

Rating Rationale

February 13, 2025 | Mumbai

Eastern Treads Limited

Ratings reaffirmed at 'Crisil B/Stable/Crisil A4'

Rating Action

Total Bank Loan Facilities Rated	Rs.30.5 Crore
Long Term Rating	Crisil B/Stable (Reaffirmed)
Short Term Rating	Crisil A4 (Reaffirmed)

Note: None of the Directors on Crisil Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings.

The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed rationale

Crisil Ratings has reaffirmed its 'Crisil B/Stable/Crisil A4' ratings on the bank loan facilities of Eastern Treads Ltd (ETL).

The ratings continue to reflect ETL's below-average financial risk profile and exposure to volatility in raw material prices. These weaknesses are partially offset by the extensive experience of the company's promoters in the rubber treads industry and longstanding relationships with key customers and suppliers.

Analytical approach

Crisil Ratings has evaluated the standalone business and financial risk profiles of ETL.

Key rating drivers and detailed description

Weaknesses:

- **Below-average financial risk profile:** The financial risk profile is constrained by leveraged capital structure and modest debt protection metrics. Total outside liabilities to tangible network (TOLTNW) ratio was negative 6.90 times as on March 31, 2024 on account of losses faced. Debt protection metrics have significantly weakened after reduced profitability, as indicated by interest coverage and net cash accrual to total debt (NCATD) ratios of 0.12 time and negative 0.08 time in fiscal 2024. Furthermore, the company's working capital-intensive operations are likely to result in higher dependence on external borrowings. Consequently, the financial metrics are likely to remain at a similar range in the near term.
- **Exposure to volatility in raw material prices:** The prices of key raw materials - natural rubber, carbon black and synthetic rubber, have remained high in the last few quarters. Operating margin has remained negative in fiscals 2023 and 2024, ranging from negative 4.5% to 0.5%, and is expected to remain vulnerable to fluctuations in input costs over the medium term.

Strength:

- **Extensive experience of the promoters in the rubber treads industry and longstanding relationships with key customers and suppliers:** The promoters have been in the rubber treads industry for over three decades now and this has enabled them to have a strong understanding of the market dynamics. Benefits from their experience and established relationships with customers and suppliers should continue to support the business.

Liquidity: Stretched

Bank limit utilisation was high at 84% on average for the 12 months through October 2024. Net cash accrual is expected to remain modest, over the medium term, owing to reduced profitability. However, need-based unsecured loans support liquidity. The current ratio remains moderate at 0.63 time as on March 31, 2024. The promoters are likely to extend support in the form of equity and unsecured loans to meet the working capital requirement and debt obligation.

Outlook: Stable

Crisil Ratings believes ETL will continue to benefit from the extensive experience and support from its promoters.

Rating sensitivity factors

Upward factors:

- Strong revenue growth along with resumption of moderate operating margin of more than 4%
- Improvement in the financial risk profile

Downward factors:

- Further deterioration in the TOLTNW ratio due to stretched working capital cycle or large debt-funded capital expenditure

- Decline in profitability by more than 500 basis points or significant decline in revenue leading to further weakening of the business risk profile

About the company

Incorporated in 1993 and based in Kochi, Kerala, ETL manufactures rubber treads. Promoted by Mr M E Meeran, the company is managed by Mr Navas Meeran.

Key financial indicators

As on / for the period ended March 31	Unit	2024	2023
Operating income	Rs crore	61.45	64.67
Reported profit after tax (PAT)	Rs crore	-2.95	-7.23
PAT margin	%	-4.80	-11.18
Adjusted debt/adjusted networth	Times	-1.60	-2.26
Interest coverage	Times	0.12	-0.87

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

Crisil Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

Crisil Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the Crisil Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name Of Instrument	Date Of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Crore)	Complexity Levels	Rating Outstanding with Outlook
NA	Bank Guarantee	NA	NA	NA	5.00	NA	Crisil A4
NA	Cash Credit	NA	NA	NA	9.00	NA	Crisil B/Stable
NA	Proposed Term Loan	NA	NA	NA	9.88	NA	Crisil B/Stable
NA	Term Loan	NA	NA	31-Mar-27	6.62	NA	Crisil B/Stable

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2025 (History)		2024		2023		2022		Start of 2022
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	25.5	Crisil B/Stable		--		--	20-11-23	Crisil B/Stable	31-10-22	Crisil B/Stable	Crisil BB-/Stable
Non-Fund Based Facilities	ST	5.0	Crisil A4		--		--	20-11-23	Crisil A4	31-10-22	Crisil A4	Crisil A4+

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	5	Union Bank of India	Crisil A4
Cash Credit	9	Union Bank of India	Crisil B/Stable
Proposed Term Loan	9.88	Not Applicable	Crisil B/Stable
Term Loan	6.62	Union Bank of India	Crisil B/Stable

Criteria Details

Links to related criteria

[Basics of Ratings \(including default recognition, assessing information adequacy\)](#)

[Criteria for manufacturing, trading and corporate services sector \(including approach for financial ratios\)](#)

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