

Press Release

Eastman Auto and Power Limited

March 30, 2022



Rating Assigned, Upgraded and Upgraded & Withdrawn

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|---------------------|----------------------------------|-----------------------------------|
| Bank Loan Ratings | 1.00 | - | ACUITE A1+ Upgraded & Withdrawn |
| Bank Loan Ratings | 10.00 | ACUITE A+ Upgraded & Withdrawn | - |
| Bank Loan Ratings | 12.00 | - | ACUITE A1+ Upgraded |
| Bank Loan Ratings | 251.47 | ACUITE A+ Stable Upgraded | - |
| Bank Loan Ratings | 30.00 | ACUITE A+ Stable Assigned | - |
| Total Outstanding Quantum (Rs. Cr) | 293.47 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 11.00 | - | - |

Rating Rationale

Acuite has upgraded the long term rating from '**ACUITE A (read as ACUITE A)**' to '**ACUITE A+ (read as ACUITE A plus)**' on the Rs.251.47 Cr bank facilities of '**Eastman Auto and Power Limited (EAPL)**'. Acuite has further assigned long term rating of **ACUITE A+ (read as ACUITE A plus)** on Rs.30.0 crore bank facilities. The outlook is '**Stable**'.

Acuite has also upgraded short term rating from '**ACUITE A1 (read as ACUITE A one)**' to '**ACUITE A1+ (read as ACUITE A one plus)**' on Rs.12.0 crore short term bank facility. Acuite has also upgraded and withdrawn long term rating from '**ACUITE A (read as ACUITE A)**' to '**ACUITE A+ (read as ACUITE A plus)**' on Rs. 10.00 Cr bank facilities.

Acuite has also upgraded and withdrawn short term rating from '**ACUITE A1 (read as ACUITE A one)**' to '**ACUITE A1+ (read as ACUITE A one plus)**' on Rs. 1.00 Cr bank facilities of '**Eastman Auto and Power Limited**'. The rating is being withdrawn on account of the request received from the company and NOC received from the banker as per Acuite's withdrawal policy.

The upgrade in ratings take into account significant improvement in financial performance of the company in FY21 and 9MFY22, backed by increase in installed capacity and new product segment, improvement in profitability margins, improved financial risk profile and adequate liquidity. The rating continues to derive strength from experienced promoters and established track record of operations. The ratings are however, constrained by working capital intensive nature of operations and debt funded capital expansion.

About the Company

Eastman Auto and Power Limited (EAPL) is Gurgaon based company and was incorporated in 2000. The company was initially involved in trading activity till 2008. The company leased out plant in Nalagarh district, Himachal Pradesh for manufacturing of inverter Battery. In 2018, the company set up another plant (own unit) in Baddi district, Himachal Pradesh for the same. The installed capacity remained at 7,20,000 units and 12,00,000 units respectively in Nalagarh and Baddi plant respectively during FY21. The same increased to 12,60,000 units and 14,40,000 units in FY22. The company has been engaged in increase in installed capacity in order to cater growing demand.

In addition to this, the company also undertakes contract manufacturing for reputed client such as Fujiyama Systems Private Limited, Lucas Indian Service Limited and Amara Raja Batteries. EAPL also sell its batteries under brand name; 'Addo' and 'Eastman'.

Analytical Approach

The team has considered the standalone financials of Eastman Auto and Power Limited to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management and long 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 automobile industry. 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 maintaining 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 include 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 the company would continue to benefit from experience of the Directors and long track record of the company.

Significant improvement in financial performance during FY21 and 9MFY22

The company reported total operating income of Rs.974.80 crore during FY21 as against Rs.613.60 crore in FY20, thereby reporting y-o-y growth of 58.87%. the growth in total operating income is majorly driven by increase in sales of e-rickshaw batteries. The operating profit of EAPL also increased to Rs.58.95 crore in FY21 from Rs.35.70 crore in FY20. Similarly, net profit almost doubled from Rs. 8.92 crore to Rs.15.85 crore in FY21, despite increase in depreciation from Rs. 16.63 crores in FY20 to Rs.28.85 crores in FY21. On profitability margin front, the operating profit margin of the company increased to 6.05% in FY21 from 5.82% in FY20. Similarly, the net profit of the company also increased by 18bps to 1.63% in FY21.

The company has already achieved total operating income and net profit of Rs. 1,055.28 crores and Rs.25.54 crores during 9MFY22. Acuite believes that total operating income of the company is expected to increase in view of increase in installed capacity and growing demand.

Venturing into new product segment

EAPL has ventured into production and sales of solar inverter battery and tubular gel battery. Consequently, total sales volume also increased from 7,61,504 units of batteries in FY20 to 12,51,742 units in FY21. The increase in operating profit margin is also on account of sale of tubular gel battery, which is a higher margin product. The net profit of the company also increased by 18bps to 1.63% in FY21.

Comfortable financial risk profile

The capital structure as represented by debt-equity ratio continues to remain below unity as on March 31, 2021, The tangible net worth of the company improved to Rs.177.02 crore as on

March 31, 2021 as against Rs.160.70 crores as on March 31, 2020, mainly on account of accretion of profit to reserves. This further resulted in improvement in debt coverage indicators of the company. Hence, the total outstanding liability to tangible net worth improved to 2.18 times during FY21 as against 2.25 times in FY20. The net cash accruals to total debt also increased to 0.46 times in FY21 over 0.20 times in FY20. The increase in operating profit also resulted improvement in interest coverage ratio to 9.39 times in FY21 as against 5.16 crore in FY20. Similarly, debt to EBITDA also improved significantly to 1.62 times from 3.48 times in FY20.

Weaknesses

Debt funded capex

The company has been availing term loan for the capacity expansion. the company has availed aggregate term loan of Rs.26.24 crores during current fiscal for the purpose of capacity expansion. The capex was undertaken at an aggregate cost of Rs. 40.0 crore, of which Rs.35.0 crores was expected to be funded through term loan and remaining through internal accrual. However, the term loan was disbursed upto Rs.15.0 crores and remaining Rs. 25.0 crores were funded through internal accruals. The undisbursed amount of Rs.20.0 crores would be done by fiscal year ending 2022. Hence, with increase in term debt, the financial risk profile is expected to be moderated marginally. However, the impact of same is expected to be mitigated to some extent by accretion of profit to reserves.

Susceptibility to changes in regulations and customer preference

The battery industry remains susceptible to changes in government regulations regarding the content raw material used. Further, the industry is susceptible to changes in consumer preferences. Hence, the operational performance of the company is expected to be impacted in event of any of above event

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- >Increase in scale of operations with improvement in profitability margins
- >Any elongation in working capital cycle resulting in liquidity stretch

Material covenants

None

Liquidity Position: Adequate

The net cash accruals of the company remained at Rs.44.70 crores during FY21 against the debt repayment of Rs.20.47 crores thereby providing sufficient cushion. However, the company has also been undertaking capex which is partly being funded through net cash accruals. The cash and bank balance remained at Rs.9.16 crores as on March 31, 2021. Further, the current ratio remained at 1.09 during FY21. In addition to this, the company also has liquid investment in bank to the tune of Rs.13.19 crores. The net cash accruals of the company are expected to remain between Rs.77-91 crores in FY22-23 against the expected debt repayment of Rs.20-25 crores in FY22-23. However, the company is expected to incur Rs.10.0 crores through net cash accruals w.r.t capex that is being planned in FY23. Nevertheless, with growing demand, the company is expected to generate sufficient cash accruals.

Outlook: Stable

Acuité believes that the outlook on EAPL will remain 'Stable' over the medium term on account of its experienced promoter and long track record of operations. The outlook may be revised to 'Positive' in case of significant improvement in scale of operations along with improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or any significant cost or time overrun in its proposed capex leading to deterioration of its revenue stream.

Other Factors affecting Rating

Not Applicable

Key Financials

| Particulars | Unit | FY 21 (Actual) | FY 20 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 974.80 | 613.60 |
| PAT | Rs. Cr. | 15.85 | 8.92 |
| PAT Margin | (%) | 1.63 | 1.45 |
| Total Debt/Tangible Net Worth | Times | 0.55 | 0.80 |
| PBDIT/Interest | Times | 9.39 | 5.16 |
| | | | |

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>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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**

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|--------------------------------|
| 27 Aug 2021 | Working Capital Demand Loan | Long Term | 10.00 | ACUITE A Stable (Reaffirmed) |
| | Cash Credit | Long Term | 22.00 | ACUITE A Stable (Reaffirmed) |
| | Working Capital Demand Loan | Long Term | 9.90 | ACUITE A Stable (Reaffirmed) |
| | Cash Credit | Long Term | 4.00 | ACUITE A Stable (Reaffirmed) |
| | Cash Credit | Long Term | 10.00 | ACUITE A Stable (Reaffirmed) |
| | Packing Credit | Long Term | 15.00 | ACUITE A Stable (Reaffirmed) |
| | Term Loan | Long Term | 27.74 | ACUITE A Stable (Reaffirmed) |
| | Cash Credit | Long Term | 25.00 | ACUITE A Stable (Reaffirmed) |
| | Working Capital Demand Loan | Long Term | 3.70 | ACUITE A Stable (Reaffirmed) |
| | Working Capital Demand Loan | Long Term | 6.00 | ACUITE A Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 1.00 | ACUITE A1 (Reaffirmed) |
| | Proposed Bank Facility | Long Term | 1.79 | ACUITE A Stable (Reaffirmed) |

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|-------------|-----------------------------|------------|-------|--|
| | Bank Guarantee | Short Term | 13.80 | ACUITE A1 (Reaffirmed) |
| | Term Loan | Long Term | 3.79 | ACUITE A Stable (Reaffirmed) |
| | Term Loan | Long Term | 13.86 | ACUITE A Stable (Reaffirmed) |
| 15 Feb 2021 | Cash Credit | Long Term | 4.00 | ACUITE A Stable (Reaffirmed) |
| | Cash Credit | Long Term | 10.00 | ACUITE A Stable (Reaffirmed) |
| | Packing Credit | Long Term | 15.00 | ACUITE A Stable (Reaffirmed) |
| | Cash Credit | Long Term | 15.00 | ACUITE A Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 1.00 | ACUITE A1 (Reaffirmed) |
| | Term Loan | Long Term | 34.67 | ACUITE A Stable (Reaffirmed) |
| | Proposed Bank Facility | Long Term | 9.52 | ACUITE A Stable (Reaffirmed) |
| | Term Loan | Long Term | 15.36 | ACUITE A Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 7.00 | ACUITE A1 (Reaffirmed) |
| | Term Loan | Long Term | 5.23 | ACUITE A Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 13.80 | ACUITE A1 (Reaffirmed) |
| | Working Capital Demand Loan | Long Term | 6.00 | ACUITE A Stable (Reaffirmed) |
| 05 Feb 2021 | Cash Credit | Long Term | 10.00 | ACUITE A Stable (Upgraded from ACUITE A- Stable) |
| | Packing Credit | Long Term | 15.00 | ACUITE A Stable (Upgraded from ACUITE A- Stable) |
| | Term Loan | Long Term | 34.67 | ACUITE A Stable (Upgraded from ACUITE A- Stable) |
| | Term Loan | Long Term | 15.36 | ACUITE A Stable (Upgraded from ACUITE A- Stable) |
| | Proposed Bank Facility | Long Term | 47.17 | ACUITE A Stable (Upgraded from ACUITE A- Stable) |
| | Bank Guarantee | Short Term | 13.80 | ACUITE A1 (Upgraded from ACUITE A2+) |
| | Cash Credit | Long Term | 15.00 | ACUITE A Stable (Upgraded from ACUITE A- Stable) |
| | Term Loan | Long Term | 5.23 | ACUITE A Stable (Upgraded from ACUITE A- Stable) |
| | Working Capital Demand Loan | Long Term | 6.00 | ACUITE A Stable (Upgraded from ACUITE A- Stable) |
| | Cash Credit | Long Term | 4.00 | ACUITE A Stable (Upgraded from ACUITE A- Stable) |
| | Bank Guarantee | Short Term | 1.00 | ACUITE A1 (Upgraded from ACUITE A2+) |
| | Bank Guarantee | Short Term | 7.00 | ACUITE A1 (Upgraded from ACUITE A2+) |
| | Bank Guarantee | Short Term | 3.43 | ACUITE A1 (Withdrawn) |

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|-------------|-----------------------------|------------|-------|-------------------------------|
| | Bills Discounting | Short Term | 40.00 | ACUITE A1 (Withdrawn) |
| 31 Dec 2019 | Bank Guarantee | Short Term | 5.00 | ACUITE A2+ (Assigned) |
| | Term Loan | Long Term | 40.00 | ACUITE A- Stable (Assigned) |
| | Packing Credit | Long Term | 15.00 | ACUITE A- Stable (Assigned) |
| | Term Loan | Long Term | 10.00 | ACUITE A- Stable (Assigned) |
| | Bank Guarantee | Short Term | 3.43 | ACUITE A2+ (Assigned) |
| | Bank Guarantee | Short Term | 13.80 | ACUITE A2+ (Assigned) |
| | Cash Credit | Long Term | 15.00 | ACUITE A- Stable (Assigned) |
| | Bills Discounting | Short Term | 40.00 | ACUITE A2+ (Assigned) |
| | Working Capital Demand Loan | Long Term | 6.00 | ACUITE A- Stable (Assigned) |
| | Term Loan | Long Term | 22.00 | ACUITE A- Stable (Assigned) |
| | Cash Credit | Long Term | 4.00 | ACUITE A- Stable (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|---------------------|----------------|----------------------|------------------|----------------|----------------|-------------------|---|
| State Bank of India | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | 12.00 | ACUITE A1+ Upgraded (from ACUITE A1) |
| HDFC Bank Ltd | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | 1.00 | ACUITE A1+ Upgraded & Withdrawn |
| HDFC Bank Ltd | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE A+ Stable Upgraded (from ACUITE A) |
| Axis Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 25.00 | ACUITE A+ Stable Upgraded (from ACUITE A) |
| Indusind Bank Ltd | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 22.00 | ACUITE A+ Stable Upgraded (from ACUITE A) |
| State Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 4.00 | ACUITE A+ Stable Upgraded (from ACUITE A) |
| State Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 6.00 | ACUITE A+ Stable Upgraded (from ACUITE A) |
| Indusind Bank Ltd | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 20.00 | ACUITE A+ Stable Upgraded (from ACUITE A) |
| Axis Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 25.00 | ACUITE A+ Stable Upgraded (from ACUITE A) |
| RBL Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 30.00 | ACUITE A+ Stable Assigned |
| State Bank | Not | PC/PCFC | Not | Not | Not | 15.00 | ACUITE A+ Stable Upgraded |

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|---------------------|----------------|------------------------------------|----------------|----------------|----------------|-------|---|
| of India | Applicable | | Applicable | Applicable | Applicable | | (from ACUITE A) |
| State Bank of India | Not Applicable | PC/PCFC | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE A+ Stable Upgraded (from ACUITE A) |
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | 1.79 | ACUITE A+ Stable Upgraded (from ACUITE A) |
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | 38.21 | ACUITE A+ Stable Upgraded (from ACUITE A) |
| Indusind Bank Ltd | Not Applicable | Term Loan | 31-08-2018 | Not available | Not available | 6.36 | ACUITE A+ Stable Upgraded (from ACUITE A) |
| HDFC Bank Ltd | Not Applicable | Term Loan | 02-02-2017 | Not available | Not available | 2.98 | ACUITE A+ Stable Upgraded (from ACUITE A) |
| HDFC Bank Ltd | Not Applicable | Term Loan | 13-11-2018 | Not available | Not available | 27.74 | ACUITE A+ Stable Upgraded (from ACUITE A) |
| HDFC Bank Ltd | Not Applicable | Term Loan | 13-11-2018 | Not available | Not available | 13.79 | ACUITE A+ Stable Upgraded (from ACUITE A) |
| State Bank of India | Not Applicable | Working Capital Demand Loan (WCDL) | Not available | Not available | Not available | 6.00 | ACUITE A+ Stable Upgraded (from ACUITE A) |
| HDFC Bank Ltd | Not Applicable | Working Capital Demand Loan (WCDL) | Not available | Not available | Not available | 9.90 | ACUITE A+ Stable Upgraded (from ACUITE A) |
| Indusind Bank Ltd | Not Applicable | Working Capital Demand Loan (WCDL) | Not available | Not available | Not available | 3.70 | ACUITE A+ Stable Upgraded (from ACUITE A) |
| State Bank of India | Not Applicable | Working Capital Demand Loan (WCDL) | Not available | Not available | Not available | 9.00 | ACUITE A+ Stable Upgraded (from ACUITE A) |

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|-----------------------|----------------|-------------------------------------|---------------|---------------|---------------|-------|---|
| Bajaj Finserv Limited | Not Applicable | Working Capital Demand Loan (WC DL) | Not available | Not available | Not available | 10.00 | ACUITE A+ Upgraded & Withdrawn |
|-----------------------|----------------|-------------------------------------|---------------|---------------|---------------|-------|---|

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About Acuité Ratings & Research

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