February 2020

Rating Rationale

Everest Parenterals Private Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating[1]	Rating Action
Long Term Bank Facilities	845.07	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	400.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	**1,245.07**		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP BB-' to the long-term bank facilities and 'CARE-NP A4' to the short-term bank facilities of Everest Parenterals Private Limited (EPPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of EPPL is constrained by competition from existing players, exposure to foreign currency exchange risk and working capital intensive nature of business. The rating is also constrained by project stabilization and marketability risk, EPPL's exposure to regulatory risk and exposure to volatile interest rate. The rating, however, derives strength from promoter and management having experience in related field, achievement of financial closure for the project cost and demand of pharmaceutical products. The ability of EPPL to sell the products in the market, scale up the operations and sustain competition are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Weaknesses

Competition from existing players and exposure to foreign currency exchange risk

Parenterals industry is competitive with presence of few domestic players and importers of parenterals products from large pharmaceutical industry in foreign countries. Further, with the low entry barriers and low product differentiation, EPPL will have low pricing power which may impact the profitability of the company. Also, to penetrate the market, EPPL may have to provide higher credit period leading to high debtors collection period which could stress working capital of the company. Further, EPPL will source all its raw materials including packing materials from foreign countries exposing it to risk of foreign currency exchange fluctuation risk. The ability of EPPL to sustain competition and achieve projected revenue will be key rating sensitivity.

[1]*Complete definitions of the ratings assigned are available at www.careratingsnepal.com*

Working capital intensive nature of business

EPPL business will be working capital intensive with the company sourcing raw materials from different foreign countries and selling products in the local market. Further, EPPL will hold inventory for more than 4-6 months due high lead time from suppliers, Minimum Order Quantity (MOQ) fulfilment and transportation constraints there by increasing inventory holding period and leading to reliance on bank loans for its working capital needs.

Project stabilization risk and marketability risk

As on October 17, 2019, EPPL has achieved financial progress of ~83% (i.e. Rs. 1043 Mn cost incurred including advance of Rs. 57 Mn) of project. Further, the company has achieved ~94% physical progress with construction of building completed and installation of equipment and machineries on final stage. Company is expecting to be in operational stage by end of February 2020 and start commercial operation from Mid-March 2020. Though the company is in final stages of construction phase, EPPL is still exposed to stabilization risk post construction phase. Further, commercial production of EPPL is dependent on receiving operation and marketing license from Department of Drug Administration (DDA) after completion of test phase. With existing competition in parenterals products, marketing of the products will be challenging which however is moderated due to experienced sales team of the company. Hence, completion of test phase and ability of the company to sell the products in the market and scale up the operations will be key rating sensitivity.

Exposure to regulatory risk

Pharmaceutical sector being a matter of public interest is highly regulated industry. DDA under Ministry of Health and Population is the major government institution responsible for regulating pharmaceuticals sector in Nepal. Policies like fixing of maximum retail price on selected products could have impact on profitability of pharma sector. However, DDA's decision to ban on import of few products could benefit local players. Hence, sector is prone to regulatory risk and changes in other policies of Government of Nepal.

Exposure to volatile interest rate

Nepalese banking sector fix interest rates on lending, based on quarterly published base rate by the banks. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from Banks and Financial Institutions are exposed to volatile interest rate.

Key Rating Strengths

Promoter and management having experience in related field

EPPL belongs to Everest Healthcare group which is part of Ranasaria group which has investments in different sectors like steel, cement. EPPL board constitutes of one board member, Mrs. Neha Agrawal. She is also sole shareholder of the company and has served as director in different organization including other pharmaceutical company for around 2.5 years in the past. Company's management team is led by Mr. Umang Ranasaria, CEO who has experience of ~10 years across various fields including pharmaceuticals. Mr. Ranasaria, is supported by an experienced team having wide experience in pharmaceutical industry.

Financial closure achieved for the full project cost

The estimated cost of the project is Rs 1,257 Mn which is proposed to be funded in Debt equity ratio of 70:30 (i.e. Rs 880 Mn term loan and Rs 377 Mn equity). EPPL has entered into consortium loan agreement on May 26, 2019 for Rs. 880 Mn term loan. Out of Rs 377 Mn of equity, till November 16, 2019 Rs. 341 Mn has been infused by shareholder.

Demand of pharmaceuticals products

Pharmaceutical products in Nepal is mostly imported and has seen a steady growth which is evident by increasing imports of pharmaceutical products in the country (Rs. 30,119 Mn imports during FY19 against Rs 27,278 Mn during FY18 and Rs. 24,139 Mn during FY17). As per the Annual Report for FY18 published by Department of Health Services, Nepal had 1715 non-public health facilities during FY17 which increased to 1822 during FY18 which (1277 in FY16). With increasing access of health facilities along with increase in new health facilities across the country, demand for pharmaceutical products is expected to increase in future. Further, demand of pharmaceuticals products is not strongly influenced by macroeconomics parameters unlike other industries hence domestic players like EPPL are likely to benefit from the increasing demand if domestic players are competitive in price and quality against imported products.

About the Company

Everest Parenterals Private Limited (EPPL) is a Private Limited company, incorporated as on January 6, 2010 and is registered with DDA. It is promoted by Mrs. Neha Agrawal for setting up a unit for manufacturing of injectables largely known as Large Volume Parenterals (LVP) and Small Volume Parenterals (SVP). EPPL belongs to Everest Healthcare Group which is part of Ranasaria Group which is having investments in various sectors. SVP will include products like Vials, Ampoules and Eye/ Ear drops in different sizes ranging from 1ml to 30ml whereas LVP will include different Saline and Solution products in packaging of Polypropylene Bottles and Non-Polyvinyl Chloride Flexi Bag in different size ranging from 100ml to 1000ml.

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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	845.07	**CARE-NP BB-**
Short Term Bank Facilities	Working Capital Loan	340.00	**CARE-NP A4**
Short Term Bank Facilities	Non Fund Based Limit	60.00	**CARE-NP A4**
Total		**1,245.07**	