December 15, 2021

Everest Organics Limited: Ratings downgraded to [ICRA]BB+ (Stable)/[ICRA]A4+

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	4.50	16.00	[ICRA]BB+ (Stable) downgraded from [ICRA]BBB- (Stable)
Long-term – Fund-based – Term Loans	5.27	18.00	[ICRA]BB+ (Stable) downgraded from [ICRA]BBB- (Stable)
Short-term – Non-fund based	5.60	6.00	[ICRA}A4+ downgraded from [ICRA]A3
Long-term/Short-term – Fund-based	7.00	7.00	[ICRA]BB+ (Stable)/[ICRA]A4+ downgraded from [ICRA]BBB- (Stable)/[ICRA]A3
Long-term/Short-term – Unallocated	24.63	0.00	-
Total	**47.00**	**47.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the ratings factors in the expected moderation in Everest Organics Limited's (EOL) debt metrics and overall financial profile in FY2022 on account of significant increase in raw material prices which the company is unable to pass on to its customers. The company's operating margins decreased significantly to 0.7% in Q2 FY2022 and margins are expected to remain low in Q3 FY2022 as well. Although the price hikes taken during Q3 FY2022 would support its margins to an extent in Q4, profitability is expected to decline significantly for FY2022. Moreover, the company has sizeable debt funded capex plans of Rs. 16-17 crore in H2 FY2022, which along with decline in profitability, is impact its liquidity and the debt protection metrics. ICRA also notes that the permanent revocation of factory closure received from Telangana State Pollution Control Board (TSPCB) would be a key rating monitorable and any adverse developments on that front would impact the company's operational performance and credit metrics. The ratings consider EOL's moderate scale of operations and high revenue dependence on the mature anti-ulcerative therapeutic segment. The ratings are also constrained by vulnerability of its profits to fluctuating raw material and finished goods prices owing to stiff competition in the active pharmaceutical ingredient (API) industry. The company's working capital intensity is moderate and is primarily funded by creditors.

The ratings, however, draw comfort from the company's stable revenue growth over the past two years, driven by an increase in commercial orders for the anti-ulcerative products, which is expected to continue over the medium term on the back of addition of new products. Moreover, EOL's established track record and customer relationships in the pharmaceutical industry resulted in repeat, and healthy capacity utilisation levels.

The Stable outlook on the rating reflects ICRA's opinion that EOL will continue to derive stable revenues from its top three products, and benefit from its long association with the customers.

Key rating drivers and their description

Credit strengths

Extensive experience in pharmaceutical industry- The promoters' track record of more than three decades in the pharmaceutical industry enabled the company to have established relations with various reputed formulation companies, which resulted in repeat orders over the years. The customer concentration risk has remained moderate with top 10 customers contributing to 35% of the revenues in FY2021.

Healthy capacity utilisation levels- The plant capacity utilisation remains high at more than 90% especially for the top two products – Omeprazole, and Esomeprazole. Given the high utilisation levels, the company is in the process to expand the capacity of Esomeprazole, Pantaprazole and Benzimidazole, and is in process to add more products in FY2022.

Credit challenges

Moderate scale of operations- Despite stable ramp-up in sales over the last two years, the scale remains moderate with revenues of Rs. 182.1 crore in FY2021. Further, this is expected to improve over the medium term with the proposed capacity, commercialisation of new products and exports to regulated markets.

Moderate financial risk profile- The profitability improved to 12.9% in FY2021 from 6.6% in FY2018 due to various improvement measures adopted by the company. However, the same reduced to 4.3% in H1 FY2022 (0.7% in Q2 FY2022) owing to the significant increase in raw material prices. Overall, the profitability is likely to be impacted in FY2022. Further, ICRA notes that the expected decline in the probability will also affect its debt protection metrics.

High exposure to mature anti-ulcerative segment- The company is focussed on the matured anti-ulcerative segment as entire revenue is generated from APIs and intermediates in this segment. Majority of the sales are contributed by Omeprazole, Esomeprazole and Pantaprazole with the revenues from these three products accounting for more than 60% of revenues in the past four years. However, the segment concentration is expected to reduce in the medium term with the expected ramp-up in sales from products launched in FY2021 and expected launch of 8-10 products in FY2022 belonging to anti-viral, anti-coagulant and anti-gout segments.

High dependence on creditors for working capital requirements- EOL's working capital requirements are primarily funded by creditors resulting in high TOL/TNW of 1.9 times as on March 31, 2021. The company receives high credit period from domestic suppliers, who account for ~70-80% of the raw material procurement, on the back of its longstanding relationship.

Exposed to intense competition in API industry- The pharmaceutical industry is intensely competitive due to the presence of various established bulk drug manufacturers resulting in limited pricing power and profitability.

Liquidity position: Stretched

The company's liquidity position is stretched as reflected in the limited buffer (~Rs. 1-3 crore) in the working capital limits, high term loan debt repayment obligations of Rs. 4.5-5.0 crore in FY2022-FY2024, retained cash flow of Rs. 6-7 crore, low cash and bank balances of Rs. 0.2 crore as on September 30, 2021 and large debt funded expected capital expenditure plans in the near to medium term.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates recovery in the operating margins and improvement in liquidity position while recording healthy growth in scale of operations leading to improved debt metrics.

Negative factors – Negative pressure on EOL's rating could arise if there is significant decline in revenues or profitability continues to remain low on a sustained basis or further deterioration in working capital cycle impacts the company's liquidity position. Also, the company's inability to comply with the regulatory pollution norms imposed by the Telangana Pollution Control Boards could lead to a rating downgrade. Specific credit metrics that could lead to a downgrade of EOL's rating include (1) DSCR less than 1.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

EOL was established in 1993 by Dr Srihari Raju. Initially incorporated as a private limited company, it went public and was listed on the BSE in 1995. The company manufactures APIs and intermediates such as Omeprazole, Esomeprazole, Pantaprazole, Chloro compound and Benzimadizole. Its manufacturing facility in Aroor Village, in Medak district of Telangana with an installed capacity of 820 MTPA. The company is ISO 9001-2008 certified while the plant is WHO-GMP certified. The manufacturing facility also received US FDA approval in June 2017.

Key financial indicators (audited)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	168.3	182.1
PAT (Rs. crore)	10.9	13.7
OPBDIT/OI (%)	12.1%	12.9%
PAT/OI (%)	6.5%	7.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.5	1.9
Total Debt/OPBDIT (times)	1.1	1.0
Interest Coverage (times)	5.9	7.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company

Status of non-cooperation with previous CRA:

Brickwork Ratings, in its rationale published on Everest Organics Ltd., dated December 06, 2021, downgraded the ratings to BWR BB+/Stable/A4+; issuer Not Cooperating and removed the credit watch with developing implications based on best available information.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022) Type	Amount Rated (Rs. crore)	Amount Outstanding as on November 30, 2021 (Rs. crore)	Date & Rating on	Chronology of Rating History for the past 3 years: Date & Rating in FY2021			Date & Rating in FY2020	Date & Rating in FY2019	
					December 15, 2021	February 19, 2021	September 09, 2020	August 31, 2020	-	February 28, 2019	October 29, 2018
1	Cash Credit	Long Term	16.00	-	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB - (Stable)	-	[ICRA]BB (Positive)	[ICRA]BB-@
2	Term Loans	Long Term	18.00	18.00	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB - (Stable)	-	[ICRA]BB (Positive)	[ICRA]BB-@
3	Non-fund Based	Short Term	6.00	-	[ICRA]A4+	[ICRA]A3	[ICRA]A3	[ICRA]A3	-	[ICRA]A4+	[ICRA]A4@
4	Fund-Based	Long/Short Term	7.00	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB - (Stable)/ [ICRA]A3	-	[ICRA]BB (Positive)/ [ICRA]A4+	[ICRA]BB- @/[ICRA]A4 @
5	Unallocated	Long/Short Term	0.00	-	-	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB - (Stable)/ [ICRA]A3	-	[ICRA]BB (Positive)/ [ICRA]A4+	[ICRA]BB- @/[ICRA]A4 @

Amount in Rs. crore; @placed on watch with negative implications

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loans	Simple
Letter of Credit/ Bank Guarantee	Very Simple
Bill Discounting/Export Packaging Credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA’s website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	16.00	[ICRA]BB+ (Stable)
NA	Term Loan	2017	-	2026	18.00	[ICRA]BB+ (Stable)
NA	Letter of Credit	-	-	-	5.50	[ICRA]A4+
NA	Bank Guarantee	-	-	-	0.50	[ICRA]A4+
NA	Bill Discounting/Export Packaging Credit				7.00	[ICRA]BB+ (Stable)/ [ICRA]A4+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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