

Emerald Resilient Tyre Manufacturers Private Limited

April 7, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	17.45 (reduced from 25.77)	CARE BB+; Stable [Double B Plus; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	33.25 (enhanced from 32.50)	CARE A4 [A Four]	Reaffirmed
Total Facilities	50.70 (Rupees Fifty crore and seventy 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 of the company, 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 of Emerald, the company's presence in a niche market with strong client and dealer relationships and its widespread distribution network.

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

Detailed description of the key rating drivers

Key Rating Weaknesses

Relatively small size of operations: Emerald reported a total operating income of Rs.84.92 crore in FY16 (refers to the period April 1 to March 31 - PY: Rs.90.40 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. About 67% of the sales in FY16 are from exports.

Financial risk profile characterized by 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 marginally dropped from 17.39% in FY15 to 17.16% in FY16. The overall gearing of the company improved and stood at 1.61x as on March 31, 2016 compared to 2.17x as on March 31, 2015. During FY16, the promoters infused funds amounting to Rs.2 crore by way of compulsorily convertible debentures.

Working capital intensive nature of operations: The operations of the company are working capital intensive. The company had a high operating cycle of 208 days in FY16 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 of the company, it has to maintain high amount of inventory.

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 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 Tyre Industry.

Niche player in a small market with strong client relationships: 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. Over the years, the company has moved on from being a material handling tyre manufacturer to a solutions provider. This has been made possible through Emerald's focus on understanding client's technical requirements and robust after-sales service. This favorable brand image of Emerald has been the reason for a

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

large part of the company's sales coming from the replacement market which accounted for 87% of the sales in FY16 (PY: 88%).

Widespread distribution and marketing network: Exports constituted about 67% of the total sales value of Emerald in FY16 (PY: 72). The company has a strong presence in Europe and Middle East and is actively expanding its presence in U.S.A. The company has a total international dealer base of 60 operating in several countries around the world and a domestic dealer base of about 30, as on March 31, 2016. 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.

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](#)

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

About the Company

Emerald Resilient Tyre Manufacturers Private Limited (Emerald), promoted in 2002 by Mr V Thirupathi (former Managing Director of ICICI Credit Corporation Limited), 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 February 28, 2017, the installed capacity was 9,600 tons p.a. The tyres manufactured by Emerald are sold under the brand name "GRECKSTER".

The company reported a PAT of Rs.2.71 crore on a total operating income of Rs.84.92 crore in FY16 as compared to a PAT of Rs.3.62 crore on a total operating income of Rs.90.40 crore in FY15.

Status of non-cooperation with previous CRA:

CRISIL has suspended its rating vide press release dated August 17, 2015 on account of its inability to carry out a rating surveillance in the absence of the requisite information from the company.

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.

Analyst Contact:

Name: Mr C Harihara Subramanian

Tel: 044-2849 0811

Mobile: +91 97899 98514

Email: harihara.subramanian@careratings.com

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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 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	-	-	December 2020	9.20	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	8.25	CARE BB+; Stable
Fund-based - ST-EPC/PSC	-	-	-	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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	9.20	CARE BB+; Stable	-	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+ (07-Jan-16) 2)CARE BB+ (21-Dec-15)	1)CARE BB+ (12-Mar-15)	-
3.	Fund-based - ST-EPC/PSC	ST	26.75	CARE A4	-	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-Jan-16) 2)CARE A4 (21-Dec-15)	1)CARE A4 (12-Mar-15)	-

CONTACT**Head Office Mumbai****Mr. Amod Khanorkar**

Mobile: + 91 98190 84000

E-mail: amod.khanorkar@careratings.com**Mr. Saikat Roy**

Mobile: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CREDIT ANALYSIS & RESEARCH LIMITED**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Mehul Pandya**

32, Titanium, Prahaladnagar Corporate Road,

Satellite, Ahmedabad - 380 015

Cell: +91-98242 56265

Tel: +91-79-4026 5656

E-mail: mehul.pandya@careratings.com**BENGALURU****Mr. Deepak Prajapati**

Unit No. 1101-1102, 11th Floor, Prestige Meridian II,

No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91-9099028864

Tel: +91-80-4115 0445, 4165 4529

E-mail: deepak.prajapati@careratings.com**CHANDIGARH****Mr. Sajan Goyal**

SCF No. 54-55,

First Floor, Phase 11,

Sector 65, Mohali - 160062

Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: sajan.goyal@careratings.com**CHENNAI****Mr. V Pradeep Kumar**

Unit No. O-509/C, Spencer Plaza, 5th Floor,

No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**

T-3, 3rd Floor, Manchester Square

Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**HYDERABAD****Mr. Ramesh Bob**

401, Ashoka Scintilla, 3-6-502, Himayat Nagar,

Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**JAIPUR****Mr. Nikhil Soni**

304, Pashupati Akshat Heights, Plot No. D-91,

Madho Singh Road, Near Collectorate Circle,

Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**KOLKATA****Ms. Priti Agarwal**

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)

10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**NEW DELHI****Ms. Swati Agrawal**

13th Floor, E-1 Block, Videocon Tower,

Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**PUNE****Mr. Pratim Banerjee**

9th Floor, Pride Kumar Senate,

Plot No. 970, Bhamburda, Senapati Bapat Road,

Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

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