

Press Release

Reliable Agencies

September 20, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 6.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B**' (read as **ACUITE B**) to the Rs.6.00 crore bank facilities of Reliable Agencies (Reliable). The outlook is '**Stable**'.

Reliable was originally established in 1992 as a proprietorship by Mr. M.Venkata Ratnam. Post his demise in September 2013, Mr. Mohan Babu (his son) has taken the charge of the entity. The firm is engaging in the business of distribution of welding equipment and its consumables. The firm is an authorised supplier of Bosch Power Tools, Ador Fintech Ltd, D&H Secheron Electrodes Private Limited, Mailam India Ltd, Schutz Carbon Electrodes Pvt Ltd, Carborandum Universal Ltd and Others in the Hyderabad region of Telangana.

Analytical Approach

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

Key Rating Drivers:

Strengths:

Promoters with more than two decades of experience in welding consumables industry

The promoter has been involved in the distribution business of welding consumables for more than two decades and has gained a thorough knowledge of the market. Established vintage supported the firm in expanding the supplier base over the years to cover the industry majors like Bosch Power tools, Ador Fintech Ltd, D&H Secheron Electrodes Private Limited, amongst others. Further, the healthy relations with the customers supported in stable revenue though stagnant for the last three years despite industry under pressure. Acuite believes that the firm's business risk profile continues to be stable over the medium term supported by established relations and longstanding presence.

Weaknesses:

Weak financial risk profile

The firm's financial risk profile is weak marked by modest net worth, high gearing (debt-to-equity), high total outside liabilities to tangible net worth (TOL/TNW) and below-average debt protection metrics. Its net worth is modest at about Rs.2.13 crore (Provisional) as on March 31, 2018. The gearing is high at 3.42 times as on March 31, 2018 (Provisional). TOL/TNW is high at 6.03 times (Provisional) as on March 31, 2018 (Provisional). The debt protection metrics are below average marked by interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) of 1.29 times and 0.03 times respectively for FY2018(Provisional). Acuite believes that with modest cash accruals and absence of any significant debt-funded capital expenditure plans, the financial risk profile is expected to be at similar levels over the medium term.

Modest scale of operations with stagnant revenue growth in the past three years

The operations are modest as witnessed along with muted revenue growth over the last three-year period with operating income of Rs.10.04 crore in FY2018 (Provisional) as compared to Rs.10.93 crore in FY2016.

Working capital intensive operations

The operations are working capital intensive as reflected in high Gross Current Assets (GCA) of around 453 days as on March 31, 2018 (Provisional) as against 356 days in FY2017. The high GCA is owing to high receivable days of about 252 days in FY2018 (Provisional) and 224 days in 2017. Inventory days stood at 216 in FY2018 (Provisional) and 147 days in 2017. The firm extends credit of 180 days to customers, and gets limited credit of 30 days from suppliers, resulting in large working capital requirement. This caused the bank lines to be fully utilised over six months through July 31, 2018. Acuite believes that with the nature of the product and business operations, the operations continue to be working capital intensive over the medium term.

Outlook: Stable

Acuite believes that Reliable Agencies will maintain 'Stable' outlook and continue to benefit from the extensive experience of its promoters. The outlook may be revised to 'Positive' in case of substantial growth in revenue and profitability, along with an improved working capital management strengthening the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital cycle due to higher than expected inventory and debtor levels or any significant withdrawal of funds resulting in stretch in the liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	10.04	9.74	10.93
EBITDA	Rs. Cr.	0.97	0.27	1.06
PAT	Rs. Cr.	0.20	0.20	0.22
EBITDA Margin	(%)	9.63	2.80	9.70
PAT Margin	(%)	2.01	2.10	2.03
ROCE	(%)	10.27	11.84	24.92
TOL/Tangible Net Worth	Times	3.42	3.68	3.40
PBDIT/Interest	Times	1.29	1.27	1.30
Gross Current Assets (Days)	Days	7.10	6.84	6.00

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities- <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE B / Stable (Assigned)

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About Acuité Ratings & Research:

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