

Emerald Resilient Tyre Manufacturers Private Limited

March 28, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	14.78 (reduced from 17.45)	CARE BB; Stable [Double B; Outlook: Stable]	Revised from CARE BB+; Stable [Double B Plus; Outlook: Stable]
Short-term Bank Facilities	33.25	CARE A4 [A Four]	Reaffirmed
Total Facilities	48.03 (Rupees Forty Eight crore and Three lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Emerald Resilient Tyre Manufacturers Private Limited (Emerald) takes into account the deterioration in the financial risk profile marked by modest and stagnant income level and deteriorating coverage indicators and deterioration in the liquidity profile of the company.

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

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

Detailed description of the key rating drivers

Key Rating Weaknesses

Deterioration in financial risk profile: The company's financial risk profile is marked by modest and stagnant income during the past three years ended FY17 (refers to the period April 1 to March 31). Further, on account of increase in interest expense, the PAT margin contracted from 4.01% in FY15 to 3.19% in FY16 and further to 1.56% in FY17. Debt coverage indicators also deteriorated over the past three years. Interest coverage ratio declined from 2.21x in FY15 to 2.08x in FY16 to 1.67x in FY17 and total debt to gross cash accrual expanded from 7.61 years in FY16 to 8.13 years in FY17.

Deterioration in liquidity profile: Emerald's liquidity profile was tight as a consequence of higher repayment obligations as reflected in low current ratio of 0.95x as on March 2017 (PY: 1.01x). Further, the average inventory holding increased from 157 days in FY15 to 173 days in FY16 and significantly to 191 days in FY17. Creditor's period also reported increase from 61 days in FY15 to 64 days in FY16 and further to 80 days in FY17. The deterioration in liquidity profile was reflected in the full utilisation of the working capital facilities during the past 12 months ended February 2018.

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. 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 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

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

company has a wide product range of different sizes and functionality to cater to a wide range of clients and applications.

Widespread distribution: The company has a strong presence in Europe and Middle East. Exports constituted about 70% of the total sales value of Emerald in FY17 (PY: 67%). The company has a total international dealer base of 40 operating in several countries around the world and a domestic dealer base of about 30, as on February 28, 2018. 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.

Analytical approach

Standalone

Applicable Criteria

[CARE's Criteria on assigning Outlook 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](#)

[CARE's methodology for auto ancillary companies](#)

About the Company

Emerald Resilient Tyre Manufacturers Private Limited (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, 2018, the installed capacity was 9,600 tons p.a. The tyres manufactured by Emerald are sold under the brand name "GRECKSTER".

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	84.92	81.93
PBILDT	14.57	14.68
PAT	2.71	1.28
Overall gearing (times)	1.61	1.43
Interest coverage (times)	2.08	1.67

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	6.53	CARE BB; Stable
Fund-based - LT-Cash Credit	-	-	-	8.25	CARE BB; Stable
Fund-based - ST-PC/Bill Discounting	-	-	-	26.75	CARE A4
Non-fund-based - ST-Letter of credit	-	-	-	6.50	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	6.53	CARE BB; Stable	1)CARE BB+; Stable (07-Apr-17)	-	1)CARE BB+ (07-Jan-16) 2)CARE BB+ (21-Dec-15)	1)CARE BB+ (12-Mar-15)
2.	Fund-based - LT-Cash Credit	LT	8.25	CARE BB; Stable	1)CARE BB+; Stable (07-Apr-17)	-	1)CARE BB+ (07-Jan-16) 2)CARE BB+ (21-Dec-15)	1)CARE BB+ (12-Mar-15)
3.	Fund-based - ST-PC/Bill Discounting	ST	26.75	CARE A4	1)CARE A4 (07-Apr-17)	-	1)CARE A4 (07-Jan-16) 2)CARE A4 (21-Dec-15)	1)CARE A4 (12-Mar-15)
4.	Non-fund-based - ST-Letter of credit	ST	6.50	CARE A4	1)CARE A4 (07-Apr-17)	-	1)CARE A4 (07-Jan-16) 2)CARE A4 (21-Dec-15)	1)CARE A4 (12-Mar-15)

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