June 27, 2024

East India Pharmaceutical Works Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based – Term Loan/WCTL	11.00	11.00	[ICRA]BBB- (Stable); reaffirmed
Long-term – Fund-based – Cash Credit	37.00	42.00	[ICRA]BBB- (Stable); reaffirmed
Short-term – Non-fund Based Limits – Letter of Credit	5.88	0.88	[ICRA]A3; reaffirmed
Short-term – Non-fund Based Limits – Bank Guarantee	1.25	1.25	[ICRA]A3; reaffirmed
Total	**55.13**	**55.13**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation of East India Pharmaceutical Works Limited (EIPWL) factors in the company's 80 years-long operational track record and established market position for its key molecules in the Indian pharmaceutical industry. Benefitting from the same, EIPWL's top line rose 6.7% to Rs. 249 crore in FY2024 and the momentum is likely to sustain in the current fiscal as well. Further, the ratings continue to draw comfort from the company's adequate financial profile, marked by a steady revenue growth and increased accrual generation, while maintaining a comfortable capital structure.

However, the ratings remain constrained by EIPWL's moderate scale of operations in the generic formulations industry, resulting in limited economies of scale. Besides, intense competition and vulnerability to volatility in key raw material prices and foreign exchange rates have constrained the company's operating margins, which have witnessed some moderation in the recent fiscals. Also, EIPWL's working capital intensity remains high on account of its elevated receivables and inventory holding cycle, translating into high utilisation of its working capital limits. The company also remains exposed to the regulatory restrictions related to pricing caps in the domestic market and high product concentration risk, as its top four molecules continue to account for more than 85% of its sales. Going forward, the company's ability to develop and successfully market the new formulations will be key from the perspective of revenue diversification.

The Stable outlook on the long-term rating reflects ICRA's opinion that EIPWL will report a steady revenue growth and accrual generation over the near-to-medium term, supported by stable demand for its products.

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 has capacities to manufacture tablets, dry syrups, liquid orals, ointments and various related packaging materials. The produced formulations are mainly used for therapeutic segments, namely antiprotozoal, haematinic, analgesic and antipyretic, eye care products, probiotic, antibacterials, anti-infective and multi-vitamins/ enzymes. 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). Further, the company continues to benefit from the long experience of the promoters in this business.

Adequate financial profile – EIPWL's top line rose 6.7% to Rs. 249 crore in FY2024 from Rs. 233.7 crore in FY2023, supported by stable demand for its key molecules. However, some moderation in margins was seen in FY2024 due to input cost pressure.

Nonetheless, with some stabilisation of input costs, margins are expected to improve over the near-to-medium term. 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

Moderate scale of operations; intense competition results in limited economies of scale – Despite a healthy growth in revenues, EIPWL continues to remain a moderate sized player in the generic formulations industry, with revenues of Rs. 249 crore in FY2024. This coupled with intense competition in the industry has continued to result in limited economies of scale for the company.

High product concentration risk – EIPWL derives 85-90% of its revenues from its top four brands, namely Enteroquinol, Tonoferon, Vitazyme and Pyrigesic. This 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 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 of the business – EIPWL's operations have remained working capital intensive (reflected by NWC/OI of 35% in FY2024) on account of high inventory and receivable levels. However, this is mitigated to an extent by the relatively higher credit period received by the company from some of its key vendors. As there is some concentration of sales in the last quarter of the fiscal, the receivables remain relatively elevated at the year-end. This has continued to result in high utilisation of the sanctioned working capital lines.

Operations exposed to regulatory restrictions —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 its profitability.

Liquidity position: Adequate

EIPWL's liquidity position continues to be **adequate**, supported by steady internal accrual generation, free cash balances of Rs. 3-4 crore as of May 2024, and moderate debt servicing obligations in the near-to-medium term. However, its working capital utilisation continues to be high and stood at more than 90% during the last 12 months ended in May 2024.

Rating sensitivities

Positive factors – ICRA may upgrade EIPWL's ratings if the company demonstrates a healthy growth in its scale of operations and profitability, improve its working capital cycle and strengthen its liquidity profile. Specific credit metrics that may lead to ratings 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 a deterioration in the company's debt protection metrics or liquidity position on a sustained basis.

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 profile of the company.

About the company

Incorporated in 1936, EIPWL manufactures and markets pharmaceutical formulations in the domestic market. It 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). 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

EIPWL – Standalone	FY2022	FY2023
	Audited	Audited
Operating Income (Rs. crore)	202.5	233.7
PAT (Rs. crore)	4.5	1.6
OPBDIT/OI (%)	6.3%	4.1%
PAT/OI (%)	2.2%	0.7%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	2.3
Total Debt/OPBDIT (times)	2.9	4.9
Interest Coverage (times)	3.3	2.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore) as on March 31, 2024	Date & rating in FY2023	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					June 27, 2024	-	Mar 09, 2023	Mar 31, 2022
1	Fund based – Term Loan/WCTL	Long term	11.00	6.40	**[ICRA]BBB- (Stable)**	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Fund based – Cash Credit	Long term	42.00		**[ICRA]BBB- (Stable)**	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	Non-Fund based limits -Letter of Credit	Short term	0.88		**[ICRA]A3**	-	[ICRA]A3	[ICRA]A3

4	**Non-Fund based limits -Bank Guarantee**	Short term	1.25	**[ICRA]A3**	-	[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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund based – Term Loan/WCTL**	FY2021	7.65-9.25%	FY2026	11.00	[ICRA]BBB- (Stable)
NA	**Fund based – Cash Credit**	NA	NA	NA	42.00	[ICRA]BBB- (Stable)
NA	**Non-Fund based limits - Letter of Credit**	NA	NA	NA	0.88	[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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+ 91 22 61143442
kinjal.shah@icraindia.com

Deepak Jotwani
+91 124 4545870
deepak.jotwani@icraindia.com

Gaurav Singla
+91 124 4545366
gaurav.singla@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches