

Eastern Bearings Private Limited
May 12, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	11	CARE BB+/Stable (Double B Plus; outlook; Stable)	Assigned
Short-term Bank Facilities	4	CARE A4+ (A Four Plus)	Assigned
Total	15 (Rupees fifteen crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale and key Rating Drivers

The ratings assigned to the bank facilities of Eastern Bearings Private Limited (EBPL) are primarily constrained by declining operating margins, leveraged capital structure, working capital intensive nature of business, exposure to volatility in raw material prices and ongoing debt-funded capital expansion. The ratings are further constrained by competition from various players operating in solar and automobile component manufacturer. The ratings, however, draws comfort from experienced management and long track record of operations, growing scale of operations, moderate profitability and debt service coverage indicators.

Going forward, the ability of the company to report sustainable growth in scale of operations along with profitability profile by maintaining comfortable capital structure and debt service coverage indicators remains a key rating sensitivity.

Detailed description of the key rating drivers**Key Rating Weaknesses**

Leveraged capital structure: EBPL has leveraged capital structure evident from overall gearing of 1.77 times as on March 31, 2016 against 2.20 times as on March 31, 2015. Company has healthy reliance on external borrowings in order to support its operating cycle in contrast to modest net worth level of Rs.13.06 crore in FY16 (refers to the period April 1 to March 31).

Working capital intensive operations: Company's operations are working capital intensive evident from operating cycle of 87 days in FY16. In order to ensure smooth production, the company has to maintain inventory of around 67 days, whereas average collection period stood around 64 days as on March 31, 2016. The working capital requirements were met largely through bank borrowings which resulted in average utilization of around 90% of its sanctioned working capital limits for last 12 months period ended March, 2016.

Exposure to raw material price volatility: Raw material constituted vital component of cost of sales in FY16. The company is exposed to raw material price volatility due to volatility experienced in the prices of steel, copper etc. The prices are driven primarily by the existing demand and supply conditions with strong linkage to the global market. This results into risk of price fluctuations on the inventory of raw materials which may impact the profitability margins of the company.

Residual project execution risk: Company is undertaking an expansion project by setting up new manufacturing unit of solar panel structure at its existing manufacturing facilities. The total cost of the project is estimated at Rs.9.25 crore, being financed with term loan worth Rs.6 crore, and the remaining from the promoter's fund in form of equity and unsecured loans. The debt of the same has been tied up and the commercial operation is expected in H1-FY18. Furthermore, due to debt funding for the project and given the modest net worth base of the company at present, its capital structure is going to remain leveraged going forward.

Competitive nature of market: EBPL operates in a highly competitive industry marked by the presence of a large number of players in the organized sector. The industry is characterized by low entry barriers due availability of standardized machinery for the production. This further leads to high competition among the various players and low bargaining power with suppliers. Further in solar business, on the back of incentives offered by Government of India, attracted number of players both in the organized & un-organized segment leading to stiff competition. Since the company's client base consists of established players, EBPL's pricing power is restricted with limited ability to pass on any increase in input cost due to intense competition.

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

Key Rating Strengths

Experienced management and long track record of operations: Mr Surinder Goel and Mr Sunil Goel, Directors of EBPL, has 25 years and 17 years of experience in company line of business. EBPL marketing division is handled by Mr Sunil Goel, whereas, solar segment, finance and export division is managed by Mr Surinder Goel. Additionally, Mr Saurabh Bansal, Director of EBPL, manages supply chain and production activities and possess 10 years of experience in their respective field. Company has long track record of 16 years in the manufacturing of bearings and solar structures.

Growing scale of operations and moderate profitability profile: EBPL scale of operations has increased evident from total operating income (TOI) at a compounded annual growth rate (CAGR) of 37.3% (i.e. from Rs.53.98 crore in FY14) to Rs.101.77 crore in FY16. The growth in scale of operations is driven by increasing contribution from solar division (around 52% in FY16 against about 36% in FY15) over the bearings, on the back of initiative taken by Government of India for focusing on power generation via renewable sources. During FY17, company has achieved TOI close to Rs.129.11 crore by end of 12M-FY17 (provisional).

PBILDT and PAT margins are moderate and stood at 7.93% and 2.28% as on March 31, 2016. PBILDT margin has moderated from 11.95% in FY14 to 7.93% in FY16 on account of increasing in sales from the share of solar segment, which carry lower margins in contrast to bearing.

Moderate debt coverage indicators: Company has moderate coverage indicators marked by interest coverage ratio and total debt to gross cash accruals (TD/GCA) of 2.51 times and 6.44 times respectively in FY16 against 1.91 times and 9.92 times respectively during the previous year.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[CARE's methodology for manufacturing companies](#)

[CARE's methodology for trading companies](#)

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

About the company

New Delhi-based, Eastern Bearings Private Limited (EBPL) was incorporated in March 2000 as a private limited company and is currently being managed by Mr Sunil Goel, Mr Surinder Goel, Mr Sunil Goyal and Mr Saurabh Bansal. EBPL is engaged in manufacturing of heavy industrial bearings (installed capacity of 120000 pieces as on March 31, 2016) and solar panels at its manufacturing facility located in Sonapat, Haryana. The company commenced business of solar panel structure manufacturing in FY12 (refers to the period April 1 to March 31) and generated nearly 52% of gross sales from this division in FY16. EBPL offers its bearings range of products under the brand name "ARB" in both the domestic and overseas market. The company has tied up with ARB Bearings Limited (rated 'CARE BBB+/Stable/CARE A2') for use of its brand and pays royalty. The company offers its solar products to system integrators in the domestic market. During FY16, EBPL has reported a total operating income (TOI) of Rs.101.77 crore with PAT of Rs.2.32 crore, as against TOI of Rs.63.55 crore with PAT of Rs.1.37 crore in FY15. The company has achieved TOI close to Rs.129.12 crore during 12MFY17 (refers to the period April 01 to March 31, as per provisional results).

Status of non-cooperation with previous CRA: Rating suspended by CRISIL on July 25, 2014 on account of non-availability of information from the client.

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

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.

Analyst Contact

Name: Mr Achin Nirwani

Tel: 011-453333228

Email: achin.nirwani@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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Annexure 1

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-Term Loan	-	-	-	6.00	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	5.00	CARE BB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	4.00	CARE A4+

Annexure 2

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	0.08	Suspended	-	-	1)Suspended (30-Dec-15)	1)CARE BB (09-Feb-15)
2.	Fund-based - LT-Cash Credit	LT	10.50	Suspended	-	-	1)Suspended (30-Dec-15)	1)CARE BB (09-Feb-15)
3.	Non-fund-based - ST-ILC/FLC	ST	8.00	Suspended	-	-	1)Suspended (30-Dec-15)	1)CARE A4+ (09-Feb-15)
4.	Non-fund-based - LT/ST-Bank Guarantees	LT/ST	0.50	Suspended	-	-	1)Suspended (30-Dec-15)	1)CARE BB / CARE A4+ (09-Feb-15)
5.	Fund-based - LT-Term Loan	LT	6.00	CARE BB+; Stable	-	-	-	-
6.	Fund-based - LT-Cash Credit	LT	5.00	CARE BB+; Stable	-	-	-	-
7.	Non-fund-based - ST-Letter of credit	ST	4.00	CARE A4+	-	-	-	-

CONTACT**Head Office Mumbai****Mr. Mehul Pandya**

Cell: +91-98242 56265

E-mail: mehul.pandya@careratings.com**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CREDIT ANALYSIS & RESEARCH LIMITED**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: deepak.prajapati@careratings.com**BENGALURU****Mr. Deepak Prajapati**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91-9099028864

Tel: +91-80-4115 0445, 4165 4529

E-mail: deepak.prajapati@careratings.com**CHANDIGARH****Mr. Sajan Goyal**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: sajan.goyal@careratings.com**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

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