

Press Release

Eastman Auto and Power Limited

February 05, 2021

Rating upgraded and withdrawn



Total Bank Facilities Rated*	Rs. 174.23 Cr.
Long Term Rating	ACUITE A/Stable (Upgraded)
Short Term Rating	ACUITE A1 (Upgraded and withdrawn)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE A' (read as ACUITE A)** from '**ACUITE A-' (read as ACUITE A minus)** and the short term rating to '**ACUITE A1' (read as ACUITE A one)** from '**ACUITE A2+' (read as ACUITE A two plus)** on the Rs.174.23 Crore bank facilities of Eastman Auto and Power Limited. The outlook is '**Stable**'.

Further, Acuite has withdrawn the short-term rating of '**ACUITE A1' (read as ACUITE A one)** on the Rs. 43.43 crore bank facilities of Eastman Auto and Power Limited.

Reason for Upgrade

The upgrade in the rating is on account of significant improvement in revenue and profitability in the current financial year, healthy financial risk profile and strong interest coverage ratio. Although, in the last financial year, company witnessed a decline in the revenue from Rs. 758.08 crore in FY2019 to Rs. 608.73 crore in FY2020 mainly due to shift in focus from inverter batteries to E-rickshaw batteries and shutdown of operation during the covid-19 pandemic. In the current financial year, the company have achieved a revenue of ~Rs.625 Crore as on 31st December, 2020 and by the end of the financial year it is expected to be Rs.850-860 Crore (~40% growth as compare to FY2020). This was mainly due to increase in demand and high amount of orders. In FY2020, the EBITDA Margins have significantly improved to 5.82 percent for FY2020 as against 4.76 percent in FY2019. The net worth of the company stood high at Rs.160.70 Crore as on 31 March 2020 as against Rs.151.63 Crore as on 31 March 2019 and it is expected to remain strong due to high net cash accrual in the near future. The interest coverage ratio (ICR) stood strong at 5.16 times in FY2020 as against 5.20 times in FY2019. NCA/TD (Net Cash Accruals to Total Debt) ratio improved to 0.20 times in FY2020 as against 0.19 times in FY2019.

About the Company

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 inverter-tubular batteries and e-rickshaw batteries and acts as a contract manufacturer for reputed brand names like Fujiyama Power Systems Private Limited, Lucas Indian Service Limited and Amara Raja Batteries amongst others. EAPL also sells its products under the brand name 'Addo' and 'Eastman'. 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 and Baddi, Himachal Pradesh with a total installed 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 inverter 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

Acuite has considered the standalone business and financial risk profile of EAPL to arrive at the 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 Fujiyama Power Systems Private Limited, 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 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 Fujiyama Power Systems Private Limited, 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. Sanjeev Gupta (Independent director) and Mr. Surajit Sur (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.

• Healthy Financial risk profile

EAPL has healthy financial risk profile marked by strong net worth, healthy debt protection metrics and low gearing. The net worth of the company has sequentially improved to around Rs.160.70 crore as on 31 March, 2020 as against Rs.151.63 crore as on 31 March, 2019.

The company has followed a conservative financial policy in the past. The same is also reflected through its peak gearing levels of 0.80 times as on 31 March, 2020. The gearing of the company is expected to remain low over the medium term on account of absence of any debt funded capex plans. The total debt of Rs.128.25 crore as on 31 March, 2020 consists of long term debt of Rs.60.63 crore and working capital borrowings of Rs.67.52. crore. The moderate profitability levels coupled with low gearing levels have led to healthy coverage indicators. The interest coverage ratio stood healthy at 5.16 times in FY2020 as compare to 5.20 times in FY2019. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.20 times in FY2020 and 0.19 times in FY2018. Debt to EBITDA stood at 3.48 times in FY2020 as against 3.38 times in FY2018.

Acuite believes that the financial risk profile of the company is expected to remain healthy backed by high net cash accruals and in absence of any major debt funded capex in near to medium term.

Weaknesses

• Intensive working capital management operation

The working capital management of the company stood intensive in FY2020 marked by Gross Current Assets (GCA) of 180 days in FY2020 as against 151 days in FY2019. The inventory and debtor levels stood at 92 days and 51 days in FY2020 as against 54 and 65 days in FY2019, respectively. As the company is a major export based company they usually maintains high amount of finished goods inventory. The creditor days stood at 150 days in FY2020 as against 113 days in FY2019 as well. The creditors outstanding as on 31st march, 2020 is higher than usual as during the time operations were closed due to covid-19 pandemic.

While the working capital requirement is declining year on year as the company is generating sufficient amount of net cash accrual during the year. As a result, the average utilization of bank limits stood low at ~43 per cent in the last six months ending October 2020.

Acuite believes that the working capital requirements will continue to remain moderately intensive over the medium term on account of high amount of inventory.

Rating sensitivity

- Significant growth in operating income and profitability in the current financial year.

- Deterioration in the working capital management operation.

Material Covenant

- 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

The Company has strong liquidity marked by high net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.25.55 Crore in FY2020 as against debt maturity obligation of ~Rs.8.60 Crore for the year. The cash accruals of the company are estimated to remain in the range of around Rs.38.00 Crore to Rs.50.00 Crore during FY2021-23 against the CPLTD of Rs.15.00-20.00 Crore each year for the same period. The company's working capital operations are intensive marked by Gross Current Asset (GCA) days of 180 days in FY2020. The average utilization of bank limits stood low at ~43 per cent in the last six months ending October 2020. Company maintains unencumbered cash and bank balances of Rs.20.14 Crore as on 31 March 2020. The current ratio stands at 1.08 times as on 31 March 2020.

Outlook: Stable

Acuite believes that the outlook of EAPL will remain 'Stable' over the medium term owing to its experienced management and long standing relationships with customers. The outlook may be revised to 'Positive' if the company achieves higher than expected revenue and profitability while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' if the company undertakes higher than expected debt funded capital expenditure resulting in deterioration in its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	613.60	761.13
PAT	Rs. Cr.	8.92	11.85
PAT Margin	(%)	1.45	1.56
Total Debt/Tangible Net Worth	Times	0.80	0.84
PBDIT/Interest	Times	5.16	5.20

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

Not Applicable

Any other information

Not Applicable

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>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
31-December-2019	Cash Credit	Long Term	15.00	ACUITE A-/Stable (Assigned)
	Bills Discounting	Short Term	40.00	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	4.00	ACUITE A-/Stable (Assigned)
	Working Capital	Long Term	6.00	ACUITE A-/Stable

	Demand Loan			(Assigned)
	PCFC/FBD/EPC/EBR	Long Term	15.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	22.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	10.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	40.00	ACUITE A-/Stable (Assigned)
	Bank Guarantee	Short Term	3.43	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	13.80	ACUITE A2+ (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	15.00	ACUITE A/Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A/Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A/Stable (Upgraded)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A1 (Withdrawn)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A/Stable (Upgraded)
PCFC/FBD/EP C/EBR	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A/Stable (Upgraded)
Term Loan	31-August-2018	8.80%	31-August-2023	15.36	ACUITE A/Stable (Upgraded)
Term Loan	02-February-2017	9.05%	02-May-2023	5.23	ACUITE A/Stable (Upgraded)
Term Loan	13-November-2018	7.80%	13-August-2024	34.67	ACUITE A/Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.43	ACUITE A1 (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A1 (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A1 (Upgraded)

Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	13.80	ACUITE A1 (Upgraded)
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	47.17	ACUITE A/Stable (Upgraded)

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About Acuité Ratings & Research:

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