

Press Release

Genlink Pharma Solutions Private Limited

September 29, 2021



Ratings Downgraded

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

* Refer Annexure for details

Rating Rationale

Acuité has downgraded its long term rating to '**ACUITE D' (read as ACUITE D)** from '**ACUITE B-' (read as ACUITE B minus)** on the Rs.25.00 crore Non-convertible Debentures of Genlink Pharma Solutions Private Limited (GPSPL).

Rationale for Rating Downgrade

The rating downgrade takes into account the default in the repayment of NCD on the maturity date. GPSPL has been facing a severe liquidity crunch in the recent past, since it has not been able to generate adequate cash flows to meet the NCD repayment on the maturity date. The said cash flow mismatches are driven by the company's sole dependence on Enaltec Labs Private Limited (ELPL) whose operating performance has been deteriorating, by having recorded a significant de-growth in its operating income by ~38% y-o-y to Rs.117.27 crore in FY20. This was led by time & cost overruns in the completion of its capital expenditure plans, thereby leading to delay in transition to in-house manufacturing from third-party manufacturing. Given the decline in the operating income, the profitability of ELPL also declined, thereby having reported an operating loss and a net loss of Rs.9.67 crore and Rs.26.33 crore respectively in FY20.

About the Company

Mumbai based GPSPL 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 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 the NCD. 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

- **Delays in debt servicing obligations**

GPSPL has been facing a severe liquidity crunch in the recent past, since it has not been able to generate adequate cash flows to meet the NCD repayment on the maturity date. The said cash flow mismatches

are driven by the company's sole dependence on ELPL whose operating performance has been deteriorating, led by time & cost overruns in the completion of its capital expenditure plans, thereby leading to delay in transition to in-house manufacturing from third-party manufacturing.

- **Significant decline in operating performance**

The Group has recorded significant de-growth in their operating income in FY20. It stood at Rs.117.26 crore in FY20 as against Rs.188.75 crore in FY19, registering a de-growth of ~38% y-o-y. This is primarily on account of time & cost overruns in completion of their capital expenditure plans, thereby leading to delay in transition to in-house manufacturing from third-party manufacturing. The Group has incurred an operating loss and a net loss of Rs.9.34 crore and Rs.26.29 crore respectively in FY20. For 9MFY21 (Provisional), the Group's operating income & profitability has improved vis-à-vis FY20. However, the increase in the borrowings and a resultant increase in the finance costs have had an adverse impact on its profitability. It has reported an 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.

Liquidity Position: Poor

The liquidity position of GPSPL is currently poor, since the company has not been able to service its current and maturing debt obligations. Acuité expects the company liquidity profile to remain stretched for over near to medium term, given the ongoing delays in servicing debt obligations.

Rating Sensitivities

- Regularization of debt servicing track record
- Improvement in the liquidity position
- Improvement in the overall operational performance

Material Covenants

None

Outlook: Not Applicable

About the Rated Company - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	117.26	188.75
Profit after Tax (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

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Application of 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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument /Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
19-Feb-2021	Non-convertible Debentures	Long Term	25.00	ACUITE B-/Stable (Downgraded)
19-Feb-2020	Non-convertible Debentures	Long Term	25.00	ACUITE B/Stable (Downgraded)
21-Feb-2019	Non-convertible Debentures	Long Term	25.00	ACUITE BB-/Stable (Reaffirmed)
09-Mar-2018	Non-convertible Debentures	Long Term	25.00	ACUITE BB-/Stable (Reaffirmed)

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Not Applicable	Non-Convertible Debentures	27-Mar-2017	Not Applicable	27-Sep-2021	25.00	ACUITE D (Downgraded from ACUITE B-/Stable)

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About Acuité Ratings & Research Limited:

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