

Press Release

Eastman

08 February, 2018

Rating Downgraded



Total Bank Facilities Rated*	Rs.9.14 cr
Long Term Rating	SMERA BB-/Stable (Downgraded from SMERA BB/Stable)
Short Term Rating	SMERA A4 (Downgraded from SMERA A4+)

**Refer annexure for details*

SMERA has downgraded the long term rating on the Rs. 9.14 crore bank facilities of Eastman to **'SMERA BB-' (read as SMERA double B minus)** from **'SMERA BB+' (read as SMERA double B plus)** and short term rating to **'SMERA A4' (read as SMERA A Four)** from **'SMERA A4+' (read as SMERA A Four plus)**. The outlook is **'Stable'**.

The downgrade is in view of the significant decline in scale of operations and profitability. SMERA believes that this will impact the existing business profile of the firm over the near to medium term.

Eastman, a Kolkata-based firm was established as a proprietorship concern in 2000 and converted to a partnership firm in 2007 by Mr. Sunil Kumar Banik (Founder). The firm is an authorised wholesale dealer of Godrej & Boyce Manufacturing Company Limited for office and home furniture. Eastman operates two franchisee showrooms in Kolkata, Paschim Banga and is also an authorised dealer of water purification systems of Eureka Forbes Limited.

List of key rating drivers

Established track record of operations, experienced management

Eastman was established in 2000. The firm is an authorised dealer of Godrej & Boyce Manufacturing Company Limited. The partner, Mr. Sunil Kumar Banik (founder) has more than two decades of experience in the said line of business.

SMERA believes that the firm will sustain its existing business profile backed by the long track record of operations, experienced management and established association with Godrej & Boyce Manufacturing Company Limited.

Weaknesses

Significant decline in scale of operations

Eastman caters largely to the government through tenders exposing itself to customer concentration risk and limiting the pricing power. Government orders contributed 60 percent of the total revenue mix and thus the firm is highly dependent on government orders. This has

impacted the revenue profile which is evident in FY2017. The revenue for FY2017 stood at Rs. 27.09 crore as against Rs. 34.07 crore in FY2016. Further, the revenues declined to Rs.10.00 crore from April to December 2017 (Provisional).

Moderate financial risk profile

The financial risk profile of Eastman remains moderate marked by net worth of Rs. 8.31 crore as on 31 March, 2017 as against Rs.7.15 crore as on 31 March, 2016. The gearing stood at 1.11 times as on 31 March, 2017 and Interest Coverage Ratio at 2.51 times for FY2017. The total debt of Rs.9.21 crore outstanding as on 31 March, 2017 comprises Rs 4.94 crore of unsecured loans from partners and Rs.4.26 crore of working capital limit from the bank. The net cash accruals stood at Rs.1.02 crore in FY2017. The NCA/TD stood at 0.11 times in FY2017.

Highly fragmented and competitive industry

The firm is exposed to intense competition in the industry from both the organised as well as unorganised players due to low entry barriers.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of Eastman to arrive at the rating.

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Outlook: Stable

SMERA believes that Eastman will maintain a stable outlook over the medium term owing to its established association with Godrej & Boyce Manufacturing Company Limited. The outlook may be revised to 'Positive' in case the firm registers substantial growth in scale of operations while maintaining comfortable profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' in case of failure in achieving the projected scalability amidst intensifying competition in its area of operation, or if the financial risk profile deteriorates on account of higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity – Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	27.09	34.07	27.58
EBITDA	Rs. Cr.	2.02	1.89	2.03
PAT	Rs. Cr.	0.61	0.57	0.54
EBITDA Margin	(%)	7.45	5.55	7.36
PAT Margin	(%)	2.27	1.69	1.97
ROCE	(%)	10.50	11.17	12.47
Total Debt/Tangible Net Worth	Times	1.11	1.22	0.98
PBDIT/Interest	Times	2.04	2.16	1.94
Total Debt/PBDIT	Times	4.26	4.38	2.80
Gross Current Assets (Days)	Days	138	122	146

Status of non-cooperation with previous CRA (if applicable): None

Any other information: None

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
12-Nov, 2016	Cash Credit	Long Term	5.10	SMERA BB / Stable (Reaffirmed)
	Term loan	Long Term	3.04	SMERA BB / Stable (Withdrawn)
	Letter of guarantee	Short term	1.00	SMERA A4+ (Reaffirmed)
	Proposed fund based facility	Long Term	3.04	SMERA BB / Stable (Assigned)
27-Oct, 2015	Cash Credit	Long Term	5.10	SMERA BB / Stable (Reaffirmed)
	Term loan	Long Term	3.04	SMERA BB / Stable (Reaffirmed)
	Letter of guarantee	Short term	1.00	SMERA A4+ (Reaffirmed)

02-Dec, 2014	Cash Credit	Long Term	5.10	SMERA BB / Stable (Reaffirmed)
	Term loan	Long Term	3.04	SMERA BB / Stable (Reaffirmed)
	Letter of guarantee	Short term	1.00	SMERA A4+ (Reaffirmed)
17-Sep-2013	Cash Credit	Long Term	5.10	SMERA BB / Stable (Assigned)
	Term loan	Long Term	3.04	SMERA BB / Stable (Assigned)
	Letter of guarantee	Short term	1.00	SMERA A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.10	SMERA BB-/Stable (Downgraded from SMERA BB/Stable)
Letter of guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4 (Downgraded from SMERA A4+)
Proposed fund based facility	Not Applicable	Not Applicable	Not Applicable	3.04	SMERA BB-/Stable (Downgraded from SMERA BB/Stable)

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ABOUT SMERA

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