

Press Release

Eastman

February 18, 2019



Rating Downgraded and Reaffirmed

Total Bank Facilities Rated*	Rs. 9.14 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Downgraded from ACUITE BB-/Stable)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

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

The rating downgrade is in view of dip in operating revenue coupled with piling up of inventory.

Eastman, a Kolkata-based firm was as a proprietorship concern established by Mr. Sunil Kumar Banik in 2000. Later, the firm was converted to a partnership firm in 2007 with the current partners being Mr. Sunil Kumar Banik, Mr. Subarna Banik and Mr. Sudip Kumar Banik. The firm is an authorised dealer of Godrej & Boyce Manufacturing Company Limited for office and home furniture. Eastman operates two showrooms in West Bengal. It was also an authorised dealer of water purification systems of Eureka Forbes Limited.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Eastman to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations with improvement in margins**

Eastman was established in 2000 and is an authorised dealer of Godrej & Boyce Manufacturing Company Limited. The partners of the firm have more than two decades of experience in the said line of business. Acuité believes that the firm will sustain the existing business profile backed by the firm's long track record of operations and established association with Godrej & Boyce Manufacturing Company Limited.

The EBITDA margins of the firm have improved in FY2018 over FY2017 and FY2016. The EBITDA margin stood at 9.21 percent in FY2018 as against 7.45 percent in FY2017 and 5.55 percent in FY2016. This is majorly on account of projects executed where Godrej has directly supplied to the customer's destination which has led to decrease in procurement cost as a percentage of operating revenue from 88.40 per cent in FY2016 and 84.58 per cent in FY2017 to 81.41 per cent in FY2018. The PAT margins have also improved to 2.27 percent in FY2017 as against 1.69 percent in FY2016.

- **Moderate financial risk profile**

The financial risk profile of Eastman remained moderate marked by net worth of Rs.8.53 crore as on 31 March, 2018 as against Rs. 8.31 crore as on 31 March, 2017. The gearing stood at 1.16 times as on March 31, 2018. TOL/TNW stood moderate at 1.34 times in FY 2018. The total debt of Rs.9.88 which consist of Rs.4.04 crore of unsecured loan from financial institutions, Rs.5.78 crore of short term debt and Rs.0.06 crore of car loan. The interest coverage ratio stood at 1.61 times for FY2018 and DSCR stood at 1.36 times in FY2018 in absence of major long term debt obligation. The net cash accruals stood at Rs.0.42 crore in FY2018 and NCA/TD stood at 0.04 times in FY2018.

Weaknesses

- **Dip in operating income mainly due to high dependence on government orders**

Eastman sells its products mainly to government through tender bidding process exposing itself to customer concentration risk and limiting the pricing power. Institutional orders contributed to 60% of the total revenue mix and thus, high dependence on government orders has impacted the revenue profile which is evident in FY2018. The revenue for FY2018 stood at Rs. 19.32 crore as against Rs. 27.09 crore in FY2017. Further, the firm has booked revenue of Rs. 12.00 crore for the period April 2018 to January 2019 (Provisional).

- **Working Capital intensive operations**

The working capital cycle of Eastman has deteriorated to GCA days of 230 in FY2018 as compared to 138 in FY2017, mainly due to piling up of inventory. The inventory days stood at 191 days in FY2018 as against 108 days in FY2017 on account of the high stock piling up due to less billing and fund crunch for government clients. The debtor days stood at 34 in FY2018 as compared to 27 days in FY2017. Further, the firm has cash & Bank balance of Rs.0.60 crore and FD of Rs.0.35 crore as on March 31, 2018.

Liquidity Position

The firm has adequate liquidity marked by moderate net cash accruals against no major maturing debt obligations as on March 31, 2018. Eastman has generated cash accruals of Rs.0.42 crore and maintained unencumbered cash and bank balances of Rs.0.60 crore as on March 31, 2018. The current ratio of the firm stood moderate at 1.70 times as on March 31, 2018. Acuité believes that the liquidity of Eastman is likely to remain moderate over the medium term on account of moderate cash accruals to service its maturing debt obligations in the medium term.

Outlook: Stable

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

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	19.32	27.09	34.07
EBITDA	Rs. Cr.	1.78	2.02	1.89
PAT	Rs. Cr.	0.04	0.61	0.57
EBITDA Margin	(%)	9.21	7.45	5.55
PAT Margin	(%)	0.23	2.27	1.69
ROCE	(%)	8.52	10.50	11.17
Total Debt/Tangible Net Worth	Times	1.16	1.11	1.22
PBDIT/Interest	Times	1.61	2.51	2.80
Total Debt/PBDIT	Times	5.17	4.26	4.38
Gross Current Assets (Days)	Days	230	138	122

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>

- Trading Entities-<https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-Feb-2018	Cash Credit	Long Term	5.10	ACUITE BB-/ Stable (Downgraded from ACUITE BB/Stable)
	Letter of guarantee	Short Term	1.00	ACUITE A4 (Downgraded from ACUITE A4+)
	Proposed fund based facility	Long Term	3.04	ACUITE BB-/ Stable (Downgraded from ACUITE BB/Stable)
12-Nov-2016	Cash Credit	Long Term	5.10	ACUITE BB/ Stable (Reaffirmed)
	Term loan	Long Term	3.04	ACUITE BB/ Stable (Withdrawn)
	Letter of guarantee	Short Term	1.00	ACUITE BB/ Stable (Reaffirmed)
	Proposed fund based facility	Long Term	3.04	ACUITE BB/ Stable (Assigned)
27-Oct-2015	Cash Credit	Long Term	5.10	ACUITE BB/ Stable (Reaffirmed)
	Term loan	Long Term	3.04	ACUITE BB/ Stable (Reaffirmed)
	Letter of guarantee	Short Term	1.00	ACUITE BB/ Stable (Reaffirmed)
02-Dec-2014	Cash Credit	Long Term	5.10	ACUITE BB/ Stable (Reaffirmed)
	Term loan	Long Term	3.04	ACUITE BB/ Stable (Reaffirmed)
	Letter of guarantee	Short Term	1.00	ACUITE BB/ Stable (Reaffirmed)
17-Sep-2013	Cash Credit	Long Term	5.10	ACUITE BB/ Stable (Assigned)
	Term loan	Long Term	3.04	ACUITE BB/ Stable (Assigned)
	Letter of guarantee	Short Term	1.00	ACUITE BB/ Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.10	ACUITE B+/ Stable (Downgraded from ACUITE BB-/Stable)
Letter of guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4 (Reaffirmed)
Proposed fund based facility	Not Applicable	Not Applicable	Not Applicable	2.04	ACUITE B+/ Stable (Downgraded from

					ACUITE BB-/Stable)
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About Acuité Ratings & Research:

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