

Press Release

Genlink Pharma Solutions Private Limited

February 19, 2020



Rating Downgraded

Total Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE B/ Outlook: Stable (Downgraded from ACUITE BB-/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE B' (read as ACUITE B)** from '**ACUITE BB-' (read as ACUITE double B minus)** on the Rs. 25.00 crore secured redeemable non-convertible debentures of GENLINK PHARMA SOLUTIONS PRIVATE LIMITED (GPSPL). The outlook is '**Stable**'.

The rating downgrade takes into account the deterioration in the liquidity profile of the Enaltec Group (EG). The operations of the group are working capital intensive marked by GCA days of 274 days in FY2019 and 310 days in FY2018. The current ratio stands low at 0.95 times as on March 31, 2019 as against 1.22 times as on March 31, 2018. The repayment obligation for the period FY2020-22 are in the range of ~Rs. 17-9.00 crores with net cash accruals in the range of ~Rs. 10-11.00 crores for the same period. The operations of the group were also negatively impacted on account of time and cost overruns in the capex plans.

GPSPL is a Mumbai based company incorporated in 2016 by Mr. Anand Shah and Mr. Susheel Koul. It holds 31.34 percent in Enaltec Labs Private Limited (ELPL) and has raised funds for the same through issue of Non-convertible debentures.

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of Genlink Pharma Solutions Private Limited (GPSPL) and Enaltec Labs Private Limited (ELPL), hereinafter referred to as 'Enaltec Group' (EG) to arrive at the rating. The consolidated approach factors in dependence of GPSPL on the cash flows generated by ELPL for redemption of Non-convertible debenture. Extent of consolidation: Full.

Key Rating Drivers

Strengths

• Experienced management

GPSPL was incorporated in 2016 and ELPL was incorporated in 2006. Thus, the group has operational track record of over a decade in the pharmaceutical industry. The directors; Mr. Anand Shah and Mr. Susheel Koul have an experience of over two decades in the aforementioned industry. The long track record of operations and experience of management has helped the group develop healthy relationship with its customers and suppliers.

Acuité believes that the group will sustain its existing business profile on the back of established track record of operations and experienced management.

• Moderate business risk profile

GPSPL has started consultancy services related to pharmaceutical industry and has invested Rs. 25.00 crore in ELPL which was funded through proceeds of the NCDs. ELPL is a manufacturer of Active Pharmaceutical Ingredients (API) and has extensive geographical reach with a diversified revenue mix. It generates revenue from API research, API manufacturing and formulation developments and supplies to more than 20 countries. It has The Enaltec Group (EG) has registered an operating income of Rs. 188.72 crore in FY2019 and Rs. 140.77 crore in FY2018. Operating profitability has increased 9.16 percent in FY2019 from 4.82 percent in FY2018. The increase in profitability is mainly due to improvement in operating income in FY2019.

Weaknesses

• Working capital intensive operations

The operations of the group are working capital intensive marked by Gross Current Assets (GCA) of 274 days in FY2019 as against 310 days in the previous year. This is primarily due to high inventory holding period of 99 days for FY2019 and 122 days for FY2018. Debtor days stood at 109 days for FY2018 as against 100 days for FY2017. The current ratio stands low at 0.95 times as on March 31, 2019 as against 1.22 times as on March 31, 2018.

• NCD redemption risk associated with the valuation of Enaltec Labs Private Limited

The tenure of zero coupon NCD issued by GPSPL of Rs.25.00 crore is 4.50 years. The cash flow at the redemption date will depend upon the liquidity and the valuation of ELPL.

Liquidity Position: Stretched

The operations of the group are working capital intensive marked by GCA days of 274 days in FY2019 and 310 days in FY2018. The current ratio stands low at 0.95 times as on March 31, 2019 as against 1.22 times as on March 31, 2018. The repayment obligation for the period FY2020-22 are in the range of ~Rs. 17-9.00 crores with net cash accruals in the range of ~Rs. 10-11.00 crores for the same period. Acuité believes that the company's liquidity profile will be stretched on account of increased repayment obligation vis-à-vis net cash accruals and the operations being working capital intensive in nature.

Rating Sensitivities

- An improvement in the liquidity profile by infusion of adequate funds by the promoters to meet the short term repayment obligations will be a key rating sensitivity.

Material Covenants

None

Outlook: Stable

Acuité believes that the outlook of the EG will remain 'Stable' and the company will benefit over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the group registers healthy cash flows and exhibits a strong liquidity position. The outlook may be revised to 'Negative' in case of further challenges faced by the group in maintaining its liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	188.72	140.77
Profit after Tax (PAT)	Rs. Cr.	5.15	3.41
PAT Margin (%)	(%)	2.73	2.42
Total Debt/Tangible Net Worth	Times	1.65	1.05
PBDIT/Interest	Times	2.18	1.87

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Acuité could not obtain banker's feedback for Enaltec Labs Private Limited. Despite repeated reminders, the management has denied sharing the banker details for ELPL vide email dated February 11, 2019.

Applicable Criteria

- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Criteria for Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore.)	Ratings/Outlook
21-Feb-2019	Non-convertible Debentures (NCD)	Long Term	25.00	ACUITE BB-/Stable (Reaffirmed)
09-Mar-2018	Non-convertible Debentures (NCD)	Long Term	25.00	ACUITE BB-/Stable (Reaffirmed)
02-Mar-2017	Proposed Non-convertible Debentures (NCD)	Long Term	25.00	ACUITE BB-/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Non-convertible Debentures (NCD)	27 March 2017	Not Applicable	27 September 2021	25.00	ACUITE B/Stable (Downgraded from ACUITE BB-/Stable)

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About Acuité Ratings & Research:

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