

Press Release

Eastman Auto and Power Limited

December 31, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 174.23 Cr.
Long Term Rating	ACUITE A-/ Outlook: Stable
Short Term Rating	ACUITE A2+

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) and the short-term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) on the Rs. 174.23 crore bank facilities of Eastman Auto and Power Limited (EAPL). The outlook is '**Stable**'.

The rating reflects extensive experience of the promoters in battery manufacturing and their established track record of operations, its moderate financial risk profile. These rating strengths are partly offset by gradually deteriorating market conditions for invertor-tubular batteries segment and high working capital intensity.

Gurgaon based Eastman Auto and Power Limited (EAPL) is a part of Eastman group which is an industrial group operating in three sectors, energy, automotive and industrial manufacturing. The company was incorporated in 2000 by Mr. Jagdish Rai Singhal and Mr. Shekhar Singhal.

EAPL is engaged in the manufacturing and trading of invertor-tubular batteries and e-rickshaw batteries and acts as a contract manufacturer for reputed brand names like Luminous Power Tech, Lucas Indian Service Limited and Amara Raja Batteries amongst others. EAPL also sells its products under the brand name 'Addo'. EAPL also undertakes merchant trading for motorcycle tires and motorcycle spare parts (around 12 per cent of its FY 2019 revenues). EAPL's manufacturing unit is located in Nalagarh, Himachal Pradesh and in the current financial year company have also installed a new facility at Baddi, Himachal Pradesh with a total capacity of 1,75,000 units per month.

About the group

Eastman group is promoted by Mr. Jagdish Rai Singhal and Mr. Shekhar Singhal. The group constitutes of the following companies: Eastman auto and power limited (EAPL), which was incorporated in 2000 and engaged in the manufacturing of invertor and e-rickshaw batteries, Eastman Industries Ltd (EIL), incorporated in 1982. The company specialize in manufacturing, supplying and exporting Bicycle Components, Accessories, Tires & Tubes, Eastman cast and forge limited (ECFL), incorporated in 1989. The company is engaged in the manufacturing all types of hand tools, agricultural tools, construction tools, automotive tools, and plumbing tools etc.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management and Established track record of operations

The company was initially incorporated in 2000 by Mr. Jagdish Rai Singhal, as a subsidiary of Eastman group. During the time the promoters were engaged in industrial manufacturing and automotive business through EIL AND ECFL. In 2008, company commenced its commercial operation. The promoter's extensive experience is reflected through the moderate revenue growth rate and established relationships with its key customers. The company caters to the requirements of Luminous Power Tech, Amara Raja Batteries and Lucas Indian Service Limited to name a few. The company also caters to the overseas market and has

diversified clientele wherein the top 10 customers contribute only 40-42 percent to the total revenue of the company. Over the years, the company has been able to develop its own brands, under the name 'Addo' and 'Eastman', which have received good response and the acceptability levels have improved significantly. The day to day operation of the company are currently managed by Mr. Shekhar Singhal (Managing Director) S/o Mr. Jagdish Rai Singhal. The management is ably supported by qualified and experienced professionals that has resulted in maintain strong relationship with their clients such as Luminous Power Tech, Amara Raja Batteries and Lucas Indian Service Limited to name a few. The other directors includes Mr. Vineet Jain (Independent director) who is also associated with the other group companies as an independent director. Ms. Astha Bansal (Whole time director), Mr. Ashok Kumar Bhasin (Independent director) and Mr. Ananta Kumar Jena (Whole time director). The promoters are supported by team of well qualified and experienced professionals. Acuite believes that EAPL will continue to benefit from its promoter's extensive experience and established track record of operations.

- **Comfortable Financial Risk Profile**

EAPL has comfortable financial risk profile marked by high net worth, healthy debt protection metrics and moderate gearing. The net worth of the company has sequentially improved to around Rs.151.63 crore as on 31 March, 2019 as against Rs.105.58 crore as on 31 March, 2017. The improvement in net worth is attributable to equity infusion of Rs.27 crore in FY 19 coupled with steady accretion to reserves, as result of increase in its scale of operations.

The company has followed a moderately aggressive financial policy in the past. The same is also reflected through its peak Debt to EBITDA levels of 3.4 times as on 31 March, 2019. The gearing of the company is however expected to reduce sequentially over the medium term on account of the repayment of term liabilities. The company had incurred a capex of Rs.87.00 crore in FY 2019 to set up a new manufacturing facility to increase the manufacturing capacity to 1,75,000 batteries per month from the existing 80,000 batteries per month. The capex was funded in debt to equity ratio of 2.08:1, which had led to increase in its Debt/EBITDA levels to 3.40 times as on March 31, 2019 as compared to 1.3 times as on March 31, 2017. The total debt of Rs.127.90 crore as on 31 March, 2019 consists of long term debt of Rs.46.47 crore and working capital borrowings of Rs.81.72 crore.

The moderate profitability levels coupled with low gearing levels have led to healthy coverage indicators. The interest coverage ratio stood at 5.20 times in FY2019 as compare to 8.75 times in FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.19 times in FY2019 and 0.41 times in FY2018. Debt to EBITDA stood at 3.38 times in FY2019 as against 1.88 times in FY2018. Acuité believes that the financial risk profile of the company is expected to remain moderate backed by above absence of any major debt funded capex in near to medium term.

Weaknesses

- **Working capital intensive nature of operation**

EAPL has intensive working capital operations as evident from gross current assets (GCA) of 151 days as on March 31, 2019 as against 166 days as on March 31, 2018. The company's inventory ranged from 42 days to 67 days and debtors ranged from 65 days to 83 days during FY17-FY19. The company gives credit of up to 60 days to its customers. Inventory days stood at 54 days as on 31 March, 2019 as compared to 67 days as on 31 March, 2018. The liquidity position of the company remains strong with average consolidated CC/PCFC limit utilization at around ~55 percent for the last seven months ended 31st October, 2019.

Acuité believes that the working capital operations of the company will remain intensive in the near to medium term.

- **Decline in operating income and margins**

In the last financial year, company have witnessed a decline in the operating income from Rs.820.34 crore in FY2018 to Rs.761.13 crore in FY2019 while in the current financial year 2020 the company have earned a revenue of Rs.338.86 crore as on 30th September, 2019. The company have witnessed similar situation in the operating and profitability margins. The EBITDA margin have declined from 7.12 percent in FY2018 to 4.76 percent in FY2019. The PAT margin reduced to 1.56 percent in FY2019 against 4.26 percent in FY2018. The reason for the decline in revenue and the operating margin is due to shift in focus from invertor batteries to E-rickshaw batteries. In FY2019 e-rickshaw batteries contribute 15.40% of the total sales against 2.6% in FY2018. For the current financial year the same contribution stood at 24.80% as on 30th September 2019. The company have shifted their focus due to low demand of invertor batteries as power situation in India has improved while the E-rickshaw market have significantly grew due to initiative by government for

encouraging environment friendly vehicles in the automobile industry.

Rating Sensitivity Factor

- Capital expenditure of Rs.87.00 crore for enhancement in capacity from 80,000 units per month to 1,75,000 units per month.
- Significant deterioration in revenues or profitability margin.

Material Covenants

- Debt/ EBITDA to be maintained below 3.00 times in FY2020 and below 2.75 times from FY2021 onwards.
- Interest coverage ratio to be maintained above 3.00 times.
- DSCR to be maintained above 2.00 times in FY2022 and above 2.25 times from FY2023 onwards.
- Fixed assets coverage ratio to be maintained above 1.50 times.

Liquidity position: Strong

Company has Strong liquidity marked by moderate net cash accruals to its maturing debt obligations. EAPL generated cash accruals of Rs.23.96 crore in FY2019 as against of debt maturity obligation of Rs.5.43 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.26.84 crore to Rs.35.92 crore during FY2020-22 against as against maturing debt of Rs.9.50 crore for year in FY2020 and Rs.12.77 crore in FY2021 and FY2022 each. The company's working capital operations are moderate marked by gross current asset (GCA) days of 151 days in FY2019 as against 166 for FY2018. Company maintains unencumbered cash and bank balances of Rs.11.07 crore as on 31 March 2019. The current ratio stands at 1.11 times as on 31 March 2019. The liquidity position of the company remains moderate with average consolidated CC/PCFC limit utilization at around ~55 percent for the last seven months ended 31st October, 2019.

Outlook: Stable

Acuité believes that EAPL will continue to benefit over the medium term due to its experienced management, healthy revenue visibility and comfortable debt protection metrics. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues while maintaining its overall leverage at the current level. Conversely, the outlook may be revised to 'Negative', in case the company registers lower-than expected profitability on account of further decline in contribution from the invertor-tubular batteries or if the financial risk profile deteriorates due to higher than expected elongation in working capital leading to deterioration in its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	761.13	820.34
PAT	Rs. Cr.	11.85	34.97
PAT Margin	(%)	1.56	4.26
Total Debt/Tangible Net Worth	Times	0.84	0.79
PBDIT/Interest	Times	5.20	8.75

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading entities - <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Up to 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A-/ Stable (Assigned)
Bills Discounting*	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A2+ (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A-/ Stable (Assigned)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A-/ Stable (Assigned)
PCFC/FBD/EPC/EBR	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A-/ Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE A-/ Stable (Assigned)
Term Loan I	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A-/ Stable (Assigned)
Term Loan II	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A-/ Stable (Assigned)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	3.43	ACUITE A2+ (Assigned)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Assigned)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	13.80	ACUITE A2+ (Assigned)

*Cash credit of Rs.15.00 includes as a sublimit of bills discounting.

*Working capital demand loan of Rs.15.00 includes as sublimit of bills discounting.

Contacts

Analytical	Rating Desk
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About Acuité Ratings & Research:

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