

Press Release

Reliable Automotive Private Limited

October 19, 2021



Rating Reaffirmed; Outlook Revised

Total Bank Facilities Rated*	Rs.76.50 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Positive (Reaffirmed; Outlook revised to 'Positive' from 'Stable')

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed a long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs.76.50 crore bank facilities of Reliable Automotive Pvt. Ltd. (RAPL). The outlook is revised to '**Positive**' from '**Stable**'.

Rationale for rating reaffirmation and outlook revision

The rating reaffirmation and revision in outlook is on account of improved demand recovery for the commercial vehicle segment. Ease in restrictions on movement of goods by various state governments and the visible recovery in the core infrastructure sector are key positives for the commercial vehicle sector. Major commercial vehicle players have witnessed good recovery in sales volume in the recent months. Tata Motors Ltd.-India's market leader and largest commercial vehicle player, reported ~2-fold jump in domestic commercial vehicle sales volume during April-September 2021 over the year-ago period. Acuité believes that as industrial activity and the momentum of both public and private sector capital expenditure picks up, the overall demand for commercial vehicles will continue to strengthen over the near to medium term. RAPL too has witnessed good recovery indicated by sales volume recorded during April-September 2021 is ~64 per cent of total sales volume in FY21. Further, rating reaffirmation also considers experienced management, long association with Tata Motors Ltd. and moderate financial risk profile.

However, RAPL's operating performance deteriorated in FY21 led by lower demand and Covid-19-led challenges. The company's operating income and net profit declined by ~27-29 per cent in FY21 (Provisional). Financial risk profile of the company remains moderate with debt to equity ratio standing at 1.92 times as on March 31, 2021 (Provisional) and interest coverage ratio improving to 3.66 times in FY21 (Provisional) from 2.85 times a year back.

About the Company

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 Ltd. (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.

Analytical Approach

Acuité 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, RAPL 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 Ltd. (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, Acuité expects the business risk profile of the company would strengthen backed by its association with TML and experienced

management. The company has a healthy scale of operations with its operating income of Rs. 889.65 crore in FY 2020.

In FY21, however, RAPL's operating performance got deteriorated. Operating income of the company declined by 28.77per cent in FY21 (Provisional) and net profit fell by 26.72per cent. EBITDA margin stood at 2.43per cent in FY21 (Provisional) compared to 2.59per cent in FY20. Lower demand and impact of Covid-19 hurt the overall performance of the company (volume down by over 43per cent in FY21 over FY20). However, recovery in sales in FY22, so far, and expectations of sustained recovery in commercial vehicle segment are expected to support improvement in the company's operating performance. Further, RAPL has also started dealing in electric vehicle segment. While, cement and tyre trading business (~less than 4per cent of revenue) has been discontinued.

Acuite expects, RAPL's operating income to increase at a CAGR of over 15per cent over a medium term and net profit margin would remain over 1.1 per cent. Sustaining the revenue recovery would be a key monitorable going ahead.

- **Moderate financial risk profile**

RAPL has a moderate financial risk profile marked by modest net worth, moderate gearing and debt protection metrics. The company's net worth, as on March 31, 2021 (Provisional) stood at Rs.44.54 crore compared to Rs.37.14 crore as on March 31, 2020.

Debt to equity ratio of the company deteriorated as on March 31, 2021 (Provisional) but remained at a moderate level of 1.92 times against 0.77 times a year back. This was led by higher debt level, which stood at Rs.85.42 crore, comprising short-term debt of Rs.84.53 crore and Rs.0.89 crore of loans from directors/related parties. Going ahead, debt to equity ratio is expected to improve to below unity by March 2024, provided no significant debt-funded capex. Total outside liabilities to tangible net worth (TOL/TNW), as on March 31, 2021 (Provisional) stood at 2.81 times.

Interest coverage ratio of the company, in FY21 (Provisional), improved to 3.66 times from 2.85 times a year back, led by lower interest expenses. Going ahead too interest coverage ratio is estimated to remain above 3 times, while debt service coverage ratio (DSCR) is expected to remain above 2 times during FY22 to FY24. The company has availed a term loan in FY22 under Covid-19.

Weaknesses

- **Comfortable but stretched working capital cycle**

RAPL has comfortable working capital cycle but got stretched in FY21 (Provisional) marked by increase in GCA days to 78 compared to 27 for FY20 and 57 for FY19. This was led by higher inventory days, which stood at 59 for FY21 (Provisional) compared to 2 and 30 for FY20 and FY19, respectively. Demand recovery and availability of BS-VI vehicles led to higher inventory level. Although, higher credit terms allowed by the supplier (27 for FY21 (Provisional) vs 3 for FY20) offered some support. Average bank limit utilization stood at ~73per cent during the 3 months through August 2021. Going ahead, GCA days are expected to remain over 60.

- **Stiff competition from other dealers of Tata Motors Limited and other brands**

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

Rating Sensitivities

- Sustained demand recovery while maintaining profit margins
- Further elongation of working capital cycle

Material Covenants

Nil

Liquidity Position – Adequate

Liquidity position of RAPL is adequate marked by adequate cash accruals against nil term loan obligations. Current ratio of the company, however, deteriorated and remained at moderate level of

1.17 times as on March 31, 2021 (Provisional) vis-à-vis 1.45 times a year back. Average bank limit utilization, during the 3 months through August 2021, stood at ~73 per cent.

Acuite believes that liquidity position of RAPL would remain adequate over a medium term with sufficient net cash accruals to term loan repayment obligations. The company is estimated to generate cash accruals of Rs.11.41 crore to Rs.12.43 crore during FY23-FY24 compared to term loan repayment obligations of Rs.1.24 crore to Rs.1.65 crore during the same period.

Outlook: Positive

Acuite believes that RAPL would benefit from improved demand recovery sentiment for the commercial vehicle segment. This would be supported by experienced management and long association with Tata Motors Ltd.-India's market leader and largest commercial vehicle players. The rating may be upgraded if there is a sustainable growth in the scale of operations along with improvement in profit margins. Conversely, the outlook may be revised to 'Stable' in case of lower than expected revenue recovery and margin or a deterioration in financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21(Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	633.73	889.65
PAT	Rs. Cr.	7.40	10.10
PAT Margin	(%)	1.17	1.14
Total Debt/Tangible Net Worth	Times	1.92	0.77
PBDIT/Interest	Times	3.66	2.85

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

CRISIL vide press release dated July 19, 2021 has mentioned RAPL's rating as 'B+/Stable Issuer Not Cooperating' as on July 19, 2021.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
21-Jul-2020	Channel/Dealer/Vendor Financing	Long Term	19.50	ACUITE BBB-/Stable (Reaffirmed)
	Channel/Dealer/Vendor Financing	Long Term	17.00	ACUITE BBB-/Stable (Assigned)
	Channel/Dealer/Vendor Financing	Long Term	15.00	ACUITE BBB-/Stable (Assigned)
	Channel/Dealer/Vendor Financing	Long Term	20.00	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	4.05	ACUITE BBB-/Stable (Assigned)
	Channel/Dealer/Vendor Financing	Long Term	0.95	ACUITE BBB-/Stable (Assigned)
30-Oct-2019	Channel/Dealer/Vendor Financing	Long Term	25.00	ACUITE BBB-/Stable (Reaffirmed)
29-May-2019	Channel/Dealer/Vendor	Long Term	25.00	ACUITE BBB- (Indicative)

	Financing			
26-Mar-2018	Inventory Funding	Long Term	25.00	ACUITE BBB-/Stable (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of India	Channel/Dealer/ Vendor Financing	Not Applicable	Not Applicable	Not Applicable	19.50	ACUITE BBB-/Positive (Reaffirmed & Outlook revised)
Tata Motors Finance Solutions Ltd.	Channel/Dealer/ Vendor Financing	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE BBB-/Positive (Reaffirmed & Outlook revised)
Bank of Baroda	Channel/Dealer/ Vendor Financing	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/Positive (Reaffirmed & Outlook revised)
HDFC Bank	Channel/Dealer/ Vendor Financing	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB-/Positive (Reaffirmed & Outlook revised)
HDFC Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.05	ACUITE BBB-/Positive (Reaffirmed & Outlook revised)
Cholamandalam Investment and Finance Company Ltd.	Channel/Dealer/ Vendor Financing	Not Applicable	Not Applicable	Not Applicable	0.95	ACUITE BBB-/Positive (Reaffirmed & Outlook revised)

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About Acuité Ratings & Research:

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