September 09, 2020

Everest Organics Limited: [ICRA]BBB- (Stable)/[ICRA]A3 assigned for enhanced limits

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Term loan	5.27	5.27	[ICRA]BBB- (Stable); Outstanding
Fund based – CC/OD	4.50	4.50	
Non-Fund based	5.60	5.60	[ICRA]A3; Outstanding
Fund based limits	7.00	7.00	[ICRA]BBB-(Stable)/A3;
Unallocated limits	7.63	24.63	Outstanding/Assigned
Total	**30.00**	**47.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings factor in Everest Organics Limited's (EOL) significant growth in revenues in the last two years on the back of increase in commercial orders for anti-ulcerative products which is expected to continue over the medium term on the back of addition of new products. Further, the operating profitability margins improved to 12.01% in FY2020 from 6.68% in FY2018 owing to process improvement measures implemented by the company which resulted in lower raw material consumption and power costs. Moreover, EOL's established track record and customer relationships in the pharmaceutical industry resulted in repeated orders over the years, and healthy capacity utilisation levels. The ratings also consider comfortable financial risk profile with gearing of 0.64 times as on March 31, 2020, interest coverage of 6.10 times, and Total Debt/OPBITDA of 1.09 times for FY2020.

The ratings are, however, constrained by the moderate scale of operations and high dependence of revenues on mature anti-ulcerative therapeutic segment. 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. The company's working capital intensity is moderate and is majorly funded by creditors resulting in high overall indebtedness as reflected by TOL/TNW of 2.52 times as of March 31, 2020. EOL is expanding the manufacturing capacity to cater to the increasing orders from existing and newly-launched products at an estimated cost of Rs 15.0 crore in FY2021. Further, EOL has sought an enhancement in working capital limits and term loan for funding the capex and timely sanction of these limits will be a key rating monitorable.

The Stable outlook on [ICRA]BBB- rating reflects ICRA's opinion that EOL is expected to maintain revenue growth, profitability levels, and debt coverage metrics over the medium term.

Key rating drivers and their description

Credit strengths

Established track record in the pharmaceutical industry: The company is in the manufacturing of APIs for more than three decades in the pharmaceutical industry. The company has established relations with reputed formulation companies resulting in repeat orders over the years. The customer concentration risk has remained moderate with top

10 customers contributing to 38% of the revenues in FY2020, which is expected to reduce with addition of new customers over the near term.

Healthy capacity utilisation levels: The plant capacity utilisation remains high at more than 90% especially for the top two products – Omeprazole, and Esomeprazole. Sales volume increased by ~23% and ~17% in FY2019 and FY2020 respectively, supported by increase in commercial orders for EOL's products following the receipt of USFDA approval in FY2018. Given the high utilisation levels, the company is proposing to expand the capacity of Esomeprazole, Omeprazole, and newly added products in FY2020.

Healthy growth in revenues and profitability during the last two years: The operating income increased to Rs. 168.25 crore in FY2020 from Rs. 112.55 crore in FY2018 driven by healthy volume growth in the past two years. Also, the company implemented various process improvement measures resulting in improved operating profitability to 12.01% in FY2020 from 6.62% in FY2018. The expected ramp-up in sales of new products and increase in exports to regulated markets is likely to improve the revenues and support operating margins in the medium term.

Comfortable financial risk profile: The financial risk profile of the company is comfortable with gearing of 0.64 times as on March 31, 2020 which decreased from 1.17 times as on March 31, 2018 owing to healthy accretion to reserves. Increased operating profits during the past two years resulted in improvement in coverage indicators with interest coverage of 6.10 times, and Total Debt/OPBITDA of 1.09 times as on March 31, 2020. Despite the proposed debt-funded capex plans in the near term, the debt protection metrics are expected to remain comfortable.

Credit challenges

Moderate scale of operations: Despite healthy ramp-up in sales over the last two years, the scale remains moderate with revenues of Rs. 168.25 crore in FY2020. Further, this is expected to improve over the medium term with proposed expansion of capacity, commercialisation of new products and exports to regulated markets.

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 the revenues from these 3 products accounting for more than 60% of revenues in the past 4 years. However, this is expected to reduce in the medium term with the expected ramp-up in sales from new products launched in FY2020 belonging to Anti-viral, Anti-coagulant and Anti-gout segments.

High dependence on creditors for working capital requirements: The working capital requirements are majorly funded by creditors resulting in high TOL/TNW of 2.52 times as on March 31, 2020 which declined from 4.05 times as on March 31, 2018. The company receives high credit period from domestic suppliers, who account for ~70-80% of the raw material procurement, on the back of longstanding relationship of the company.

Exposed to intense competition in the 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: Adequate

The company's liquidity position is **adequate** and is supported by healthy retained cash flows, favourable credit terms with suppliers and expected enhancement in working capital limits in the near term. The average fund-based limit utilization is high at ~96% during the period from April 2019 to June 2020. Given the sizeable capex plans in the near term and company's growth plans, timely sanction of long-term debt and enhancement in working capital limits will be critical.

Rating sensitivities

Positive triggers: ICRA could upgrade EOL's rating if there is an improvement in its scale of operations while maintaining the company's margins along with reduction in product concentration and improvement in company's liquidity position. Specific credit metrics that could lead to an upgrade of EOL's rating include TOL/TNW less than 1.8 times on a sustained basis.

Negative triggers: Negative pressure on EOL's rating could arise if there is significant degrowth in revenues or profitability or further deterioration in working capital cycle impacting the company's liquidity position. Specific credit metrics that could lead to a downgrade of EOL's rating include current ratio less than 1.1 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 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 with an installed capacity of 720 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

	FY2019	FY2020	Q1 FY2021*
Operating Income (Rs. Crore)	156.3	168.3	43.3
PAT (Rs. Crore)	7.5	10.9	3.6
OPBDIT/ OI (%)	11.7%	12.0%	14.0%
RoCE (%)	34.1%	31.8%	35.2%
Total Outside Liabilities/Tangible Net Worth (times)	3.1	2.5	2.3
Total Debt/ OPBDIT (times)	1.3	1.1	1.1
Interest Coverage (times)	5.7	6.1	8.2

**Provisional financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2021) Date & Rating in FY2021 09-Sep-2020	31-Aug-2020	Chronology of Rating History for the past 3 years Date & Rating in FY2020 -	Date & Rating in FY2019 28-Feb-2019	29-Oct-2018	Date & Rating in FY2018 08-Aug-2017	27-Apr-2017
1	Term Loan	Long Term	5.27	5.27	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	[ICRA]BB (positive)	[ICRA]BB -@	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)
2	Fund based – CC/OD	Long Term	4.50	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	[ICRA]BB (positive)	[ICRA]BB -@	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)
3	Non Fund Based	Short Term	5.60	-	[ICRA]A3	[ICRA]A3	-	[ICRA]A4+	[ICRA]A4 @	[ICRA]A4	[ICRA]A4
4	Fund Based	Long Term /Short Term	7.00	-	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	-	[ICRA]BB (Positive)/ [ICRA]A4+	[ICRA]BB - @/[ICRA]A4@	[ICRA]BB- (Stable) / [ICRA]A4	[ICRA]BB- (Stable) / [ICRA]A4
5	Unallocated	Long Term /Short Term	24.63	-	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	-	[ICRA]BB (Positive)/ [ICRA]A4+	[ICRA]BB - @/[ICRA]A4@	[ICRA]BB- (Stable) / [ICRA]A4	[ICRA]BB- (Stable) / [ICRA]A4

@ Placed on 'rating watch with negative implications

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	2024	5.27	[ICRA]BBB- (Stable)
NA	Fund based – CC/OD	NA	NA	NA	4.50	[ICRA]BBB- (Stable)
NA	Non Fund Based	NA	NA	NA	5.60	[ICRA]A3
NA	Fund Based	NA	NA	NA	7.00	[ICRA]BBB- (Stable)/[ICRA]A3
NA	Unallocated	NA	NA	NA	24.63	[ICRA]BBB- (Stable)/[ICRA]A3

Source: Everest Organics Limited

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About ICRA Limited:

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