Everest Organics Limited

February 28, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund based – Term Loan	2.43	5.59	[ICRA]BB; Upgraded from [ICRA]BB-; ratings removed from 'rating watch with negative implications'; Positive outlook assigned
Fund based – CC/OD	4.50	4.50	
Non Fund based limits	5.60	5.60	[ICRA]A4+; Upgraded from [ICRA]A4; ratings removed from 'rating watch with negative implications'
Fund Based limits	5.50	7.00	[ICRA]BB/A4+; Upgraded from [ICRA]BB-/A4; ratings removed from 'rating watch with negative implications'; Positive outlook assigned
Unallocated limits	11.97	7.31	
Total	**30.00**	**30.00**	

Rationale

The ratings have been removed from 'rating watch with negative implications' following revocation of Closure Order from Telangana State Pollution Control Board (TSPCB) in November 2018 and no impact on production with the company taking corrective steps to avert improper discharge of spent solvents going forward. The ratings upgrade and revision in outlook factors in improvement in revenues from Rs. 112.55 crore in FY2018 to Rs. 103.93 crore in 9MFY2019 owing to increased realisations across all products and operating margins improvement to 12.54% in 9MFY2019 compared to 6.64% in FY2018. The realisations improved on the back of decrease in supply from China owing to stringent enforcement of pollution norms and supply of Omeprazole API into the regulated market of USA following receipt of US FDA approval in June 2017. The ratings also draw comfort from extensive experience of the promoters in the pharmaceutical industry; healthy capacity utilization levels and established relationships with reputed customers resulting in repeat orders over the years. The ratings also consider comfortable capital structure with gearing of 0.78 times as on December 31, 2018 and comfortable coverage indicators as reflected by interest coverage of 5.40 times and NCA/Total Debt of 59% in 9M FY2019.

The ratings are, however, constrained by the high exposure of the product portfolio to mature anti-ulcerative therapeutic segment resulting in limited pricing power; tight liquidity position of the company as indicated by average utilisation of working capital limits at ~89% owing to high debtor days; and high TOL/TNW of 3.09 times as on December 31, 2018 owing to high creditors. The ratings are also constrained by vulnerability of profits to fluctuations in raw material and finished goods prices owing to high competition prevailing in the Active Pharmaceutical Ingredient (API) industry. With growing demand, the capacity expansion plans and expected increase in exports to regulated markets will support the operating margins in the medium term; however timely enhancement of working capital limits will be critical to support the expected growth in revenues.

Outlook: Positive

ICRA believes that EOL will continue to benefit from healthy capacity utilisations and established customer relationships. The rating may be upgraded if the improvement in revenues and profitability is sustained, and liquidity position improves strengthening the financial risk profile. The outlook may be revised to 'Stable' if the performance is lower than expected, or if any major capital expenditure, or stretch in the working-capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Healthy growth in revenues and profitability during 9M FY2019: The operating income increased from Rs. 112.55 crore in FY2018 to Rs. 103.93 crore in 9M FY2019 on the back of increased realisations owing to lower supply from China and the company's entry into regulated market of USA. Stringent environment norms enforced by the Chinese government has resulted in lower API production in China which increased the realisations across all products resulting in improved margins from 6.62% in FY2018 to 12.54% in 9MFY2019.

Healthy capacity utilization levels: EOL's capacity utilisation remains high at more than 90% especially for the top three products – Omeprazole, Esomeprazole and Pantoprazole. The proposed capacity expansion of Esomeprazole, Omeprazole and Chloro Compound (Intermediate) provides healthy revenue visibility in the medium term.

Established customer relationships: The company has established relationship with reputed formulation companies resulting in repeat orders over the years. The customer concentration risk remained moderate with top 10 customers contributing 36% of the revenues in FY2018. This is expected to reduce further with the company's entry into the US market in FY2019.

Comfortable financial risk profile: The financial risk profile of the company is comfortable with gearing of 0.78 times as on December 31, 2018. The coverage indicators and debt protection metrics improved during 9MFY2019 and remained comfortable as reflected by interest coverage of 5.40 times, Total Debt/OPBITDA of 1.14 times and NCA/Total Debt of 59% in 9M FY2019. Despite debt-funded capex plans towards capacity expansion in the medium term, the debt protection metrics are expected to be comfortable.

Credit challenges

High exposure to mature anti-ulcerative segment: The company is focussed on the matured anti-ulcerative segment with the entire revenue over the years being generated from APIs and Intermediates in this segment. Majority of the sales are contributed by Omeprazole, Esomeprazole and Pantaprazole with revenues from the top 3 products accounting for more than 60% of revenues in the past 3 years. However, this is expected to improve in the medium term with the development of new products belonging to Anti-coagulant, Anti-Psychotic, Anti-diabetic segments.

Tight liquidity position: The company's liquidity position remains tight as reflected by high utilization of working capital limits with the average utilisation at ~89% for the past 12 months ending January 2019. The working capital requirements are majorly funded by creditors resulting in high TOL/TNW of 3.09 times as on December 31, 2018. The company enjoys high credit period with domestic suppliers, who account for ~80% of the raw material procurement, on the back of long standing relationship of the company. The company's ability to secure enhancement in working capital limits would remain a key rating monitorable.

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. However, the promoters' extensive experience in the industry and established relationships with customers and suppliers mitigates this to an extent.

Liquidity Position

The company's liquidity position is tight with high average fund-based limit utilization at ~89% during the period from April 2018 to January 2019. The working capital requirements are majorly funded by high credit period availed from suppliers. Further, the liquidity position is expected to improve with proposed enhancement in working capital limits.

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 standalone financial profile of the company

About the company:

Everest Organics Limited (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 is located at Aroor Village in Medak district of Telangana. 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

	FY 2017	FY 2018	9M FY2019*
Operating Income (Rs. Crore)	107.38	112.55	103.93
PAT (Rs. Crore)	1.35	1.71	6.82
OPBDIT/ OI (%)	6.05%	6.62%	12.54%
RoCE (%)	14.22%	13.99%	35.60%
Total Debt/ TNW (times)	1.09	1.21	0.78
Total Debt/ OPBDIT (times)	2.70	3.03	1.14
Interest coverage (times)	2.36	2.72	5.40

*Unaudited financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2019		Date & Rating in FY2018		Date & Rating in FY2017	Date & Rating in FY2016
					January 2019	October 2018	August 2017	April 2017	-	-
1	Term Loan	Long Term	5.59	5.59	[ICRA]BB (positive)	[ICRA]BB-@, Placed on 'rating watch with negative implications'	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	-	-
2	Cash Credit	Long Term	4.50	-	[ICRA]BB (positive)	[ICRA]BB-@, Placed on 'rating watch with negative implications'	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	-	-
3	Non Fund Based	Short Term	5.60	-	[ICRA]A4+	[ICRA]A4@, Placed on 'rating watch with negative implications'	[ICRA]A4	[ICRA]A4	-	-
4	Fund Based	Long Term/Short Term	7.00	-	[ICRA]BB (Positive)/ [ICRA]A4+	[ICRA]BB-@/[ICRA]A4@, Placed on 'rating watch with negative implications'	[ICRA]BB- (Stable) / [ICRA]A4	[ICRA]BB- (Stable) / [ICRA]A4	-	-
5	Unallocated	Long Term/Short Term	7.31	-	[ICRA]BB (Positive)/ [ICRA]A4+	[ICRA]BB-@/[ICRA]A4@, Placed on 'rating watch with negative implications'	[ICRA]BB- (Stable) / [ICRA]A4	[ICRA]BB- (Stable) / [ICRA]A4	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	Term Loan	2017	NA	2023	5.59	[ICRA]BB (Positive)
NA	Cash Credit	NA	NA	NA	4.50	[ICRA]BB (Positive)
NA	Non Fund Based	NA	NA	NA	5.60	[ICRA]A4+
NA	Fund Based	NA	NA	NA	7.00	[ICRA]BB (Positive)/ [ICRA]A4+
NA	Unallocated	NA	NA	NA	7.31	[ICRA]BB (Positive)/[ICRA]A4+

Source: Everest Organics Limited

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