

July 20, 2023

East India Technologies Private Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working Capital	38.00	41.00	[ICRA]BBB: reaffirmed, outlook revised to Stable from Positive
Fund-based – Term Loan	38.91	38.05	[ICRA]BBB: reaffirmed, outlook revised to Stable from Positive
Non-fund Based	39.00	39.00	[ICRA]A3+; reaffirmed
Unallocated	4.09	1.95	[ICRA]BBB: reaffirmed, outlook revised to Stable from Positive
Total	120.00	120.00	

*Instrument details are provided in Annexure-I

Rationale

The revision of outlook takes into account the higher-than-expected moderation in the operating profit margin (OPM) and credit metrics of East India Technologies Private Limited (East India), going forward. Higher than anticipated revenue contribution from low margin electronics manufacturing services (EMS) division and delays in operating efficiency improvements in expanded polystyrene (EPS) divisions are expected to keep the company's credit metrics at moderate levels in the near-to-medium term. The company's working capital requirements increased in FY2023 due to substantial blockage of funds in the EMS division led by a key customer, which is expected to normalise, going forward. East India has also been incurring debt-funded capex, whose benefits are expected to accrue gradually. Thus, debt levels have been higher in relation to the earnings. The ratings, also factor in the susceptibility of the company's margins to fluctuations in raw material prices as it is able to pass on input cost increases to an extent. Additionally, there is intense competition in the packaging and electronics industry owing to the commoditised nature of the products, which restrict the pricing power of manufacturers, although the company's track record and proximity to clients act as advantages.

However, the rating reaffirmation factors in the healthy improvement in East India's operating income (OI) across its divisions in FY2023 and expectations of continued revenue growth in the current fiscal, supported by the addition of new customers and a healthy order book status. The ratings continue to consider its established position as a major player in the EPS segment, the promoters' experience and strong relationships with reputed customers, primarily in the consumer durables and home appliances spaces.

The Stable outlook on the [ICRA] BBB rating reflects ICRA's opinion that the company's operational and financial profile would benefit from healthy orders for its EPS and EMS divisions over an expanded capacity. Moreover, successful implementation of a new boiler would augur well for the cost structure of the EPS division.

Key rating drivers and their description

Credit strengths

Experience of promoters in EPS and EMS divisions – The promoters and their families have been involved in the EPS business for more than three decades. The company has been supplying EPS packaging material to reputed customers from the consumer durables industry, undertaking job-work and manufacturing printed circuit boards (PCBs) in the EMS division primarily for similar end-user industries, including room air conditioners (RACs).

Healthy revenue visibility led by strong order book; revenue growth to continue – East India has reported ~98% revenue growth in FY2023 led by the strong growth in its EMS division and healthy growth in the EPS division. The company has reported ~Rs. 50 crore revenue in 2M FY2024 with an order book of ~Rs. 470 crore for the last 10 months of FY2024. The company is also expected to expand its customer profile along with its strong order book, which is expected to provide additional, healthy revenue visibility and diversity in the medium term.

Established relationships with customers and suppliers, primarily in EPS division – East India is one of the largest manufacturers of EPS products in the domestic market and caters to reputed white goods manufacturers. The company's customer base includes consumer durables majors such as Samsung India Electronics Private Limited, Daikin Airconditioning India Private Limited, Whirlpool India Private Limited, Havells India Limited, Haier Appliances India Private Limited and Panasonic India Private Limited, reflecting its ability to cater to large customers in the segment. The company has been dealing with these customers and certain suppliers for a long time and holds a leading position as an EPS player in northern India. Additionally, East India has been starting assembling PCBs for Megmeet Electrical India Private Limited (Megmeet), a 100% subsidiary of the Chinese firm, Shenzhen Megmeet Electrical Co., Ltd. (Megmeet), global electronics major.

Credit challenges

Higher than expected moderation in margins in FY2023, which is expected to be at similar level in near term – East India's OPM declined substantially to ~7.4% in FY2023 from ~11.7% in FY2022 mainly due change in product mix towards EMS and a rise in input costs, particularly power costs in the EPS division owing to sub-optimal operating efficiencies of the existing boiler. The company's OPM was expected to decline in FY2023 mainly because of increased revenues from the EMS division, which has a lower margin. However, revenue growth in the EMS division was higher than expected resulting in weaker OPM in FY2023. The OPM would remain under pressure in the near term, while the extent of benefit from the new boiler being installed is yet to be seen. Moreover, revenue contribution from the low margin EPS division would remain high. The company's margins are also exposed to raw material price volatility to an extent. It can pass on escalations for key raw materials to clients with some lag.

Moderation in credit metrics in FY2023 owing to large debt-funded capex – The company continues to be in debt-funded capex mode. Apart from setting up a new boiler at its own premises for the EPS division, the company is also expanding capacities across both its EMS and EPS divisions. East India has a planned capex of ~Rs. 50-55 crore in FY2024 and FY2025, apart from ~Rs. 40 crore capex incurred in FY2023. Its working capital requirements shot up in the EMS division, contrary to expectations. The elongation in receivables and increase in stock levels are expected to moderate. In FY2023, owing to debt availed for capex and working capital needs, East India's credit metrics moderated as witnessed by Total Debt/OPBDITA of 2.8 times in FY2023 over 2.2 times in FY2022; and TOL/TNW to 3.8 times in FY2023 over 2.1 times in FY2022. About 70-75% of the planned capex is to be debt-funded for which sanctions are available, which would keep its credit metrics (such as total debt/OPBDITA and DSCR) under pressure in the near to medium term, pending full realisation of its additional earnings and cost savings.

Intense competition in industry – Both the packaging and electronics industries are intensely competitive owing to various organised and unorganised players. However, East India's strong position as a supplier with sizeable capacities and proximity to clients, mainly in the EPS segment, provide it with a competitive edge. The demand for EPS moves in tandem with the consumer durables industry, thus East India's credit profile is sensitive to slowdown in end-user industries and economic cycles. There is intense competition in the EMS business from a few established and numerous small players, leading to pressure on pricing. However, the company has healthy revenue visibility in the EMS division due to its association with Megmeet.

Liquidity position: Adequate

East India's liquidity position is **adequate** with cushion of ~Rs. 10-15 crore in fund-based working capital limits. While the company has a repayment liability of ~Rs. 17-20 crore each year during FY2024-FY2026, the cash generation from the business and buffer in cash credit limit are expected to be sufficient to manage its working capital requirements and repay term loans. The company has a capex plan of ~Rs. 50-55 crore in FY2024 and FY2025, which will be mainly debt funded. The company's free cash levels are, however, modest at ~Rs. 2-3 crore due to the regular capex requirement.

Rating sensitivities

Positive factors – A rating upgrade would be driven by the sustained improvement in revenues and profitability. In terms of specific credit metrics, interest coverage more than 4.0 times, on a sustained basis, will be a positive rating trigger.

Negative factors – The ratings will be downgraded if the company witnesses further deterioration in its working capital cycle or margins. In terms of specific credit metrics, Total debt/OPBDITA higher than 2.5 times, on a sustained basis, will also be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on East India's standalone financial profile.

About the company

East India was established in 1989 and is managed by the Noida-based Bothra family. This is an ISO 9001:2008 and ISO 14001:2008 certified company that manufactures EPS thermocols used in the packaging of consumer durables. The company also manufactures PCBs in its EMS division. Its manufacturing facility is in Greater Noida, Uttar Pradesh. The company also has approval for production linked incentive (PLI) of Rs. 50-crore investment in its EMS division.

East India is a part of the Epack Group, which includes Epack Durable Limited. Epack Durables manufactures air conditioners, induction cooktops, juicer-mixer-grinders and water dispensers for customers such as Voltas, Havells, Godrej, Whirlpool, Haier, Blue Star, Philips and Bajaj. Epack Components Private Limited is a 100% subsidiary and captive unit of Epack Durable. Another Group company, Epack Polymers Private Limited, is involved in EPS manufacturing and prefabricated structures.

Key financial indicators (audited)

East India standalone	FY2021	FY2022	FY2023(P)*
Operating income	170.7	238.9	473.1
PAT	27.3	28.0	35.2
OPBDIT/OI	16.0%	11.7%	7.4%
PAT/OI	4.5%	3.5%	2.6%
Total outside liabilities/Tangible net worth (times)	1.5x	2.1x	3.8x
Total debt/OPBDIT (times)	2.7x	2.2x	2.8x
Interest coverage (times)	4.0x	4.0x	4.2x

Source: Company, *provisional financial submitted by the management

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts 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 (FY2024)				Chronology of rating history for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & rating in FY2024	Date & rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
				Jul 20, 2023	Nov 17, 2022	Dec 27, 2021	Nov 26, 2021	Oct 15, 2020
1 Cash Credit	Long Term	41.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)
2 Term Loans	Long Term	38.05	38.05	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)
3 Letter of Credit/BG	Short Term	39.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
4 Unallocated	Long term	1.95	-	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	-	-

Source: Company, *outstanding as on May 31, 2023

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Cash Credit	Simple
Long Term – Term Loan	Simple
Short Term – Letter of Credit/BG	Very Simple
Long Term – Unallocated	Not applicable

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	Cash Credit	NA	NA	NA	41.00	[ICRA]BBB (Stable)
NA	Term Loans	Sept 2022	NA	Sep 2028	38.05	[ICRA]BBB (Stable)
NA	Letter of Credit/BG	NA	NA	NA	39.00	[ICRA]A3+
NA	Unallocated	NA	NA	NA	1.95	[ICRA]BBB (Stable)

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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