April 2021

Rating Rationale

Everest Parenterals Private Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating[1]	Rating Action
Long Term Bank Facilities	861.98	CARE-NP BB- [Double B Minus]	Reaffirmed
Short Term Bank Facilities	400.00	CARE-NP A4 [A Four]	Reaffirmed
Total Facilities	**1,261.98**		

Details of Facilities in Annexure 1

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

Detailed Rationale & Key Rating Drivers

The reaffirmations of the ratings assigned to the bank facilities of EPPL factors in delay in achieving Commercial Operation Date (COD) of the project due to Covid-19 impact on the construction activities together with cost overrun of the project which is yet to be tied up. The rating is also constrained by financial risk profile marked by low profitability and weak debt coverage indicators for the initial year of operation, project stabilization and marketability risk, competition from existing players, exposure to foreign currency exchange risk and working capital intensive nature of business coupled with 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 COD for Small Volume Parenterals (SVP) and demand of pharmaceutical products in Nepal. 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

Cost and time overrun for the project

The Project was projected to be set up at Rs. 1,257.12 Mn. and COD was expected to be in Mid-march, 2020 however due to the impact of COVID 19, COD of the project was delayed to Mid-January, 2021. Due to the time overrun in the project, the project has been finally set up at a total project cost of ~Rs. 1,350 Mn. The project cost has been funded through Rs 880 Mn term loan and Rs 375 Mn equity and the remaining portion of Rs. 95 Mn is payable to creditors. The company is in the process to tie up the enhanced project cost with banks and pay its creditors.

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

Project stabilization risk and marketability risk

Company started its commercial operation for Small Volume Parenterals (SVP) from January 14, 2021.Though the company already started its commercial operation, EPPL is still exposed to stabilization risk post construction phase as COD of Large Volume Parenterals (LVP) is still pending. Marketing license for about 8 products has been obtained by the company at present for manufacturing of SVP. Further, commercial production of EPPL is dependent on receiving operation and marketing license from Department of Drug Administration (DDA). 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, ability of the company to sell the products in the market and scale up the operations will be key rating sensitivity.

Financial risk profile marked by low profitability and weak debt coverage indicators for the initial year of operations

EPPL is expecting loss during the initial years of operation leading to weak debt coverage indicators. The company is expected to have overall gearing ratio of 2.46x at the end of FY21 and 2.57x at the end of FY22. This ratio is expected to improve in future on account of improvement in capital structure due to scheduled repayment of term loan coupled with accumulation of profits to the net worth.

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, EPPL is expected to 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, however majority of the raw materials are imported from India reduces the risk. The ability of EPPL to sustain competition and achieve projected revenue will be key rating sensitivity.

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 ~3 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.

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.

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.

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, however decreased in FY20 in line with impact of COVID 19 (Rs. 28,183 Mn imports during FY20 against Rs 30,119 Mn during FY19 and Rs. 27278 Mn during FY18). As per the Annual Report for FY19 published by Department of Health Services, Nepal had 1822 non-public health facilities during FY18 which increased to 2168 during FY19 which (1715 in FY17). 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	861.98	**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		**1,261.98**	