

## Press Release

### Reliable Agencies

September 20, 2018

### Rating Assigned



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

\* Refer Annexure for details

### Rating Rationale

Acuité 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

Acuité 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. Acuité 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). Acuité 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. Acuité 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

Acuité 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)

## Contacts

Analytical	Rating Desk
Sri Hari Adari Head - Rating Operations Tel: +91 40-4027 4590 <a href="mailto:srihari.adari@acuite.in">srihari.adari@acuite.in</a>	Varsha Bist Manager - Rating Desk Tel: 022-67141160 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>
Bhavani Sankar Oruganti Sr. Rating Analyst - Rating Operations Tel: +91 40-4005 5452 <a href="mailto:bhavanisankar.orunganti@acuiteratings.in">bhavanisankar.orunganti@acuiteratings.in</a>	

### About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

**Disclaimer:** An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.