

East West Pharma

August 17, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long -term Bank Facilities	10.00	CARE BB; Stable; ISSUER NOT COOPERATING* (Double B; Outlook:Stable; Issuer not cooperating*)	Issuer not cooperating; Revised from CARE BB+; Stable (Double B Plus; Outlook:Stable) on the basis of best available information
Total Facilities	10.00 (Rupees Ten Crore only)		

Details of instruments/facilities in Annexure

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from East West Pharma to monitor the rating vide e-mail communications dated May 2020 to July 2020 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring. **In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of best available information which however, in CARE's opinion is not sufficient to arrive at fair rating.** The rating on East West Pharma's bank facilities will now be denoted as **CARE BB; Stable; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

The rating has been revised by taking into account of non-availability of requisite information due to non-cooperation by East West Pharma with CARE's efforts to undertake a review of the outstanding rating as CARE views information availability risk as a key factor in its assessment of credit risk.

Detailed description of the key rating drivers

At the time of last rating on May 30, 2019, the following were the strength and weakness

Key Rating Weakness

Moderate scale of operations with fluctuating total operating income during the review period

The scale of operations stood moderate marked by total operating income of Rs.113.95 crore during FY18 and networth of Rs.80.44 crore as on March 31, 2018. During the last three years ended March 31, 2018, the total operating income has been moderately fluctuating from Rs. 82.59 crore in FY16 to Rs. 113.96 crore in FY18. Nearly 88% of the total operating income is driven by sale of medicines and pharmaceutical products while the remaining from hospital receipts.

Working capital intensive nature of operations

The operating cycle stood at 126 days in FY18 as against 77 days in FY17 owing to deterioration in the average payable period. The creditors are usually settled within a span of 40 days, the decline in average creditor period was on account of early settlement to creditors owing to increased reliance on cash credit facility in FY18. Besides, the firm maintains multiple stock keeping units as a result of which its inventory levels tend to be relatively high which increased from 41 days in FY17 to 66 days in FY18. The firm allows credit period that ranges between 90-120 days to its customers.

Inherent regulatory risk associated with pharmaceutical Industry albeit steady growth prospects

Competitive pressure in domestic formulation market has been rising steadily prompted by significant increase in investments by domestic players in marketing efforts through expansion in field force. Further, Government regulations, including those implemented by the National Pharmaceutical Pricing Authority (NPPA), have also impacted the industry's growth and profitability. Nevertheless, domestic formulations segment is expected to grow led by rise in chronic diseases, increasing per capita income and improvement in access to healthcare facilities along with growing penetration of health insurance.

Partnership nature of business constitution with inherent risk of withdrawal of capital

The group is constituted as a proprietorship/partnership firm wherein it is exposed to frequent withdrawal of capital and resultant erosion of the net worth resulting in lower capital base despite the firm being able to generate sufficient profits in the past.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

*Issuer did not cooperate; based on best available information

Key Rating Strengths***Experienced partners along with established track record of the business***

Mr. B.B. Mohan Kumar, the Managing Partner, is having vast experience in manufacturing pharmaceutical products. The firm, established in the year 2010, is a closely held concern with the entire capital held by the same family members. The partners are well experienced in health care segment and actively participate in the management of day-to-day affairs of the firm. Mr. Ganesan, Vice president, qualified in M.Sc. (Chemistry), has about a three decade of experience in pharmaceutical industry and takes care of the overall activities of the group. The vast track record of operation and the vast experience of the management team is expected to benefit the firm in the future also.

Satisfactory profitability margins albeit fluctuations

In absolute terms, the combined operating profits of the group grew by 60% over FY17-18. While, on a standalone basis, Sikkim unit reported net loss of Rs. 8.20 crore and 1.84 crore for FY17 and FY18 respectively. The net loss was primarily on account of low income generated by the hospital division in the initial years of its operation leading to under-absorption of fixed salary cost and professional consultancy charges spent towards doctors and professionals. Apart, investment in hospital division of the Sikkim unit has resulted in increased depreciation provision from FY17 onwards. In addition to high employee cost towards medical staff and depreciation provision, the group spends significant portion of expenses towards marketing of pharmaceuticals. As a result of decline in quantum of losses as well as the decline in overall sales promotional expenses, the PBILDT margin of the group improved and stood at 20.29% in FY18 as against 12.61% in FY17. The PAT margin stood at 16.33% in FY18 increasing by 750 bps from 8.80% in FY17. The improvement in PAT margin was mainly on account of improved operating profits resulting in absorption of financial expenses and depreciation provisions.

Comfortable capital structure and debt-coverage indicators

The debt profile of the group comprises predominantly of working capital facility only. The capital structure of the group as represented by overall gearing has remained comfortable at 0.13x as on March 31, 2018 as against 0.11x as on March 31, 2017 on account of strong net worth base. In line with debt level of the group, the interest cost also stood low leading to comfortable PBILDT interest coverage of 29.42x and 34.07x, in FY17 and FY18 respectively. TD/GCA stood comfortable at 0.48x in FY18 as against 0.54x in FY17 at the back of improved cash accruals reported by the group in FY18 which stood at Rs. 22.16 crore (PY: Rs. 13.93 crore).

Diversified product portfolio and wide range of distribution network

The group has a portfolio of around 900 products spread across eight therapeutic segments, however, the diabetic, dermatology and cardiology segments are the major revenue contributor to the company. EWP Associates, a stock keeping and distribution unit of the group has seven branches at various locations namely Salem, Bangalore, Palakkad, Vijayawada, Chennai, Roorkee and Guwahati with nearly 448 distributors in FY18 as against 226 distributors in FY16. Besides stock keeping and distribution, EWP associates also acts as a marketing arm for its products on behalf of all the three units. The firm sells its products in domestic market to distributors as well as participates in government tenders and supplies to central/state government health departments as well as private hospitals.

Analytical Approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook and credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology - Manufacturing Companies](#)

[CARE's Criteria for Short Term Instruments](#)

[Rating Methodology- Factoring Linkages in Ratings](#)

About the Firm

East West Pharma is a Tamil Nadu based closely held firm, established in 2010 is engaged in manufacturing of drug formulations and pharmaceuticals products from its three manufacturing facilities located in the states of Sikkim, Assam and Uttarakhand respectively. All the units are ISO 9001:2015 accredited and WHO-GMP certified facility. EWP Associates, a marketing and distribution division and Chennai National Hospital (CHN), a multispecialty hospital which are the units of East West Pharma (Sikkim) and its group and was established in 2015 and 2016 respectively.

Brief Financials (Rs. crore)	FY17(A)	FY18(A)
Total operating income	114.40	113.95
PBILDT	14.42	23.12
PAT	10.07	18.56
Overall gearing (times)	0.11	0.13
Interest coverage (times)	29.42	34.07

A-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BB; Stable; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable (30-May-19)	-	-

*Issuer did not cooperate; based on best available information

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Information not available

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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