

Press Release

Reliable Automotive Private Limited

July 21, 2020

Rating Reaffirmed and Assigned



| | |
|------------------------------------|---|
| Total Bank Facilities Rated | Rs. 76.50 crore (Enhanced from Rs 25.00 crore) |
| Long Term Rating | ACUITE BBB-/ Stable (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs 76.50 crore bank facilities of Reliable Automotive Private Limited (RAPL). The outlook is '**Stable**'.

Reliable Automotive Private Limited (RAPL) is a Mumbai based company incorporated in the year 1997 by Mr. Kamalsingh Ailsinghani and Mr. Tejpal Ailsinghani. The company is an authorised dealer of commercial vehicles of Tata Motors Limited (TML). It has one 2S facility located in Nerul and one each 3S facility at Bhiwandi and Vasai. The company has around 11 sales outlets (booking counter with no display vehicles) all over Mumbai and Maharashtra. The company is also engaged in trading of cement and tyres, which contributes to around 5 percent to the total sales.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of RAPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and long association with Tata Motors Limited**

Incorporated in 1997, the company has an operational track record of more than two decades in the business. The company benefits from the extensive experience of its promoters, Mr. Bhagatsingh Ailsinghani, Mr. Kamalsingh Ailsinghani and Mr. Tejpal Ailsinghani, who possess more than 25 years of experience. 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. Going forward, Acuite expects the business risk profile of the company to strengthen backed by its association with TML and experienced management.

- **Healthy scale of operations**

The company has a healthy scale of operations with revenue of Rs. 863.76 crore in FY 2020 (Provisional) as compared to Rs 881.83 crore in the previous year. Acuite believes that sustaining the turnover levels would be a key business monitorable as the industry is witnessing challenges due to the global pandemic.

- **Comfortable working capital cycle**

The working capital operations of the company stood well managed, marked by Gross Current Assets (GCA) days of 29 days in FY 2020 (Provisional) as compared to 57 days in the previous year. The GCA days are mainly dominated by debtor days. The debtor days stood at 16 days in FY 2020 (Provisional) as compared to 15 days in the previous year. The inventory days stood at 2 days in FY 2020 (Provisional) as compared to 30 days in FY 2019. Other Current Assets as on 31st March, 2019 of Rs 31.45 crores include Advance tax paid of Rs 1.35 crore, GST set off available of Rs 13.33 crore and other receivables of Rs 16.77 crore. The working capital limits remained utilised at an average of around 60 percent for 12 months ended May, 2020. The working capital operations are expected to remain at similar levels over the medium term on account of lower inventory levels.

Weaknesses

• Moderate financial risk profile

The financial risk profile of the company stood moderate with modest networth, moderate gearing level, and debt protection metrics. The tangible networth stood at Rs 32.64 crore as on 31st March, 2020 (Provisional) as compared to Rs 27.15 crore in the previous year. The increase in networth is mainly due to the retention of profits. The gearing (debt-equity) stood at 1.10 times as on 31st March, 2020 (Provisional) as compared to 2.86 times in the previous year. The total debt of Rs 35.79 crore as on 31st March, 2020 (Provisional) consist of working capital borrowings of Rs 31.72 crore and an unsecured loan from directors of Rs 4.07 crore. The coverage indicators stood moderate marked by Interest coverage ratio (ICR) which stood at 1.99 times for FY 2020 (Provisional) as compared to 1.86 times in FY 2019 and NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.19 times in FY 2020 (Provisional) and 0.07 times in FY2019. The financial risk profile is expected to deteriorate over the medium term on account of the expected decline in its profitability during the same period due to declining realisation.

• Stiff competition from other dealers of Tata Motors Limited and other brands

The company faces stiff competition from other dealers of Tata Motors Limited (TML) as there is an absence of absolute product differentiation. The company also faces competition from other automobile companies such as Mahindra & Mahindra Limited, Ashok Leyland Limited, Volvo Eicher Commercial Vehicles Limited to name a few operating in Mumbai.

Rating Sensitivity

- Substantial growth in revenue coupled with sustained profitability
- Improvement in debt protection metrics

Material Covenants

None

Liquidity Profile: Adequate

RAPL has adequate liquidity marked by moderate cash accruals. The company generated cash accruals of Rs 4.89-6.75 crore in FY 2017-2020 (Provisional) which is expected to decline marginally over the medium term due to an expected decline in revenue over the same period. The working capital operations of the company stood well managed, marked by GCA (Gross Current Assets) days of 29 days in FY 2020 (Provisional) as compared to 57 days in the previous year. The company maintains unencumbered cash and bank balances of Rs. 0.65 crore as on March 31, 2020 (Provisional). The current ratio stood at 1.48 times as on March 31, 2020 (Provisional). The working capital limits remained utilised at an average of around 60 percent for 12 months ended May, 2020. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accruals.

Outlook: Stable

Acuite believes that RAPL's outlook will remain 'Stable' over the medium term from its experienced management, long association with Tata Motors Limited and comfortable working capital cycle. The outlook may be revised to 'Positive' in case of growth in revenues and profitability, improving its financial risk profile. The outlook may be revised to 'Negative' in case of a steep decline in revenues and profitability or increasing working capital intensity.

About the Rated Entity - Key Financials

| | Unit | FY20 (Provisional) | FY19 (Actual) |
|-------------------------------|---------|--------------------|---------------|
| Operating Income | Rs. Cr. | 863.76 | 881.83 |
| PAT | Rs. Cr. | 5.50 | 4.12 |
| PAT Margin | (%) | 0.64 | 0.47 |
| Total Debt/Tangible Net Worth | Times | 1.10 | 2.86 |
| PBDIT/Interest | Times | 1.99 | 1.86 |

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading entities-- <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Crore) | Ratings/Outlook |
|-------------|----------------------------------|-----------|--------------------|----------------------------------|
| 30-Oct-2019 | Channel/Dealer/Vend or Financing | Long Term | 25.00 | ACUITE BBB-/ Stable (Reaffirmed) |
| 29-May-2019 | Channel/Dealer/Vend or Financing | Long Term | 25.00 | ACUITE BBB- (Indicative) |
| 26-Mar-2018 | Inventory Funding | Long Term | 25.00 | ACUITE BBB-/Stable (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 |
|----------------------------------|------------------|----------------|----------------|-------------------------------------|----------------------------------|
| Channel/Dealer/Vend or Financing | 20-Jul-2018 | Not Applicable | Not Applicable | 19.50 (Reduced from Rs 25.00 crore) | ACUITE BBB-/ Stable (Reaffirmed) |
| Channel/Dealer/Vend or Financing | 12-Dec-2019 | Not Applicable | Not Applicable | 17.00 | ACUITE BBB-/Stable (Assigned) |
| Channel/Dealer/Vend or Financing | 17-Sep-2019 | Not Applicable | Not Applicable | 15.00 | ACUITE BBB-/Stable (Assigned) |
| Channel/Dealer/Vend or Financing | 05-Jan-2018 | Not Applicable | Not Applicable | 20.00 | ACUITE BBB-/Stable (Assigned) |
| Cash Credit | 05-Jan-2018 | Not Applicable | Not Applicable | 4.05 | ACUITE BBB-/Stable (Assigned) |
| Channel/Dealer/Vend or Financing | 08-Sep-2017 | Not Applicable | Not Applicable | 0.95 | ACUITE BBB-/Stable (Assigned) |

Contacts

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About Acuité Ratings & Research:

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