

Press Release

Genlink Pharma Solutions Private Limited

February 19, 2021



Rating Downgraded

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

* Refer Annexure for details

Rating Rationale

Acuité has downgraded its long-term rating to '**ACUITE B-**' (**read as ACUITE B minus**) from '**ACUITE B**' (**read as ACUITE B**) on the Rs. 25.00 crore Non-Convertible Debentures (NCDs) of Genlink Pharma Solutions Private Limited (GPPL). The outlook is '**Stable**'.

The rating downgrade takes into account the significant deterioration in the business risk profile of Enaltec Labs Private Limited (ELPL) and challenges faced by GPPL in generating adequate cash flows to cover repayment obligations over the short term. GPPL has raised funds by issuing NCDs and has invested the proceeds in ELPL. GPPL is an investment company while ELPL is the operating company. ELPL's ability to generate adequate cash flow is key to repayment ability of GPPL. ELPL has recorded significant de-growth in its operating income in FY2020. It stood at Rs. 117.27 crore in FY2020 against Rs. 188.09 crore in FY2019, de-growth of ~38 percent. This is primarily on account of time and cost over runs in completion of their capex plans leading to delay in transition to in house manufacturing from third party manufacturing. The decline in operating income has also led to drop in profitability. It has incurred operating as well as net losses in FY2020. ELPL has reported operating and net loss of Rs 9.67 crore and Rs. 26.33 crore, respectively.

Mumbai based Genlink Pharma Solutions Private Limited (GPPL) was incorporated in 2016 by Mr. Anand Shah and Mr. Susheel Koul; an associate company of Enaltec Labs Private Limited (ELPL) and has acquired 31.34 percent shareholding in ELPL by raising funds through issue of Non-convertible debentures.

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of Genlink Pharma Solutions Private Limited (GPPL) 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 GPPL on the cash flows generated by ELPL for redemption of Non-convertible debenture. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management**

GPPL 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.

Weaknesses

- **Below average financial risk profile**

EG has below average financial risk profile marked by low net worth and high debt. The Groups net worth stood at Rs. 36.32 crore as on March 31, 2020 against Rs. 59.94 crore as on March 31, 2019. Net worth has eroded on account of significant losses in FY2020. Gearing deteriorated to 2.89 times as on March 31, 2020 against 1.65 times as on March 31, 2019. The significant decline in Group's profitability

has led to decline in the coverage indicators. The interest coverage ratio (ICR) declined to (0.70) times in FY2020 from 2.18 in FY2019. Debt service coverage ratio (DSCR) declined to (0.23) times in FY2020 from 1.36 times in FY2019. The gearing declined to 2.89 times as on March 31, 2020 against 1.65 times as on March 31, 2019. TOL/TNW increased to 5.66 times as on March 31, 2020 from 3.48 times as on March 31, 2019.

Acuité believes the Groups ability to improve its financial risk profile remain a key rating sensitivity.

- **Significant decline in operating performance**

The Group has recorded significant de-growth in their operating income in FY2020. It stood at Rs. 117.26 crore in FY2020 against Rs. 188.75 crore in FY2019, de-growth of ~38%. This is primarily on account of time and cost over runs in completion of their capex plans leading to delay in transition to in house manufacturing from third party manufacturing. The Group has incurred operating as well as net losses in FY2020. The Group has reported negative operating and net loss of Rs. 9.34 crore and Rs. 26.29 crore, respectively.

For 9M FY2021 (Provisional) the Group's operating income and profitability has improved vis-à-vis FY2020. However, the increase in borrowings and resultant increase in finance costs have had an adverse impact on its profitability. It has reported operating income of ~Rs. 92.00 crore and ~14 percent of operating margin. However, it has still incurred a net loss.

Acuité believes the Group's ability to significantly improve operating performance will be key monitorable.

- **NCD redemption risk associated with the operating as well as financial risk profile of ELPL**

The tenure of zero coupon NCD issued by GPPL of Rs.25.00 crore is 4.50 years. The cash flow at the redemption date will depend upon the liquidity and cash flows of ELPL. NCDs are redeemable at premium on September 27, 2021. The decline in Group's operating as well as financial risk profile significant hampers the Group's ability for timely redemption of the NCDs.

Liquidity Position: Poor

The Group generated net cash accruals of Rs. (17.26) in FY2020 against repayment obligation of Rs. 17.04 crore during the same period. Going forward the company repayment obligations are expected to be around Rs. 9.00 crore against NCA in the range of Rs. 6.46 crore to Rs. 13.63 crore during the same period. The Group has elongated working capital cycle marked by GCA of 382 days in FY2020 against 273 days in the previous year. This has made the Group heavily dependent on short term debt. The short term debt for EG increased to Rs. 43.77 crore in FY2020 from Rs. 26.78 crore in FY2019. This is an increase of ~63 percent. The due date for repayment of the NCDs is September 27, 2021. Acuité expects EG's liquidity profile is expected to be poor on account of inadequate cash flows vis-à-vis repayment obligations and high dependence of short term external borrowings to fund its increased working capital requirement.

Material Covenants

None

Rating Sensitivities

- Ability of the Group to significantly improve operational and financial risk profile will be key rating monitorable
- 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.

Rating Outlook: Stable

Acuité believes that the outlook of the EG will remain 'Stable' owing to its experienced management. The outlook may be revised to 'Positive' in case the group registers significant improvement in its operational risk profile and generate cash flows commensurate with its repayment obligations. The outlook may be revised to 'Negative' in case of further the Group faces further challenges maintaining its operational as well as financial and liquidity position.

About the Rated Group - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	117.26	188.75
PAT	Rs. Cr.	(26.29)	5.15
PAT Margin	(%)	(22.42)	2.73
Total Debt/Tangible Net Worth	Times	2.89	1.65
PBDIT/Interest	Times	(0.70)	2.18

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

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.htm>
- 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-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore.)	Ratings/Outlook
19-Feb-2020	Non-convertible Debentures (NCD)	Long Term	25.00	ACUITE B/Stable (Downgraded)
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 B/Stable)

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About Acuité Ratings & Research:

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