

Press Release

EvertoGen Life Sciences Limited

December 03, 2021

Rating Reaffirmed



Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	16.00	16.00		ACUITE A4 Reaffirmed
Bank Loan Ratings	45.20	45.20	ACUITE B- Stable Reaffirmed	
Total	-	61.20	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE B-**' (read as **ACUITE B Minus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 61.20 Cr bank facilities of EVERTOGEN LIFE SCIENCES LIMITED (EvertoGen). The outlook is '**Stable**'.

About the Company

EvertoGen Life Sciences Limited (erstwhile Optimus Generics Limited) was incorporated on January 11, 2013 as a subsidiary of Glochem Industries Private Limited 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 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**

EvertoGen'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.29.33Cr in FY2020. The revenue, however, improved in FY2021 to Rs.66.75 Cr (Provisional). The company continued to generate cash losses since FY2018 until FY2020. It reported positive EBITDA of Rs.2.03 Cr (3.04percent margin) in FY2021. Despite, a positive traction witnessed in FY2021, the year-to-date key financials are again on a deteriorating trend. The company reported Rs. 23.43 Cr of revenue and negative EBITDA of Rs. 0.63Cr for the period 01, April to 30 September of FY2022. . Since then, Glochem group and Organosym have been persistently supporting EvertoGen by way of Equity infusion, debentures, providing contract manufacturing orders and advances. 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.68.58 Cr in FY2021 (Provisional) and Rs.29.45 Cr in FY2020, revenue through Organosym was Rs.42.03 Cr and Rs.26.99 Cr; (Around 80-90 percent of total revenue). Acuité believes that promoter's continuous support is likely to revive EvertoGen'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.23.09 Cr as on March 31, 2021 as against Rs.11.59 Cr as on March 31, 2020 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 3.59 times and 5.13 times respectively, as on March 31, 2021 vis-à-vis negative 6.83 times and 10.35 times March 31, 2020. Debt protection metrics were also weak, reflected in company interest coverage (ICR) of 0.38 times in FY2021 against negative 1.51 time in FY2020. Net cash accruals continuous to means negative as 4.70Cr in FY2021 its accruals are expected to be insufficient in FY2022 against the repayment obligations of Rs.4.07 Cr; the same is expected to be funded through promoter'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 120-400 days over the last 3 years ending March 31, 2021. The high GCA days are marked by high inventory days and debtor days. Debtor and inventory days were high at 11 days and 92 days as on March 31, 2021. These were partially offset by high creditor days of 116 days as on March 31, 2021 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 September, 2021. Acuité believes that the operations of Evertogen will remain highly working capital intensive over the medium term.

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.4.7 Cr in FY2021 (provisional) against debt obligations of Rs.6.5 Cr for the same period. The cash accruals of the company are estimated to remain insufficient in FY2022 against repayment obligations of Rs.6.5 Cr. The average fund-based working capital utilization stood at 94 percent for the past 12 months ended September, 2021. Further, Evertogen maintained low unencumbered cash and bank balances of Rs.0.11 Cr as on March 31, 2021 (Provisional). The current ratio stood weak at 0.43 times as on March 31, 2021 (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 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

Material covenants

None

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 leading to deterioration of its financial risk profile and liquidity.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	66.75	29.33
PAT	Rs. Cr.	(13.12)	(31.89)
PAT Margin	(%)	(19.65)	(108.71)
Total Debt/Tangible Net Worth	Times	(3.59)	(6.83)
PBDIT/Interest	Times	0.38	(1.51)

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

CRISIL vide its press release dated February 23, 2021 has classified the rating of Evertogen Life Science Limited to 'CRISIL D/Stable Issuer not cooperating (Withdrawn)' based on the best-available information.

Any other information

None

Applicable Criteria

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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
31 Aug 2020	Letter of Credit	Short Term	6.00	ACUITE A4 (Assigned)
	Packing Credit	Long Term	6.00	ACUITE B- Stable (Assigned)
	Term Loan	Long Term	1.49	ACUITE B- Stable (Assigned)
	Term Loan	Long Term	3.01	ACUITE B- Stable (Assigned)
	Term Loan	Long Term	10.70	ACUITE B- Stable (Assigned)
	Cash Credit	Long Term	12.00	ACUITE B- Stable (Assigned)
	Cash Credit	Long Term	12.00	ACUITE B- Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A4 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	12.00	ACUITE B- Stable Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	12.00	ACUITE B- Stable Reaffirmed
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	6.00	ACUITE A4 Reaffirmed
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	10.00	ACUITE A4 Reaffirmed
ICICI Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	6.00	6.00	ACUITE B- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.48	2.48	ACUITE B- Stable Reaffirmed
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	4.50	4.50	ACUITE B- Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	1.64	1.64	ACUITE B- Stable Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	0.10	0.10	ACUITE B- Stable Reaffirmed
Axis Bank	Not Applicable	Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	3.26	3.26	ACUITE B- Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	1.43	1.43	ACUITE B- Stable Reaffirmed
Punjab National Bank	Not Applicable	Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	1.79	1.79	ACUITE B- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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