

**Emerald Resilient Tyre Manufacturers Private Limited
 (Erstwhile Emerald Resilient Tyre Manufacturers Private Limited)**

March 12, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	12.19 (reduced from 14.78)	CARE BB; Stable [Double B; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	34.75 (enhanced from 33.25)	CARE A4 [A Four]	Reaffirmed
Total Facilities	46.94 (Rupees Forty Six crore and Ninety Four lakh only)		

Details of 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 characterised 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.

Going forward, ability of the company to increase its scale of operations and improve profitability, prudently manage working capital requirements and improve its capital structure would be key rating sensitivities.

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.78.02 crore in FY18 (refers to the period April 1 to March 31) (PY: Rs.81.93 crore). The company has a product profile which restricts it to be a niche player and hence its scope to expand operations has been low within India.

Flat profitability margin and leveraged capital structure: The revenue and profit of the company have been more or less stagnant for the past 3 years. PBILDT margin was stable at 18.05% in FY18 (PY: 17.91%). The overall gearing of the company stood at 1.54x as on March 31, 2018 compared to 1.43x as on March 31, 2017. 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.

Weak Liquidity position The operations of the company are working capital intensive. The company had a high operating cycle of 234 days in FY18 driven by a higher collection and inventory period. The company gives about 90-120 day credit for the exports customers which account for the largest share of the sales and given the wide product portfolio the company it has to maintain high amount of inventory. 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 2019 was around 97%.

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. The promoters have over a decade of experience in the industrial tyres segment. 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. A large part of the company's sales comes from the replacement market which accounted for 73% of the sales in FY18 (PY: 78%).

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 64% of the total sales of Emerald in FY18 (PY: 67%). 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 2019. The company operates two subsidiaries in Dubai and Belgium, which serve as the marketing

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

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.

Analytical approach:
Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[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, 2019, the installed capacity was 8,800 tons p.a. The tyres manufactured by Emerald are sold under the brand name 'GRECKSTER'.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	81.93	78.02
PBILDT	14.68	14.09
PAT	1.27	0.35
Overall gearing (times)	1.43	1.54
Interest coverage (times)	1.67	1.44

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:
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.

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About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of 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	-	-	August 2020	3.94	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	3.94	CARE BB; Stable	-	1)CARE BB; Stable (28-Mar-18) 2)CARE BB+; Stable (07-Apr-17)	-	1)CARE BB+ (07-Jan-16) 2)CARE BB+ (21-Dec-15)
2.	Fund-based - LT-Cash Credit	LT	8.25	CARE BB; Stable	-	1)CARE BB; Stable (28-Mar-18) 2)CARE BB+; Stable (07-Apr-17)	-	1)CARE BB+ (07-Jan-16) 2)CARE BB+ (21-Dec-15)
3.	Fund-based - ST-PC/Bill Discounting	ST	27.00	CARE A4	-	1)CARE A4 (28-Mar-18) 2)CARE A4 (07-Apr-17)	-	1)CARE A4 (07-Jan-16) 2)CARE A4 (21-Dec-15)
4.	Non-fund-based - ST-BG/LC	ST	7.75	CARE A4	-	1)CARE A4 (28-Mar-18) 2)CARE A4 (07-Apr-17)	-	1)CARE A4 (07-Jan-16) 2)CARE A4 (21-Dec-15)

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