

Press Release

EBC Bearings India Limited

08 December, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 20.00 Cr
Short Term Rating	SMERA A4 (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned short-term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 20.00 crore bank facility of EBC Bearings India Limited (EBC).

EBC Bearings India Limited (EBC) is a Hyderabad-based company incorporated in 2006 by Mr. Mandava Balarama Krishnaiah and Mr. Ramakrishna Gadde. The company is engaged in the trading of steel products (TMT bars, sponge iron and billets) and vegetable oil since 2007. The company procures TMT bars from re-rolling mills and supplies to wholesale traders located in and around Hyderabad, Telangana.

List of key rating drivers and their detailed description

Strengths

Experienced promoter: EBC was promoted by Mr. Mandava B Krishnaiah who has over three decades of experience in various industries including pesticides, pharmaceutical, electronic security solutions and oil & gas exploration. The extensive experience of the promoter has helped maintain long term relations with customers and suppliers.

Weaknesses

Significant decline in revenue: The company reported a decline of around 77 percent in revenue in FY2017 (Provisional). The operating income fell to Rs. 131.71 crore in FY2017 (Provisional) from Rs. 579.10 crore in FY2016 owing to focus on orders with higher margins rather than volumes. Further, the company reported operating income of Rs. 99.00 crore from 1 April, 2017 to 16 November, 2017 (Provisional).

Average financial risk profile: The financial risk profile is average marked by adjusted networth of Rs. 68.64 crore (Provisional) as on 31 March, 2017 as against Rs. 42.36 crore as on 31 March, 2015. The adjusted gearing stood at Rs.0.23 crore (Provisional) in FY2017 as against Rs.0.36 crore in FY2016. The adjusted networth and gearing has been arrived at after considering interest bearing unsecured loan of Rs. 25.00 crore from related parties as quasi equity as the same is subordinated to bank debt. The coverage indicators are inadequate as interest coverage ratio (ICR) stood at 1.13 times for FY2017 (Provisional) and 1.68 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.02 times for FY2017 (Provisional) as well as in the previous year.

Low profitability, susceptibility of margins to volatility in raw material prices: The company reported operating margin of 1.61 percent for FY2017 (Provisional) as against 0.16 percent in FY2016. Further, EBC reported Profit after tax (PAT) margin of 0.18 percent for FY2017 (Provisional) as against 0.05 percent in the previous year. The low margins are on account of the trading nature of operations. Further, the prices of TMT bars and billets are highly volatile. As a result, the profit margins are susceptible to volatility in the prices of the aforementioned. However, the risk is mitigated to an extent as the procurement is on the basis of orders received from customers.

Analytical approach: SMERA has considered the standalone business and financial risk profile of the company for arriving at the rating.

About the Rated Entity -Key Financials

For FY2016-17 (Provisional), EBC reported profit after tax (PAT) of Rs. 0.24 crore on operating income of Rs.131.71 crore compared with PAT of Rs. 0.31 crore on operating income of Rs. 579.10 crore for FY2015-16. The net worth stood at Rs.68.64 crore as on 31 March, 2017 (Provisional) as against Rs.42.36 crore as on 31 March, 2016.

Applicable Criteria

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

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years: Not Applicable

***Annexure - Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Letter of Credit	N.A	N.A	N.A.	20.00^	SMERA A4 (Assigned)

[^]Includes sublimit of cash credit to the extent of Rs. 10.00 crore.

Note on complexity levels of the rated instrument:

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

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations, Tel: 022-67141190 Email: vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in
Aishwarya Phalke, Senior Rating Analyst, Tel: 022-67141156 Email: aishwarya.phalke@smera.in	

ABOUT SMERA

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