Press Release

Reliable Automotive Private Limited

26 March, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 25.00 Crore
Long Term Rating	SMERA BBB-/Stable (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of **'SMERA BBB-' (read as SMERA triple B minus)** on the Rs. 25.00 crore bank facilities of Reliable Automotive Private Limited (RAPL). The outlook is **'Stable'**.

RAPL is a Navi Mumbai-based company incorporated in 1997 by Mr. Kamalsingh Ailsinghani and Mr. Tejpal Ailsinghani. The company is an authorised dealer for Tata Motors Limited (TML) for its commercial vehicle segment. It has 2S (sales-second hand car sales) facility in Nerul, Navi Mumbai and 3S facility at Bhiwandi and Vasai. The company also has around 11 sales outlets (only booking counters with no display vehicles) spread across Mumbai and other parts of Maharashtra. The company is also engaged in the trading of cement and tyres which contribute around 5 percent to the total sales. The company was earlier an authorised dealer for Hyundai Motors India Limited. However, the company surrendered the dealership around April, 2016.

Key rating drivers

Strengths:

Long association with Tata Motors Limited and experienced management

RAPL is an authorised dealer for the commercial vehicle segment of Tata Motors Limited (TML) for more than two decades. The company benefits from its long association with TML, a market leader in the Indian commercial vehicle segment with around 44.4 percent market share during FY2016-17. However, TML has also reported 62 percent growth in commercial vehicle sales during April, 2017 to December, 2017 as compared to the previous year. The company reported decline in operating income to Rs. 631.40 crore for FY2017 from Rs. 704.48 crore in the previous year due to sale of the Hyundai Motors India Limited division which contributed around 14 percent to total sales. Notwithstanding the decline, RAPL reported substantial growth during the current year. The units sold stood at 5,753 from April, 2017 to January, 2018 as against 4883 units during the corresponding period in the previous year.

The company also benefits from the extensive experience of its promoters, Mr. Bhagatsingh Ailsinghani, Mr. Kamalsingh Ailsinghani and Mr. Tejpal Ailsinghani who collectively possess more than 25 years of experience. Going forward, SMERA expects the business risk profile of the company to strengthen backed by its association with TML and experienced management.

Comfortable financial risk profile and liquidity position

The financial risk profile of the company is comfortable marked by tangible networth of Rs. 18.09 crore as on 31 March, 2017 as against Rs. 14.38 crore in the previous year. The gearing stood at 2.74 percent as on as on 31 March, 2017 as against 4.77 times in the previous year. The total debt of Rs. 49.60 crore as on 31 March, 2017 includes unsecured loan from directors of Rs. 5.21 crore and short term borrowings of Rs. 44.39 crore. The Interest Coverage Ratio stood at 2.95 times for FY2017 as against 1.79 times in the previous year. The improvement in coverage ratio is on account of decline in Total Debt and interest outgo along with improvement in EBITDA. The Total outside Liabilities to Tangible Networth (TOL/TNW) stood at 4.11 times for FY2017 as against 6.12 times in FY2016.

The company maintains comfortable working capital cycle as the same stood at 33 days for FY2017 as against 37 days in the previous year. This is on account of low inventory maintained by the company and quick receivables. The liquidity position of the company is comfortable as the average working capital limit utilisation stood at around 79 percent for the last six months ended 31 January, 2018.

SMERA expects the company to improve its financial risk profile going forward supported by growth in net cash accruals and moderate working capital requirement.

Weaknesses:

Uneven revenue trend

The company has reported uneven operating income during the last three years as the same stood at Rs. 631.40 crore for FY2017 as compared to Rs. 704.48 crore for FY2016 and Rs. 412.57 crore for FY2015. The decline in revenue in FY2017 was due to sale of Hyundai Motors India Limited division (in April, 2016) and heavy discounts offered by TML to clear inventory. This was on account of the transition from BS-III to BS-IV emission norms resulting in lower realisation for RAPL in FY2017 as compared to FY2016.

However, the company is expected to report growth in revenue for FY2017-18. RAPL reported Rs. 520.00 crore during FY2017(10M) only for vehicle sales and expects to report Rs. 600.00 crore for FY2017-18 as last four months of the year are the peak period due to festivals and year closing.

Thin profitability

The EBITDA margins improved to 1.59 percent in FY2017 from 1.39 percent in FY2016 on account of high incentives received from TML during FY2016-17 which were adjusted against the cost of materials in FY2017. This enabled the company to bring down the cost of materials in FY2017. Going forward, SMERA expects the company to maintain stable profitability margins.

Stiff competition from other dealers of Tata Motors and other brands

The company faces stiff competition from other dealers of TML as also other automobile companies such as Mahindra & Mahindra, Ashok Leyland, VECV-Eicher etc. The launching of new models at competitive prices is further expected to eat into the market share of TML which in turn can affect dealers including RAPL.

Susceptible to cyclicality in the auto sector

The operations of the company are also vulnerable to the inherent cyclicality of the automobile industry.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Reliable Automotive Private Limited for arriving at the rating.

Outlook: Stable

SMERA believes that RAPL will maintain a Stable outlook and continue to benefit over the medium term from its established association with TML and extensive experience of its management in the business. The outlook may be revised to 'Positive' in case the company registers substantial revenue growth while maintaining stable profitability and effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of failure in achieving the projected scalability in revenue or deterioration in the financial risk profile on account of higher than expected working capital borrowings.

Applicable Criteria

- Trading Entities –https://www.smera.in/criteria-trading.htm
- Default Recognition - https://www.smera.in/criteria-deafult.htm
- Application of Financial Ratios and Adjustments - https://www.smera.in/criteria-fin-ratios.htm

About the Rated Entity –Key Financials

Particulars	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	631.40	704.48	412.57
EBITDA	Rs. Cr.	10.04	9.76	6.93
PAT	Rs. Cr.	3.70	1.02	1.02
EBITDA Margin	(%)	1.59	1.39	1.68
PAT Margin	(%)	0.59	0.14	0.25
ROCE	(%)	11.89	8.68	15.36
Total Debt/Tangible Net Worth	Times	2.74	4.77	4.87
PBDIT/Interest	Times	2.95	1.79	1.45
Total Debt/PBDIT	Times	4.90	6.93	9.23
Gross Current Assets (Days)	Days	46	43	60

Status of non-cooperation with previous CRA (if applicable): CRISIL in its press release dated 10October, 2017 had inter-alia mentioned the following: 'CRISIL has been consistently following up with Kamal Motors (Prop. Reliable Automotive Private Limited) (KM) for obtaining information through letters and emails dated July 13, 2017 and August 17, 2017 among others, apart from telephonic communication. However, the issuer has remained non cooperative.

Any other information: Not Applicable

Rating History for the 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
Electronic Dealer Finance	Not Applicable	Not Applicable	Not Applicable	25.00	SMERA BBB- /Stable

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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