

Emerald Resilient Tyre Manufacturers Private Limited

February 18, 2021

Ratings

Instrument / Facilities	Amount (Rs. Crore)	Rating ^[1]	Rating Action
Long-term Bank Facilities	17.03 (Enhanced from 9.68)	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	1.50	CARE A4 (A Four)	Assigned
Short-term Bank Facilities	29.50 (Reduced from 34.75)	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	48.03 (Rs. Forty eight crore and three lakh Only)		

Details of instruments/facilities in Annexure 1

Detailed Rationale & Key Rating Drivers

The ratings assigned to Emerald Resilient Tyre Manufacturers Private Limited (Emerald) are constrained by the relatively small scale of operations with a drop in the income level in FY20 (refers to the period April 1 to March 31), working- capital intensive nature of operations and financial risk profile characterized by leveraged capital structure and weak debt service coverage indicators.

The ratings, however, derive strength from the well-qualified promoters and experienced management team, the company's presence in a niche market, its widespread distribution network and new customers being on-boarded from new geographical regions.

Rating Sensitivities

Positive Factors:

- Increase in the scale of operations above Rs. 100 crore
- Improvement in liquidity position

Negative Factors:

- Drop in the scale of operations below Rs. 70 crore
- Overall gearing exceeding 2.5x

Detailed description of Key rating drivers

Key Rating Weaknesses

Relatively small size of operations:

The company has a product profile which restricts it to be a niche player and hence its scope to expand operations has been low both domestically and in the overseas market. While the company has been successful in retaining its existing customers and also in on-boarding new customers every year, FY20 recorded a drop in the turnover due to an overall drop of orders and delayed offtake in February 2020 and March 2020.

Leveraged capital structure and weak debt service coverage indicators

FY20 recorded a marginally higher networth and the leverage dropped to 1.84 (PY:2.01) as on March 31, 2020. The company resorted to short-term unsecured borrowings to manage its liquidity position in FY20 and as result the gearing levels continued to remain at about 1.3x. The company has further availed new covid- related TIs for Rs. 5.77 crore in 9MFY21 which have initial moratorium periods. The leverage is expected to continue at similar levels.

Interest coverage was at 1.20 for FY20.

Stretched operating cycle leading to tight liquidity position

The working capital cycle has remained high because of the higher inventory holding. The company generally holds inventory at approximately Rs. 30 crore. to enable quick dispatch of orders even for larger orders. The March 31, 2020 position of the inventory days is higher owing to the Covid lockdown wherein ready-for-dispatch consignments were held back in the plant.

The incremental receivables period has been attributed to a change in the customer mix with customers being offered longer credit period. Also, the existing customers had also requested for longer credit period citing the

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

Covid-related cash flow hurdles. Considering the customer relationship over the years and the future orders from these customers, the company has conceded to the higher credit periods resulting in the longer credit period.

Covid impact

The company's operations were halted during the lockdown starting from end-March 2020 and the operations resumed in May 2020 with gradual capacity ramping up. In this timeline of lower utilization, the management has undertaken cost optimizing measures like process improvements and improvising the chemical compositions of the raw materials. The end-user segment, i.e., the material handling segment saw a gradual recovery with Q1FY21/Q2FY21 being comparatively slow. As a result, while the company had an active order book, the off take by the customer slowed down. The company reported a total operating income of Rs. 45.78 crore and a PBT of Rs. 1.08 crore for 9MFY21 (Prov.).

Key Rating Strengths

Well-qualified promoters and experienced management team

Emerald is promoted by Mr V Thirupathi and his two sons Mr V T Chandrasekharan and Mr V T Srinivasan. Mr V Thirupathi is a Chartered Accountant and a Master of Financial Management graduate from Jamnalal Bajaj Institute of Management, Mumbai. The promoters have over a decade of experience in the industrial tyres segment. While Mr V Thirupathi takes care of the overall management, Mr V T Chandrasekharan takes care of the operations and technical functions of the company, and Mr Srinivasan manages the marketing and distribution in Europe – one of the company's largest markets.

The company also has a well-experienced professional management team led by Mr Krishnam – CEO & JMD of the company who has over three decades of experience in the Tyre Industry.

Niche player in a small market:

Emerald manufactures solid tyres mainly for material handling industry. Apart from solid tyres, the company has presence in Press-On (a variant of solid tyre) and pneumatic tyres for industrial applications. The company has a wide product range of different sizes and functionality to cater to a wide range of clients and applications. A large part of the company's sales comes from the replacement market where the company has been recommended by OEMs to its major clients to procure replacement tyres from Emerald. The replacement market contributed to 84% of sales of Emerald in FY20 (PY: 89%). Emerald caters to clients/dealers across the world and exports constitute the major part of its revenue. The company has been able to bag repeat orders from major players like PB Global, Pozitiv LLC and Eastman Industries Limited.

Widespread distribution network:

The company is a prominent player in value-based industrial tyre segment in India. The company exports to several countries. Exports constituted around 62% of the total sales value of the company in FY20. As on December 31, 2020, Emerald had a domestic dealer base of 20 and an international dealer network of about 30 dealers. The customer base is geographically diversified. The largest customer for the past years has been Pozitiv LLC, a Russian entity. In FY20 and 9MFY21, the company has been able to on-board new customers in FY21 like Clyde Machines, USA; Carlstar, USA. With plans of adding more overseas customers which would granulate the customer base further. Apart from this, the group has continued presence in Europe and Middle East owing to its subsidiaries located in these region. The company operates two wholly-owned subsidiaries in Dubai and Belgium, which serve as the marketing and distribution arm of Emerald in Middle East and Europe, respectively.

Liquidity - Stretched

The operations of the company are working capital intensive. The company purchases key raw material, natural rubber, on cash basis from Kerala. Emerald provides 90-120-days credit to its export clients and 30 days to its domestic clients as per the generic business model but as mentioned above the operating cycle has gotten elongated in the past 2 years owing to a change in the customer mix. To enable quick dispatch of orders, the company maintains finished goods of around Rs.25 crore since the turnaround time for dispatch of orders has been a factor for obtaining fresh orders in the past. Hence, a minimum inventory of Rs.30 crore is maintained by the company at any point of time. The cash and bank balances as on December 31, 2020 stood at Rs.0.93 crore. Emerald relies mainly on bank borrowings to fund the working capital requirements and the average working capital utilisation for the past 5 months was around 97%.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

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

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

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

[Rating Methodology- Auto Ancillary Companies](#)

About the Company

Emerald, promoted in 2002 by Mr V Thirupathi, is engaged in the business of manufacturing solid tyres and industrial pneumatic tyres catering to the material handling industry. The company has manufacturing facilities at SIPCOT Industrial Estate, Gummidipoondi, Thiruvallur district, Tamil Nadu. As on January 31, 2020, the installed capacity was 8,800 tons p.a. The tyres manufactured by Emerald are sold under brand names like 'Greckster', 'Solid Plus' and 'Empower'.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	87.53	72.25
PBILDT	14.89	10.98
PAT	1.96	0.06
Overall gearing (times)	1.35	1.31
Interest coverage (times)	1.83	1.20

A: Audited

Status of non-cooperation with previous CRA: CRISIL has suspended its rating vide press release dated August 17, 2015 on account of non-cooperation by the company with CRISIL's efforts to undertake a review of the outstanding ratings.

Any other information: NA

Rating History for 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-Term Loan	-	-	Sep-2024	11.78	CARE BB; Stable
Fund-based - LT-Cash Credit	-	-	-	5.25	CARE BB; Stable
Fund-based - ST-PC/Bill Discounting	-	-	-	25.00	CARE A4
Non-fund-based - ST-BG/LC	-	-	-	4.50	CARE A4
Fund-based - ST-Standby Line of Credit	-	-	-	1.50	CARE A4

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-Term Loan	LT	11.78	CARE BB; Stable	-	1)CARE BB; Stable (18-Feb-20)	1)CARE BB; Stable (12-Mar-19)	1)CARE BB; Stable (28-Mar-18) 2)CARE BB+; Stable (07-Apr-17)
2.	Fund-based - LT-Cash Credit	LT	5.25	CARE BB; Stable	-	1)CARE BB; Stable (18-Feb-20)	1)CARE BB; Stable (12-Mar-19)	1)CARE BB; Stable (28-Mar-18) 2)CARE BB+; Stable (07-Apr-17)
3.	Fund-based - ST-PC/Bill Discounting	ST	25.00	CARE A4	-	1)CARE A4 (18-Feb-20)	1)CARE A4 (12-Mar-19)	1)CARE A4 (28-Mar-18) 2)CARE A4 (07-Apr-17)
4.	Non-fund-based - ST-BG/LC	ST	4.50	CARE A4	-	1)CARE A4 (18-Feb-20)	1)CARE A4 (12-Mar-19)	1)CARE A4 (28-Mar-18) 2)CARE A4 (07-Apr-17)
5.	Fund-based - ST- Standby Line of Credit	ST	1.50	CARE A4	-	-	-	-

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
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - ST-PC/Bill Discounting	Simple
4.	Fund-based - ST-Standby Line of Credit	Simple
5.	Non-fund-based - ST-BG/LC	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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