Press Release

Evertogen Life Sciences Limited

August 31, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 61.20 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4(Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE B-**' **(read as ACUITE B minus)** and the short term rating of **'ACUITE A4' (read as ACUITE A four)** on the Rs. 61.20 crore bank facilities of Evertogen Life Sciences Limited. The outlook is **'Stable'**.

Evertogen Life Sciences Limited (erstwhile Optimus Generics Limited) was incorporated on January 11, 2013 as a subsidiary of Glochem Industries Private Limited (GIPL, rated CARE BBB/Stable/CARE A3+) to enter into the formulations business. Subsequently, on June 9, 2015, GIPL transferred its holding in Evertogen to its group company; GIL Agro Private Limited; (GAPL). Presently, Evertogen is a 51:49 Joint-Venture (JV) between Glochem group and Organosyn Life Sciences Private Ltd (Organosyn).

Based in Hyderabad, Telangana, Evertogen is engaged in manufacturing of formulations, i.e. finished dosages with Capacity of 2 billion units per annum (Tablets - 1,800 million; Capsules - 200 million; Sachets - 15 million) at its facilities located in the Special Economic Zone (SEZ), Green Industrial Park, Jadcherla, Mahaboobnagar Dist. of Telangana. Besides, Evertogen is also engaged in the business of product development and contract manufacturing. The plant commenced commercial production from December, 2014. Evertogen is promoted and managed by Mr. Kattamuri Subbarao, who has more than three decades of experience in the pharmaceutical industry.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Evertogen to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

Evertogen, is promoted and managed by Mr. K Subbarao (Managing Director of Glochem group including Evertogen) who has more than three decades of extensive experience in the pharmaceutical industry. Mr K Subbarao is a Chartered Accountant by qualification and has around 40 years of industrial experience, including 30 years in the Pharmaceutical industry. Prior to promoting GIPL, he was heading the Bulk Drugs division of SOL Pharmaceuticals Ltd (Hyderabad); he was also associated with other Pharmaceutical companies like Hoechst Pharmaceuticals Ltd and Glaxo Laboratories Ltd. GIPL (51percent shareholder in Evertogen), was incorporated on November 20, 1995 by Mr. K Subbarao. GIPL is engaged into manufacturing of Active Pharmaceutical Ingredients (API's), drug intermediaries, fine chemicals and undertakes contract manufacturing of APIs and intermediates for various global and local players. Besides, Mr. Manav Jassal (CEO of Organosyn Lifesciences Pvt. Ltd. and Director in Evertogen) has vast experience of 20 years in the pharmaceutical industry. He began his career in the export business and shifted to Ukraine in 1996 to start his own business of pharmaceutical marketing. Mr. Jassal has completed his post-graduation in Pharmaceutical Sciences. Organosyn (49 percent shareholder in Evertogen), is a pharmaceutical company involved in contract manufacturing and marketing of generic formulations. Promoter's past experience has enabled the establishment of Evertogen with Glowchem group's foray into formulations. Acuité believes that the promoter's extensive industry experience will aid Evertogen's business risk profile over the medium term.

• **Continuous support from promoters**

Everogen's cGMP-led manufacturing facility was initially approved by the Indian Drug Authorities, UK MHRA, Ukrainian Authorities, TGA Australia, Health Canada and Kazakhstan Authorities. It was designed to conform to EU and FDA cGMP regulations. During FY2018, the Medicines and Healthcare products Regulatory Agency, United Kingdom (MHRA - UK) issued GMP non-compliance certificate to Evertogen, thereby restricting production or shipment of the Company's products (except for certain medically critical products). Post re-inspection by MHRA and Evertogen's response to the observations, further communications from MHRA is awaited. Post withdrawal of GMP certification, Evertogen's revenue has been on a declining trend from Rs.93.5 Cr in FY2017 to Rs.29.4 Cr in FY2020 (Provisional) with continued cash losses since FY2018. Since then, Glochem group and Organosym have been persistently supporting Evertogen by way of Equity infusion, debentures, providing contract manufacturing orders and advances. Glochem group has invested a sum of Rs.77.8 Cr (Rs.49.1 Cr in form of Equity and Rs.28.7 Cr in form of Non-convertible Debentures) as on March 31, 2020 (Provisional). These investments have increased from Rs.32.4 Cr as on March 31, 2017. Additionally, Organosym has invested a sum of Rs.61.3 Cr (Rs.47.3 Cr in form of Equity, Rs.14.3 Cr in the form of Non- convertible Debentures) as on March 31, 2020; increased from Rs.31.7 Cr as on March 31, 2017. Further, Organosym has consistently supported Evertogen by way of awarding contract manufacturing orders of its Ukraine-based customers to help maintain its top-line and advances to aid its working capital requirements. Out of Evertogen's total revenue - Rs.29.4 Cr in FY2020 (Provisional) and Rs.50.9 Cr in FY2019, revenue through Organosym was Rs.25.6 Cr and Rs.42.9 Cr, FY2020 and FY2019, respectively; (Around 80-90 percent of total revenue). Advances worth Rs.17 Cr approx. were provided to Evertogen as on March 31, 2020 (Provisional). There is a supplementary investment in FY2021 by Organosym worth Rs.6.3 Cr (NCDs). Acuité believes that promoter's continuous support is likely to revive Everotgen's business over the medium term.

Weaknesses

• **Weak financial profile**

Evertogen's financial risk profile is weak, marked by negative tangible net worth, gearing (debt-to-equity), and debt protection metrics. Evertogen has negative net worth of Rs.9.2 Cr as on March 31, 2020 (Provisional) as against Rs.4.1 Cr as on March 31, 2019 due to continuous losses incurred. Erosion in net worth and high debt resulted in negative gearing (debt-to-equity) and negative total outside liabilities to tangible networth (TOL/TNW) ratio of 8.5 times and 13.5 times respectively, as on March 31, 2020 (Provisional) vis-à-vis negative 15.3 times and 28.9 times March 31, 2019. Debt protection metrics were also weak, reflected in negative interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of negative 1.4 times and 0.3 times, respectively, in FY2020 (provisional) vis-à-vis negative 1.5 times and 0.3 times for FY2019. Its accruals are expected to be insufficient in FY2021 against the repayment obligations of Rs.4.3 Cr; the same is expected to be funded through promotor's fund support. Acuité believes that despite the turnaround expected in FY2021, the financial risk profile is expected to remain weak over the medium term.

• **Intensive working capital operations**

Evertogen's working capital cycle is intensive with gross current assets (GCA) days in the range of 298-475 days over the last 3 years ending March 31, 2020. The high GCA days are marked by high inventory days and debtor days. Debtor and inventory days were high at 129 days and 207 days as on March 31, 2020 (Provisional). These were partially offset by high creditor days of 231 days as on March 31, 2020 (Provisional) backed by extended support from Organosym. The high GCA cycle has led to high utilization of bank lines of Rs.23.00 Cr (based on drawing power) in the range of 90-100 percent over the past 12 months ending July, 2020. Acuité believes that the operations of Evertogen will remain highly working capital intensive over the medium term.

• **Inconsistent top-line and continuous cash losses until FY2020; expected to rebound in FY21**

In consequence of withdrawal of GMP certification by UK-MHRA in FY2018, the revenues remained inconsistent. The revenue dipped from Rs.93.5 Cr in FY2017 to Rs.36.9 Cr in FY2018. It revived in FY2019 to Rs.50.9 Cr and dipped to its lowest at Rs.29.4 in FY2020 (Provisional). The operating profit margin (OPM) continued to be negative since FY2018; OPM was 5.8 percent in FY2017. The scale of operations have been supported by execution of contract manufacturing orders awarded by Organosym until FY2020 and the same support is likely to be extended over the medium term too. Evertogen had order book of Rs.52 Cr from Organosym and Rs.32 Cr from an Australian-based company as on March 31, 2020; to be executed in FY2021. Revenue of Rs.17.5 Cr has already been booked till July, 2020 with a positive operating profit of Rs.0.7 Cr; net profit remains negative at 4.3 Cr. Acuité believes that the timely execution of the order book and cost optimization measures will remain the key to the rebound expected in the near term. Additionally, re-issuance of GMP certificate in the medium term will further aid the business risk profile of the company.

Liquidity Position: Poor

Evertogen's liquidity is poor, marked by insufficient net cash accruals against its debt obligations, weak current ratio, highly utilized bank lines and low track record of timely repayments. These are offset by continuous fund support from promoters by way of Equity infusion and Debentures. Evertogen generated negative cash accruals of Rs.21.6 Cr in FY2020 (provisional) against debt obligations of Rs.7.5 Cr for the same period. The repayments and the loss incurred in FY2020 were partly met by working capital lines and partly through promoter fund support of Rs.23.2 Cr in the form of Equity. The cash accruals of the company are estimated to remain insufficient in FY2021 against repayment obligations of Rs.4.3 Cr. The average fund-based working capital utilisation stood at 94 percent for the past 12 months ended July, 2020. Further, Evertogen has been consistent on timely repayments since October, 2019; displaying a low track record of prompt debt-servicing. It maintained low unencumbered cash and bank balances of Rs.0.2 Cr as on March 31, 2020 (Provisional). The current ratio stood weak at 0.6 times as on March 31, 2020 (Provisional). Acuité believes that Evertogen's liquidity will remain constrained by highly utilized bank lines and insufficient net cash accruals vis-à-vis repayment obligations in the near term. Further, the expected turnaround in operations and extent of promoter fund support leading to timely servicing of its debt obligations will remain the key rating sensitivity factor over the medium term.

Rating Sensitivities

- Substantial improvement in scale of operations and operating margin over the medium term
- Stretch in working capital cycle leading to weakening of financial risk profile and liquidity
- Lower-than- expected promoter fund support

Outlook: Stable

Acuité believes that Evertogen will continue to benefit over the medium term from its experienced management and promoter's fund support. The outlook may be revised to 'Positive', in case of timely execution of its order book leading to higher-than-expected revenues and profitability with improvement in working capital management and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case Evertogen registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or lower promoter support leads to deterioration in its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	29.44	50.93
PAT	Rs. Cr.	(29.65)	(28.82)
PAT Margin	(%)	-	-
Total Debt/Tangible Net Worth	Times	(8.54)	(15.29)
PBDIT/Interest	Times	(1.36)	(1.48)

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

None

Any other information

None

Any Material Covenants

None

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
• Entities In Services Sector -https://www.acuite.in/view-rating-criteria-50.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00*	ACUITE B- / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00^	ACUITE B- / Stable (Assigned)
Term Loan I	January, 2014	11.90%	December, 2021	10.70	ACUITE B-/ Stable (Assigned)
Term Loan II	July, 2017	11.50%	August, 2022	3.01	ACUITE B-/ Stable (Assigned)
Term Loan III	May, 2015	14.25%	April, 2021	1.49	ACUITE B-/ Stable (Assigned)
EPC/PCFC	Not Applicable	Not Applicable	Not Applicable	6.00@	ACUITE B-/ Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00*	ACUITE A4 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4 (Assigned)

**RPC/RPCFC/LCBD/FBP/PSCFC is sublimit of CC limit*
#LC for capital goods is sub-limit for LC
^PC/PCFC/FOBP/FOUBP/FOBNLC is sub-limit of CC
@CC/FCNR/FUBD/FBP/PSCFC is sub-limit of EPC/PCFC

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About Acuité Ratings & Research:
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