

Emerald Tyre Manufacturers Limited

July 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	71.33 (Enhanced from 25.25)	CARE BBB-; Stable	Reaffirmed
Short-term bank facilities	46.00 (Enhanced from 41.00)	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Emerald Tyre Manufacturers Limited (Emerald) draw strength from the promoter's vast experience in industrial tyre segment, established track record of the business, diversified presence across original equipment manufacturer (OEM) and replacement market, and robust distribution network.

Ratings remain constrained by the susceptibility of the company's margins to raw material price volatility and foreign exchange fluctuations. Ratings are also tempered by the moderate capital structure and elongated working capital cycle.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increasing scale of operations above ₹250 crore.
- Improving working capital cycle with rationalisation of inventory levels below 120 days and improved collection to less than 90 days.

Negative factors

- Elongating working capital cycle beyond 180 days leading to tightening of liquidity.
- Overall gearing exceeding 1.5x.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the company would sustain the growth in the scale in the medium term and would continue to get orders from the OEM/Tier-I segment.

Detailed description of key rating drivers:

Key strengths

Established track record of the business; However, scale of operations remains moderate:

The company was incorporated in 2002 and has been involved in manufacturing Off the road (OTR) tyres for more than two decades. Initially, the company was largely catering to material handling equipment and has now forayed into construction, mining, and agriculture segment. The company offers wide variety of products across 1416 stock keeping units (SKUs), suitable for forklift, winter, lawn & garden and agriculture implements, and tractor trailers.

The company expanded its capacity from 8800 TPA as on March 31, 2017, to 10560 TPA as on March 31, 2023. It witnessed improvement in overall capacity utilisation from around 54% in FY21 to 84% in FY24 on an expanded capacity.

Despite capacity expansions and continuous improvement in volume, scale of operations remained moderate at around ₹154 crore in FY24 being a small-scale player in the niche segment.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Diversified presence across OEM and replacement market

Emerald manufactures solid tyres and industrial pneumatic tyres mainly for the material handling industry. The company also manufactures press-on band (a variant of solid tyre) and wheel rims, and largely catered to the replacement segment in the export market and Tier-I/OEM segment in the domestic market. The company is making continuous efforts to increase the contribution of OEMs in their business profile and has successfully added a few. However, contribution from OEMs remains low at 11% of TOI in FY24 similar to FY23.

Robust distribution network

The majority of Emerald's revenue is from exports, which contributed about 73% of the TOI in FY24. The company exports its products to more than 70 countries through their different touchpoints across the globe. To cater to the export markets, the company operates two subsidiaries in Dubai and Belgium for marketing and distribution in Middle East and Europe. They operate warehouses of about 14,000 sq. ft. in their respective locations. The company has 32 international dealers spread across the globe and a PAN India distribution network with 40 exclusive franchises in India.

Proposed capex expansion

To meet the anticipated increase in orders from existing customers and onboard new OEMs, Emerald plans to expand its production capacity to 16,240 MTPA by FY26 (up from 10,560 MTPA as on March 31, 2024). The total project cost is estimated at around ₹69 crore, to be financed through a debt-equity ratio of 2.63:1.

The company plans to raise funds through an initial public offer (IPO) of its shares, intending to utilise the proceeds for the proposed capex, working capital purposes, and general corporate purposes.

Experienced promoters and management team

Emerald is promoted by V Thirupathi and his two sons, V T Chandrasekharan and V T Srinivasan. V T Chandrasekharan is the Chairman and Managing Director of the company, holding more than two decades of experience in the industrial tyre segment. He also has completed programme on production management for manufacturing industry by AOTS Japan.

The company also has a well-experienced professional management team led by Krishnaram – CEO & JMD of the company, who has over three decades of experience in the tyre industry.

Key weaknesses

Customer concentration risk

The company has benefited by way of growth in the scale with entry into the Tier-I segment in the export markets. However, a significant share of the TOI is from a single Tier-I client in the US. While the top 10 customers accounted for 62% of the overall TOI in FY24 (PY: 61%), the top two clients contributed for 48% of TOI in FY24, an increase from 46% in FY23 and 37% in FY22. The company is currently exploring the addition of more OEMs, both in the domestic and export markets and has recently onboarded new seven dealers to provide after sales service across geographies for export market improving the dealership base.

Margins susceptible to raw material price volatility despite improvement in FY24

Emerald's primary cost component is raw materials, including natural rubber, synthetic rubber, and carbon black. Carbon black and synthetic rubber are crude oil derivatives, and their prices tend to fluctuate with crude oil price movement. In FY24, the company was able to improve its profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin to 17.04% (PY: 14.57%) due to better realisation from high variant tyres and reduction in wastage achieved through capacity de-bottlenecking undertaken during the year.

Leveraged capital structure

The company's capital structure remains leveraged with overall gearing of 1.21x as on March 31, 2024. However, gearing has improved from 1.57x as on March 31, 2023, majorly due to improved accretion and equity infusion of ₹4.50 crore in FY24. The company had taken debt-funded capex over the past. Business is working capital intensive in nature with higher reliance on export-replacement market.

Liquidity: Adequate

The working capital cycle is stretched as the company is required to hold high inventory to enable quick dispatch of orders, the company has not written-off inventory as the shelf life for the products is longer. Being diversified in terms of customer and geography, the company must maintain a wide variety of SKUs and necessitates high working capital requirements. Utilisation of working capital facilities remains high at around 95% for the 12 months ended May 31, 2024. The company has sufficient GCAs to meet the repayment obligations.

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Auto Components & Equipments](#)

About company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial products	Rubber

Emerald (formerly known as Emerald Resilient Tyre Manufacturers Private Limited), promoted in 2002 by V Thirupathi (former Managing Director of ICICI Credit Corporation Limited), is engaged in manufacturing solid tyres and industrial pneumatic tyres catering to the material handling industry. The company has converted from private limited to public limited in November 2023. The industrial pneumatic tyres are made up of rubber and tyre chord and inflated with air pressure inside the tyre, while solid tyres are completely made up of solid materials, mainly rubber. These tyres are used mainly in equipment such as forklifts, trolleys, reach trucks, trailers, ground support equipment (GSE), and road pavers, among others.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	122.91	152.23	154.59
PBILDT	15.69	22.18	26.35
PAT	4.21	7.08	11.06
Overall gearing (times)	1.56	1.57	1.21
Interest coverage (times)	2.50	2.65	2.96

A: Audited; UA: Unaudited; Note: these are latest available financial results.

Status of non-cooperation with previous CRA:

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

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	7.00	CARE BBB-; Stable
Fund-based - LT-Term loan		-	-	30-09-2028	64.33	CARE BBB-; Stable
Fund-based - ST-PC/Bill discounting		-	-	-	40.00	CARE A3
Fund-based - ST-Standby line of credit		-	-	-	1.50	CARE A3
Non-fund-based - ST-BG/LC		-	-	-	4.50	CARE A3

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term loan	LT	64.33	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Jul-23)	1)CARE BBB-; Stable (22-Jul-22)	1)CARE BB+; Stable (27-Jul-21)
2	Fund-based - LT-Cash credit	LT	7.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Jul-23)	1)CARE BBB-; Stable (22-Jul-22)	1)CARE BB+; Stable (27-Jul-21)
3	Fund-based - ST-PC/Bill discounting	ST	40.00	CARE A3	-	1)CARE A3 (07-Jul-23)	1)CARE A3 (22-Jul-22)	1)CARE A4+ (27-Jul-21)
4	Non-fund-based - ST-BG/LC	ST	4.50	CARE A3	-	1)CARE A3 (07-Jul-23)	1)CARE A3 (22-Jul-22)	1)CARE A4+ (27-Jul-21)
5	Fund-based - ST-Standby line of credit	ST	1.50	CARE A3	-	1)CARE A3 (07-Jul-23)	1)CARE A3 (22-Jul-22)	1)CARE A4+ (27-Jul-21)

LT: Long term; ST: Short term.

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of instruments rated**

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

Annexure-5: Lender detailsTo view lender-wise details of bank facilities please [click here](#)

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Ankur Sachdeva Senior Director CARE Ratings Limited Phone: +91-22-6754 3444 E-mail: Ankur.sachdeva@careedge.in</p>	<p>Analytical Contacts</p> <p>Sandeep P Director CARE Ratings Limited Phone: +91-44-2850 1002 E-mail: sandeep.prem@careedge.in</p> <p>Ratheesh Kumar Associate Director CARE Ratings Limited Phone: +91-44-2850 1009 E-mail: ratheesh.kumar@careedge.in</p> <p>Shweta Singh Rating Analyst CARE Ratings Limited E-mail: shweta.singh@careedge.in</p>
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About us:

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