March 09, 2023

East India Pharmaceutical Works Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based – Term Loan/WCTL	5.00	11.00	[ICRA]BBB- (Stable); assigned/ reaffirmed
Long-term – Fund-based – Cash Credit	37.00	37.00	[ICRA]BBB- (Stable); reaffirmed
Short-term – Non-fund Based Limits – Letter of Credit	5.88	5.88	[ICRA]A3; reaffirmed
Short-term – Non-fund Based Limits – Bank Guarantee	1.25	1.25	[ICRA]A3; reaffirmed
Total	**49.13**	**55.13**	

Rationale

The reaffirmation of the ratings of East India Pharmaceutical Works Limited's (EIPWL) factors in the company's long track record in the pharmaceutical industry and its well-established presence in the domestic pharmaceutical market marked by the wide acceptance of its key products. Further, EIPWL continues to benefit from its established market position for its key molecules. Benefitting from the same, EIPWL posted healthy topline growth of 17.3% to Rs. 202.5 crore in FY2022. Maintaining the growth momentum, the company has achieved revenue of ~Rs. 155 crore in 9M FY2023. Further the ratings draw comfort from the company's adequate financial profile as marked by steady revenue growth and increased accrual generation, while maintaining a comfortable capital structure.

However, the ratings remain constrained by EIPWL's modest scale of operations in the generic formulations industry, resulting in limited economies of scale. Coupled with intense competition and vulnerability to volatility in key raw material prices and foreign exchange rates, this has constrained the company's profit margins. Also, EIPWL's working capital intensity remains high on account of its elevated receivables and inventory holding cycle, translating into almost full utilisation of its working capital bank limits. The company is exposed to high product concentration risk as its top four molecules account for 85-90% of its sales. Going forward, the ability of the company to develop and successfully market the new products is likely to be key in determining its business risk profile. Further, the operations remain exposed to the regulatory restrictions related to pricing caps in the domestic market.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that EIPWL will report steady revenue growth over the near to medium term, supported by stable demand while maintaining adequate coverage metrics.

Key rating drivers and their description

Credit strengths

Established operational track record in the pharmaceutical industry in India – Incorporated in 1936, EIPWL has an extensive operational track record in the domestic pharmaceutical industry. EIPWL is known for its flagship brand, Enteroquinol, which is an amoebicidal drug. Its other established brands include Tonoferon (haematinic), Vitazyme (digestive enzyme) and Pyrigesic (analgesic). Over the years the company has developed strong relationships with its customers, ensuring repeat business. Further, the company continues to benefit from the long-standing experience of the promoters in this business.

Adequate financial profile – EIPWL reported a strong topline growth of 17.3% to Rs. 202.5 crore in FY2022 (against Rs. 172.7 crore in FY2021) supported by stable demand for its key molecules. The growth momentum has continued into FY2023 with the company posting Rs. 155-crore revenues for 9M FY2023.[1] However, some moderation in margins was seen in FY2022 due to input cost pressure on the back of higher crude prices and supply chain issues. Nonetheless, with some stabilisation of input costs, margins are expected to improve over the medium term. Increased accrual generation has also resulted in some improvement in the company's coverage metrics. EIPWL's financial profile is expected to remain adequate, supported by stable demand for its key molecules, increased accrual generation and no significant increase in its debt levels.

Credit challenges

Modest scale of operations amid intense competition; results in limited economies of scale – Despite healthy growth in revenues, EIPWL continues to remain a moderate sized player in the generic formulations industry with revenues of Rs. 202.5 crore in FY2022. This in turn results in limited economies of scale for the company.

High product concentration risk – EIPWL derives around 85-90% of its revenues from its top four brands, namely Enteroquinol, Tonoferon, Vitazyme and Pyrigesic. This in turn exposes the company to high product concentration risk. Further, these products are based on mature molecules, thus exposing the company to intense competition along with providing limited margins on the same. Going forward, the company's ability to develop and successfully market its new products would be key in the diversification of its business risk profile.

High working capital intensity – EIPWL's operations have remained working capital intensive (reflected by NWC/OI of 33.6% in FY2022) on account of high inventory and receivable levels. However, this is mitigated to an extent by the high credit period received by the company. Further, since there is concentration in sales, the receivables are elevated at the year-end. This has continued to result in almost full utilisation of the sanctioned working capital bank lines.

Operations exposed to regulatory restrictions — Operating in the domestic pharmaceutical industry, EIPWL's operations are subject to regulatory restrictions related to pricing caps, apart from the intense competition. Two of its top four molecules are covered under the Drug Price Control Order, restricting the profitability for the same.

Liquidity position: Adequate

EIPWL's liquidity position continues to be **adequate**, supported by steady internal accrual generation, free cash balances of Rs. 4.2 crore as on December 31, 2022, and moderate debt servicing obligations over the near to medium term. However, its working capital utilisation continues to be high with an average working capital utilisation of 98% during the last 12 months ended January 2023. However, the company has also recently availed a working capital term loan of Rs. 6.0 crore, which will support the liquidity position.

Rating sensitivities

Positive factors – ICRA may upgrade EIPWL's ratings if the company demonstrates healthy growth in its scale of operations and profitability, improvement in its the working capital cycle along with strengthening of its liquidity profile. Specific credit metrics that may lead to an upgrade include an interest coverage above 3.0 times on a sustained basis.

Negative factors – EIPWL's ratings can be downgraded if any sustained pressure on revenue and profitability or an increase in the working capital cycle results in deterioration in the company's debt protection metrics or liquidity position.

[1] *As per provisional financials*

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company.

About the company

East India Pharmaceutical Works Limited, incorporated in 1936, manufactures and markets formulations. EIPWL also produces active pharmaceutical ingredients (APIs) for two of its key products—Enteroquinol and Tonoferon—while APIs for other formulations are procured from other manufacturers. The company has two manufacturing units in West Bengal, with a formulation plant at Sarsuna and an API plant in Durgapur. The manufacturing facilities of the company are approved by the World Health Organization – Good Manufacturing Practices (WHO-GMP). EIPWL has capacities to manufacture tablets, dry syrups, liquid orals, ointments and various related packaging materials. The produced formulations are mainly for therapeutic segments, namely antiprotozoal, haematinic, analgesic and antipyretic, eye care products, probiotic, antibacterials, anti-infective and multi-vitamins/ enzymes. The key formulations of EIPWL are produced in-house, while the remaining products are outsourced to contract manufacturers under the loan-licensing model. EIPWL also manufactures and markets a few ayurvedic medicines.

Key financial indicators (audited)

EIPWL	FY2021	FY2022
Operating income	172.7	202.5
PAT	3.7	4.4
OPBDIT/OI	7.6%	6.3%
PAT/OI	2.1%	2.2%
Total outside liabilities/Tangible net worth (times)	2.0	2.1
Total debt/OPBDIT (times)	2.9	2.9
Interest coverage (times)	2.6	3.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore) as on March 31, 2022	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 09, 2023	Mar 31, 2022	Dec 14, 2020	Dec 23, 2019
1	**Fund based – Term Loan/WCTL**	Long term	11.00	3.52	**[ICRA]BBB- (Stable)**	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	**Fund based – Cash Credit**	Long term	37.00		**[ICRA]BBB- (Stable)**	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	**Non-Fund based limits -Letter of Credit**	Short term	5.88		**[ICRA]A3**	[ICRA]A3	[ICRA]A3	[ICRA]A3
4	**Non-Fund based limits -Bank Guarantee**	Short term	1.25		**[ICRA]A3**	[ICRA]A3	[ICRA]A3	[ICRA]A3
5	**Untied Limits**	-	-		**-**	-	[ICRA]A3	[ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – Term Loan/WCTL	Simple
Fund based – Cash Credit	Simple
Non-Fund based limits -Letter of Credit	Very Simple
Non-Fund based limits -Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based – Term Loan/WCTL	FY 2021	8-10%	FY 2026	11.00	[ICRA]BBB- (Stable)
NA	Fund based – Cash Credit	NA	NA	NA	37.00	[ICRA]BBB- (Stable)
NA	Non-Fund based limits - Letter of Credit	NA	NA	NA	5.88	[ICRA]A3
NA	Non-Fund based limits -Bank Guarantee	NA	NA	NA	1.25	[ICRA]A3

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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