities rated

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1	Kotak Mahindra Bank, Somajiguda Branch, Hyderabad	Cash Credit	4.00	-	4.00
		Term Loans	7.49	-	7.49
		PCFC/EPC/BD	-	7.50	7.50
		Letter of Credit	-	5.50	5.50
		Bank Guarantee	-	0.10	0.10
2	Proposed Facilities	Cash Credit	5.00	-	5.00
		Term Loan	10.00	-	10.00
		PCFC/EPC/BD	-	5.00	5.00
		Bank Guarantee	-	0.40	0.40
Total - Rupees Forty Four Crores and Ninety Nine Lakhs Only					**44.99**

For print and digital media : The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

About Brickwork Ratings : Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.