

Press Release

Earth Stone Global

25 May, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs.17.00 Cr
Long Term Rating	SMERA B/Stable (Assigned)
Short Term Rating	SMERA A4 (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of **SMERA B (read as SMERA B)** and short term rating of **SMERA A4 (read as SMERA A four)** on the Rs. 17.00 crore bank facilities of Earth Stone Global (ESG). The outlook is '**Stable**'. ESG is engaged in the business of extraction, processing and sale of sandstone and stone veneer.

List of Key Rating Drivers and their detailed description

Strengths:

Experienced management: SMERA believes that ESG will continue to benefit from its experienced management. The proprietor, Mr. Vikas Kanchhal has nearly three decades of experience in the processing and trading of stones. ESG is expected to benefit from the proprietor's longstanding relationship with several marquee clients across the world.

Backward integrated operations: ESG also undertakes extraction of sandstone blocks from its own mines. SMERA believes that ESG's ability to eliminate supply-side bottlenecks by ensuring a steady supply of sandstone shall enable it to maintain operating cash flows over the medium term. The same is evident from the comfortable gross profit margin of the firm which stood at 7.37 per cent in FY2016 as compared to 9.86 per cent in FY2015.

Weaknesses:

Small scale of operations: ESG's rating is constrained by its small scale of operations marked by a modest operating income of Rs. 28.24 crore in FY2016 (Rs. 24.80 crore in FY2014) and low networth of Rs. 3.97 crore as on 31 March, 2016 (Rs. 4.00 crore on 31 March, 2015). SMERA believes that ESG's ability to scale up operations while maintaining its profitability metrics shall remain a key rating sensitivity factor.

Weak financial risk profile: The rating is also constrained by ESG's weak financial risk profile marked by high leverage and weak debt protection metrics. ESG reported increase in gearing to 5.24 times as on 31 March, 2016 from 4.53 times as on 31 March, 2015 on account of withdrawal of capital by the proprietor. The firm's debt protection metrics also remained subdued due to increase in short term debt to Rs. 17.11 crore as on 31 March, 2016 (from Rs. 13.35 crore as on 31 March, 2016) while the gross profit margin continued to decline in FY2016. The decline in profitability is on account of reduced export sales due to the subdued global demand-supply dynamics.

Analytical approach: SMERA has taken a standalone view of the above entity.

Applicable Criteria

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

Outlook: Stable

SMERA believes that ESG will maintain a stable outlook on account of its experienced management and well established market position. The outlook may be revised to 'Positive' in case of substantial improvement in debt protection metrics while reducing the overall debt and maintaining its net worth. The outlook may be revised to 'Negative' in case of continued deterioration in profitability margins and/or further withdrawal of capital resulting in increase in gearing.

About the Rated Entity

Earth Stone Global (ESG) was established as a proprietorship concern in 2010 by Mr. Vikas Kanchhal at Jaipur. The firm is engaged in the processing of natural stone and manufacturing of thin slate veneer tiles (Sand Stone, Slate Stone, etc.), mosaic tiles for the domestic and export market.

The firm reported Profit After Tax (PAT) of Rs. 0.19 crore on operating income of Rs.28.26 crore in FY2015–16, as compared to PAT of Rs.0.27 crore on operating income of Rs.24.84 crore in FY2014–15.

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

Any other information: N.A.

Rating History for the last three years:

Name of Instrument /Facilities	2017			2016		2015		2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Export Packing Credit	ST	12.40	SMERA A4 (Assigned)	-	-	-	-	-	-
Cash Credit	LT	1.25	SMERA B/Stable (Assigned)						
Foreign Bill Purchasing/ Foreign Bill Discounting	ST	0.75	SMERA A4 (Assigned)	-	-	-	-	-	-
Standby Letter of Credit	ST	2.60	SMERA A4 (Assigned)	-	-	-	-	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs Crore)	Ratings/Outlook
Export Packing Credit	N.A	N.A	N.A	12.40	SMERA A4 (Assigned)
Cash Credit	N.A	N.A	N.A	1.25	SMERA B/Stable (Assigned)
Foreign Bill Purchasing/ Foreign Bill Discounting	N.A	N.A	N.A	0.75	SMERA A4 (Assigned)
Standby Letter of Credit	N.A	N.A	N.A	2.60	SMERA A4 (Assigned)

Note on complexity levels of the rated instrument:

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

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ABOUT SMERA

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