

## Emerald Resilient Tyre Manufacturers Private Limited

July 27, 2021

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	32.96 (Enhanced from 17.03)	CARE BB+; Stable (Double B Plus; Outlook: Stable )	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Short Term Bank Facilities	31.00	CARE A4+ (A Four Plus )	Revised from CARE A4 (A Four)
<b>Total Bank Facilities</b>	<b>63.96</b> <b>(Rs. Sixty-Three Crore and Ninety- Six Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to Emerald Resilient Tyre Manufacturers Private Limited factors in the improvement in orders from existing customers (replacement market) and expected improvement in scale of operations on the back new customers being onboarded in the OE (original equipment) segment. The revenue contribution from the OE (Original Equipment) segment is expected to aid the liquidity position of the company through lower inventory requirements and faster collections. The ratings also take into account the ongoing debt-funded capital expenditure to cater to such increased orders.

The ratings continue to be tempered by working-capital intensive nature of operations and financial risk profile characterized by leveraged capital structure. However, the ratings derive strength from the well-qualified promoters and experienced management team, the company's presence in a niche market, its strong relationship with customers and its widespread distribution network.

### Rating Sensitivities

#### Positive Factors:

- Increase in scale of operations above Rs. 150 crore
- Improvement in liquidity position

#### Negative Factors:

- Drop in scale of operations below Rs. 100 crore
- Overall gearing exceeding 2.0x

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

**Working capital intensive nature of operations leading to stretched operating cycle:** Emerald has high inventory levels, a characteristic of the replacement tire industry by itself. The company being diversified in terms of customer and geography, has to maintain a wide variety of SKUs (Stock Keeping Units) which has stretched the inventory period (about 213 days in FY21). The collection cycle, which was at 125 days in FY21 (refers to the period April 1 to March 31), is also stretched mostly owing to the receivable from its subsidiaries in Europe and Middle East (about 56% of total receivables) and extension of credit period to some customers as a result of COVID. However, it is to be noted that the collection period at consolidated level remains at around 70-80 days (FY20: 80 days) while the inventory days remain at around 208 days. With the increasing orders from OE customers, the working capital cycle is likely to ease out over a period of time.

**Leveraged capital structure:** The overall gearing as on March 31, 2021, is at 1.34x (PY: 1.31x). With the expected improvement in accruals during the ensuing years, capital structure is expected to witness an improvement. Interest coverage is also moderate at 1.89x for FY21 (PY:1.20x).

**Moderate scale of operations but scale expected to improve going forward:** The company operates in niche segment which restricts the scale of business and growth in scale. With the additional quantum of orders from existing customers like Carlstar, Clyde etc and from new customers like John Deere, scale of operations is set to grow, but the company remains to be moderate sized player in the tire market. In FY21, the company has recorded a TOI of Rs. 78 crore marking a marginal increase of 9% over FY20. However, it is to be noted that in Q1FY22, the company has already recorded a revenue of around Rs. 25 crore.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Key rating Strengths**

**Niche player in OTR segment:** Emerald manufactures solid tyres and pneumatic mainly for material handling industry. The company has a wide product range of different sizes and functionality to cater to a wide range of clients and applications. The company has also moved on from being just a tyre manufacturer and has now positioned itself as an end-to-end solution provider focusing more on technical requirements of each client and giving customized solutions for them. 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. With its strategic presence in the export market and following various test with leading OEMs and suppliers to the OEMs, Emerald has also been able to attract orders from the OE segment as well. The replacement market contributed to 83% of sales of Emerald in FY21 (PY: 84%).

**Strong Customer relationships:** Emerald caters to clients/dealers across the world and exports constitute the major part of its revenue. Even with the company being diversified in terms of customer base and geography, it has been able to maintain strong relationships with the clients. The company has been able to bag repeat orders from major players like PB Global, Pozitiv LLC and Eastman Industries Limited etc. Even in the domestic market, the company has strong relationships with Kion, Godrej Boyce, Doosan etc.

**Widespread distribution network:** The company is a prominent player in the industrial-tire segment in India. The company also exports to several countries. Exports constituted around 76% of the total sales value of the company in FY21. As on March 31, 2021, Emerald had a domestic dealer base of 40 and an international dealer network of about 30 dealers. The company has been able to on-board new customers in FY21 in US and UK markets with plans of adding more overseas customers which would diversify the customer base further. Apart from this, the group has presence in Europe and Middle East owing to its subsidiaries (wholly owned, in Dubai and Belgium) located in these regions.

**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 lead by Mr Krishnaram – CEO & JMD of the company who has over three decades of experience in the tire Industry.

**Capacity Expansion Project:**

Consequent to the addition of clients like Carlstar, Clyde, John Deere, etc., and increase in orders has necessitated increase in capacity. In the Industrial Pneumatic product line, the company is enhancing from the present capacity of 11 tons a day to 25 tons a day and in Solid tyre and wheel segment, the company is envisaging an addition in offering by adding new types. The total cost of the project is estimated at around Rs. 29 crores. The projected is expected to be funded mostly debt and has proposed to take a loan of Rs. 20 crore. The remaining is to be funded through equity infusion by its promoters. The promoters have already brought in Rs. 2 crore as of May 31, 2021. The expansion is expected to come into force by December 2021, in a phased manner.

**Liquidity – Stretched:**

The operations of the company are working capital intensive driven by high inventory requirements. Emerald has relied mainly on bank borrowings to fund the working capital requirements and the average working capital utilisation for the past 12 months ended May 2021 was around 87%. The Cash and bank balances as on March 31, 2021 stood at Rs 0.64 crore and cash accruals for FY21 was at Rs. 4.82 crore.

**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 March 31, 2021, 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)	FY20 (A)	FY21 (Prov.)
Total operating income	72.25	78.87
PBILDT	10.98	12.59
PAT	0.06	1.35
Overall gearing (times)	1.31	1.34
Interest coverage (times)	1.20	1.89

A: Audited; Prov.: Provisional

**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:** Not Applicable

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

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3 – Not Applicable

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

### 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	27.71	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	27.71	CARE BB+; Stable	-	1)CARE BB; Stable (18-Feb-21)	1)CARE BB; Stable (18-Feb-20)	1)CARE BB; Stable (12-Mar-19)
2.	Fund-based - LT-Cash Credit	LT	5.25	CARE BB+; Stable	-	1)CARE BB; Stable (18-Feb-21)	1)CARE BB; Stable (18-Feb-20)	1)CARE BB; Stable (12-Mar-19)
3.	Fund-based - ST-PC/Bill Discounting	ST	25.00	CARE A4+	-	1)CARE A4 (18-Feb-21)	1)CARE A4 (18-Feb-20)	1)CARE A4 (12-Mar-19)
4.	Non-fund-based - ST-BG/LC	ST	4.50	CARE A4+	-	1)CARE A4 (18-Feb-21)	1)CARE A4 (18-Feb-20)	1)CARE A4 (12-Mar-19)
5.	Fund-based - ST-Standby Line of Credit	ST	1.50	CARE A4+	-	1)CARE A4 (18-Feb-21)	-	-

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable**

**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. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### About CARE Ratings:

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