Press Release

Ever Bright Products

March 14, 2019

Rating Downgraded and Reaffirmed

Total Bank Facilities Rated*	Rs. 9.40 Cr.
Long Term Rating	ACUITE BB / 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 BB**' **(read as ACUITE double B)** from **ACUITE BB+ (read as ACUITE double B plus)** and reaffirmed the short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** to the Rs.9.40 crore bank facilities of Ever Bright Products (EBP). The outlook is **'Stable'**.

The downgrade reflects deterioration of the financial risk profile marked by weakening of gearing (debt-to-equity), withdrawal of partner's capital and less-than-expected revenues and profitability. In FY2018, one of the partners retired from the firm which lead to payout of the partner's capital; resulted in deterioration of the gearing to 4.53 times in FY2018 against less than 2 times in the past. The ratings also factors in declining levels of profitability year-over-year, revenue concentration and below-average financial risk profile. However, ratings factors in experienced promoters, reputed clientele and efficient working capital management.

EBP, a proprietorship firm established by Mr. D. Balasundaram in 1976 was reconstituted as a partnership firm in 1984. The firm, engaged in the manufacturing of utensils, diversified into sheet metal stamping in 1992. EBP procures steel sheets from TATA steels and Jindal Steels. The production capacity is about 4800 MT per annum. The firm is led by partners, Mr. B. Saravanan and Mr. Hareeswar who manage the day-to-day operations of the firm.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established relationship with large clients**

  EBP is currently managed by partners, Mr. B. Saravanan and Mr. Hareeswar who have more than two decades of experience in auto ancillary industry. The promoters are supported by a team of experienced management personnel. EBP has strong in-house engineering and tool design capabilities to manufacture sheet metal pressed components with consistent quality and reliability; resulting in repeat orders. EBP is a prominent supplier of sheet metal pressed parts to leading automobile OEMs including Royal Enfield which contributes to over 60 percent of its revenues, leading to revenue concentration.

  Further, Ashok Leyland Ltd, Modine Manufacturing Company, JBM Auto System Pvt Ltd, Universal Coach Interiors LLP and Filtercat Products Pvt Ltd are the other major customers of the firm. Consistent growth in the revenues of OEM's and client addition supported the revenue growth of EBP, at a compound annual growth rate (CAGR) of about 28 percent over the past three years through FY2018 at Rs.61.45 crore. Acuité believes that with diversified product portfolio, diversified clientele, experienced management and established operational track record, EBP continues to enjoy the benefit of scale of operations and enhance customer diversity over the medium term.

- **Efficientworkingcapitalmanagement**

EBP's working capital operations are efficiently managed as evident from Gross Current Assets (GCA) of 113 days historically, due to prudent inventory management, and the receivables are supported by reputed clientele. The inventory days of less than two weeks historically are majorly driven by local supplies, and the payments from its clients are around 90 days. To augment the working capital, the firm stretches its creditors to an extent of about 90 days which partly lead to current ratio below 1.00 times in the past. Moderate receivable cycle led to high utilisation of its discounting limits of over 80 percent. Acuité believes that EBP's operations continue to be efficiently managed supported by efficient collection mechanism and in time inventory levels.

Weaknesses

- **Moderate scale of operations with revenue concentration and declining profitability**

The auto component industry is highly competitive due to competition from organised and unorganised players. The growth of auto component manufacturer will continue to be driven by volume growth of its key OEMs. Auto ancillaries with exposure to OEMs are witnessing increased competition have limited scope for volume growth; further, it exerts pressure on the profitability also. EBP has been in operations for over two decades; its scale of operations remained moderate with operating income of Rs.61.45 crore in FY18. Further, about 60 per cent of revenues from single client - Royal Enfield / Eicher Motors Limited expose EBP to revenue and client concentration; any slowdowns in the volumes of OEM's have a direct bearing on the revenue profile of EBP.

The auto industry is inherently vulnerable to the economic cycles and is sensitive to the interest rate environment, level of fuel prices and regulatory issues such as changes in tax structure, insurance cover, among others. Improvement of macroeconomic factors such as revival of industrial production, lowering of interest rates, rise in disposable income will help in OEM prospects. Profitability remains susceptible to pricing pressures from OEMs and volatility in raw material cost. EBP's operating margins have been declining year-over-year from 6.56 per cent in FY2016 to about 5.19 per cent in FY2018. Volatile margins are owing to fluctuations in raw material prices, which cannot be passed on in entirety. Further, the decline in the profitability is despite a growth in the revenues of over 60 per cent during 2016-18 purely reflecting variable nature.

Acuité believes that, increasing the proportion of higher-margin products and altering the product mix will be critical to sustain and improve the margin over the medium term.

- **Below average financial risk profile**

EBP's financial risk profile is below average marked by high total outside liabilities to total net worth (TOL/TNW), high gearing (debt-to-equity) and moderate debt protection metrics. TOL/TNW and gearing are high at 9.55 and 4.53 times in FY2018 against 3.93 and 2.01 times in FY2017 respectively; sharp deterioration is owing to withdrawal of partner's capital of about Rs.2.50 crore to make payment for the outgoing partner in FY2018. The management expects to bring in the same in FY2019, which may improve partly the leverage and capital structure. The debt protection metrics are moderate with interest coverage ratio (ICR) of 3.97 times and net cash accruals to total debt of 0.22 times for FY2018. Improvement of the partners' capital and profitability are the key rating sensitivity factors over the near term for improvement of the financial riskprofile.

Liquidity Position:

EBP has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.2.52 crore in FY2018; however, the internal accruals and liquidity were utilised for payment of outgoing partner's capital which impacted the liquidity. Cash accruals of EBP are estimated to improve around Rs.2.50 to 4.50 crore during 2019-21, while its repayment obligations are estimated to be Rs.0.50 crore over the medium term.

EBP's working capital operations are efficiently managed as evident from Gross Current Assets (GCA) of 113 days historically due to prudent inventory management, receivables of about 90 days and stretched creditors; high receivable cycle lead to high utilisation of its bill discounting limits of over 80 per cent. The current ratio of the EBP stood at less than 1.00 time historically through FY2018. Acuité believes that the liquidity is expected to be at similar levels in absence of any significant capex plans and significant withdrawal of capital.

Outlook: Stable

Acuité believes that EBP will maintain a 'Stable' outlook over the medium term backed by its promoters' industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while sustaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management, any capital withdrawal by partners or any significant debt-funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	61.45	46.81	37.32
EBITDA	Rs. Cr.	3.19	2.75	2.45
PAT	Rs. Cr.	1.79	1.51	1.42
EBITDA Margin	(%)	5.19	5.87	6.56
PAT Margin	(%)	2.92	3.23	3.80
ROCE	(%)	19.37	19.17	21.79
Total Debt/Tangible Net Worth	Times	4.53	2.01	1.42
PBDIT/Interest	Times	3.97	3.99	4.08
Total Debt/PBDIT	Times	3.32	3.08	2.26
Gross Current Assets (Days)	Days	113	113	111

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

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.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
21-Nov-2018	Proposed Long Term Loan	Long Term	0.10	ACUITE BB+ (Indicative)
	Overdraft	Long Term	0.80	ACUITE BB+ (Indicative)
	Bills Discounting	Short Term	7.50	ACUITE A4+ (Indicative)
	Term Loan	Long Term	1.00	ACUITE BB+ (Indicative)
07-Nov-2017	Term Loan	Long Term	1.00	ACUITE BB+ / Stable (Assigned)
	Overdraft	Long Term	0.80	ACUITE BB+ / Stable (Assigned)
	Bills Discounting	Short Term	7.50	ACUITE A4+ (Assigned)
	Proposed Long Term loan	Long Term	0.10	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
Term loans	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB / Stable (Downgraded from ACUITE BB+/Stable)
Overdraft	Not Applicable	Not Applicable	Not Applicable	0.80	ACUITE BB / Stable (Downgraded from ACUITE BB+/Stable)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A4+ (Reaffirmed)
Proposed Long Term loan	Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE BB / Stable (Downgraded from ACUITE BB+/Stable)

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