

Emerald Resilient Tyre Manufacturers Private Limited

February 18, 2020

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	9.68 (reduced from 12.19)	CARE BB; Stable [Double B; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	34.75	CARE A4 [A Four]	Reaffirmed
Total Facilities	44.43 (Rupees Forty Four crore and Forty 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 stagnant income level, working- capital intensive nature of operations and financial risk profile characterized by fluctuating profitability and leveraged capital structure.

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

Key Rating Sensitivities

Positive Factors

- Increase in scale of operations to over Rs 100 crore.
- Improvement in liquidity position.

Negative Factors

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

Detailed description of the key rating drivers

Key Rating Weaknesses

Relatively small size of operations with stagnant income level:

Emerald reported a total operating income of Rs.87.53 crore in FY19 (PY: Rs.78.02 crore). The company has a product profile which makes it a niche player and hence its scope to expand operations within India remains low. However, the company has several initiatives planned to increase its income. Emerald signed an agreement with a South African tyre dealer and another company in USA for marketing its products. Further, Emerald has also signed agreements with two airlines based in the UAE and is in talks with an airline in Qatar to supply tyres for Ground Support Equipment for cargo handling, passenger service and aircraft service. The company expects these new agreements to aid in increasing its income going forward.

Flat profitability margin and leveraged capital structure:

The PBILDT margin stood at 17.01 % in FY19 as against 18.05% in FY18. The PAT Margin while remaining low at 2.24% in FY19, improved compared to 0.44% in FY18 due to lower interest costs. The capital structure continues to remain leveraged with overall gearing at 1.35x as on March 31, 2019 compared to 1.54x as on March 31, 2018. During FY18, funds amounting to Rs.5 crore were infused by way of compulsorily convertible debentures (18%; convertible after 5 years) by an Indian auto component manufacturer.

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

²Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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 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 89% of sales of Emerald in FY19 (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 has a strong presence in Europe and Middle East and is planning to expand its presence in USA. Exports constituted about 67% of the total sales of Emerald in FY19 (PY: 64%). The company has a total international dealer base of 30 operating in several countries around the world and a domestic dealer base of about 22 as on January 2020. The company operates two subsidiaries in Dubai and Belgium, which serve as the marketing and distribution arm of Emerald in Middle East and Europe, respectively. Each of these companies operates warehouses of about 14,000 sq. ft in their respective locations.

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. Meanwhile, the company is required to hold higher inventory to cater to the requirements of its clients particularly overseas ones. The Cash and bank balances as on March 31, 2019 stood at Rs 0.25 crore. Emerald relies mainly on bank borrowings to fund the working capital requirements and the average working capital utilisation for the past 12 months ended January 2020 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](#)

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

[Rating Methodology-Manufacturing Companies](#)

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

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)	FY18 (A)	FY19 (A)
Total operating income	78.02	87.53
PBILDT	14.09	14.89
PAT	0.35	1.96
Overall gearing (times)	1.54	1.35
Interest coverage (times)	1.44	1.83

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	-	-	October 2020	1.43	CARE BB; Stable
Fund-based - LT-Cash Credit	-	-	-	8.25	CARE BB; Stable
Fund-based - ST-PC/Bill Discounting	-	-	-	27.00	CARE A4
Non-fund-based - ST-BG/LC	-	-	-	7.75	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	1.43	CARE BB; Stable	-	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	8.25	CARE BB; Stable	-	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	27.00	CARE A4	-	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	7.75	CARE A4	-	1)CARE A4 (12-Mar-19)	1)CARE A4 (28-Mar-18) 2)CARE A4 (07-Apr-17)	-

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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