Press Release

Reliable Autotech Private Limited

November 07, 2023

Ratings:

(INR Crore)

Instrument / Facility	Amount	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	120.81* (Reduced from Rs.128.00 crore)	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed	Simple
Long Term Bank Facilities	25.00	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	37.00	IVR A2 (IVR A Two)	Reaffirmed	Simple
Total	**182.81 (Rupees One Hundred Eighty-Two Crore and Eighty One Lakhs Only)**			

**Cash credit of Rs.25.00 crore enhanced to Rs.35.00 crore*

Details of Facilities are in Annexure 1

Detailed Rationale:

The reaffirmation in the ratings assigned to the bank loan facilities of Reliable Autotech Private Limited (RAPL) derives strength from strong promoters experience and established track record of Operations with in-house R&D capabilities, established relationship with reputed OEMs, and healthy financial risk profile backed by strong coverage indicators profile However, the rating strengths are partially offset by customer concentration risk and exposure to cyclicality in the end user industry.

Key Rating Sensitivities:

Upward Factors:

- Sustained growth in operating income, operating margin and cash accrual.
- Improvement in the capital structure with improvement in debt protection metrics on a sustained basis.

Downward Factors:

- Decline in scale of operations and Profitability.
- Debt funded capex over and above as envisaged leading to deterioration leverage and coverage metrics.
- Any elongation of the working capital cycle, leading to increased dependence on banking borrowing will be a key rating sensitivity.

Key Rating Drivers with detailed description

Key Rating Strengths:

Strong Promoters Experience and Established track record of operations with in-house R&D capabilities:

The promoters have more than three decades of extensive experience in manufacturing of engineering components such as sheet metal components, welded assemblies, tractor axle beams, heavy stamping components & dies/gauges/fixtures etc. Over the years, the promoters have established healthy relations with their key customers and the same helps in maintaining a healthy in-hand order book. The Company has inhouse DSIR (Department of Scientific and Industrial Research) recognised Research and Development (R&D) Centres at Nashik and Pune which ensure error-free & timely product development. The company's end-to-end service capabilities from design to delivery supported by overseas warehouses makes it a strategic partner for global OEMs.

Established relationship with reputed OEM's and Sustainable Scale of Operations & Growing Exports:

The Company has established and maintained excellent relations with its customers and caters to major OEMs such as Mahindra & Mahindra (M&M), John Deere, Skoda-Volkswagen, DANA, Bentler, Hyster-Yale, Navistar, Meritor Inc etc. RAPL is also the sole supplier for majority of the components/sub-assemblies to most of OEMs. The Company's proven track record of quality & delivery has resulted in consistent repeat orders from these OEMs. The

Company’s focus on exports has also enabled the company to mitigate risks to a large extent in the last 3 years.

Diversified product profile catering to various segment types:

RAPL is engaged in the business of manufacturing of diverse range of components for automotive, agriculture, turf care, commercial vehicles, construction equipment, and material handling. Additionally, it is involved in defence-related manufacturing with good order booked from reputed customer such as L&T Defense, Mahindra Defense & Tata Advanced Defense Systems and possesses a die shop.

Improved scale of operations and moderate profitability

RAPL has registered growth of 5% during FY23 as compared to FY22 and achieved a revenue of Rs.467.92 crore led by improved revenue from agricultural segment and commercial vehicle segment. IVR expects with diversification in defence business and strong business outlook from its clients, RAPL is expected to achieve revenue of Rs.528.09 crore a growth of 12.86% compared to FY23. EBITDA margins have declined to 7.99% in FY23 as compared to 9.72% in FY22 due to lower contribution from high margins export business, die casting business, domestic business to MNC companies and defence business. Subsequently, EBITDA margins for 1HFY24 has improved to around 9.03%; IVR expects EBITDA margins to around 9.64% for FY24 and expected to further improve from FY24 onwards with higher contribution from defence business, casting business and export business. Marginal deterioration in debt Protection metrics however still remained comfortable, expected to improve from FY25 onwards: Debt protection metrics in terms of overall gearing has deteriorated though remained comfortable to 1.35x in FY23 as compared to 0.95x in FY22; while TOL/TNW increased to 2.39x in FY23 (FY22:1.75x). Debt protection metrics have deteriorated due to higher debt, and total debt has increased to Rs. 123.52 crore in FY23 from Rs. 95.61 crore in FY22 due to additional term loans for capex. IVR expects debt protection metrics to remain elevated in FY24 due to higher working capital debt along with lower margins. However, debt protection metrics are expected to improve from FY25 onwards with expected higher margins with higher contributions from defence and casting segment and absence of any additional debt. Despite the decline in margins during FY23 DSCR remained comfortable and expected to be around 1.70x-1.81x through FY24-FY26.

Key Rating Weaknesses:

Customer concentration risk:

RAPL remains exposed to the client concentration risk as the top two and top five customers accounted for nearly 44% and 73% of its total revenues in FY22-23, respectively. However, the Company services more than 12 geographic locations of its major customer John Deere globally across three continents; and each location manufactures unique products for specific applications such as Tractors, Harvesters, Forestry Equipment, Construction Equipment, Turf Care equipment, etc. The addition of reputed OEMs from other Industries such as Railways, Commercial Vehicles, Electric Vehicles, Material Handling, Construction Equipment, etc. to its clientele in the recent years is likely to further bring down the customer concentration once the serial production increases.

Cyclicality and competition associated with automotive component industry:

The automobile industry is highly cyclical in nature and automotive component suppliers' sales are directly linked to sales of auto OEMs. Furthermore, the auto-ancillary industry is highly competitive with the presence of many players in the organized as well as unorganized sector. However, the established position of RAPL and strong relationships with the OEMs give it a competitive advantage.

Analytical Approach: Standalone

Applicable Criteria:

Criteria for assigning rating outlook

Rating Methodology for Manufacturing Companies.

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

RAPL generated gross cash accruals of Rs. 28.62 crore for period FY2023 as against repayment obligations of Rs. 11.17 crore. The company's operations are moderately working capital intensive marked by gross current assets of 120 days in FY2023 and 118 days in FY2022. This makes the company dependent on bank borrowing to fund its working capital requirement. The average bank limit utilization stood at ~76 percent for the twelve-month period ended August 2023. The company has maintained cash & bank balance of Rs. 13.21 crore as on 31st August 2023. RAPLs liquidity profile is expected to remain adequate over the medium term on account of its adequate cash accruals against repayment obligations and adequate cash and bank balance.

About the Company:

The company was promoted by Mr. Rajendra Bagwe, Mr. Devendra Bapat, and Mr. Amol Chitnis and incorporated in 1996. RAPL engaged in manufacturing of engineering components such as sheet metal components, welded assemblies, tractor axle beams, heavy stamping components & dies/gauges/ fixtures etc. RAPL also diversified into the engineering sector, its product range includes gas meter casings and dies, farm equipment, sub-assemblies for defence etc.

Financials: Standalone

(INR Crore)

For the year ended/ As On	31-03-2022	31-03-2023
	(Audited)	(Audited)
Total Operating Income	446.26	467.92
EBITDA	43.38	37.39
PAT	13.61	14.30
Total Debt	95.61	123.52
Tangible Net-worth*	100.82	91.54
Ratios		
EBITDA Margin (%)	9.72	7.99
PAT Margin (%)	3.03	3.02
Overall Gearing Ratio* (x)	0.95	1.35

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

(INR Crore)

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding	Rating	Date(s) & Rating(s) assigned in 22-23	Date(s) & Rating(s) assigned in 21-22	Date(s) & Rating(s) assigned in 20-21
1	Long Term Fund Based Bank Facilities – Term Loan	Term Long	90.81	IVR BBB+ /Stable Outlook (IVR Triple B Plus with Stable Outlook)	IVR BBB+ /Stable Outlook (IVR Triple B Plus with Stable Outlook)	--	--
2	Long Term Fund Based Bank Facilities – Cash Credit	Long Term	55.00	IVR BBB+ /Stable Outlook (IVR Triple B Plus with Stable Outlook)	IVR BBB+ /Stable Outlook (IVR Triple B Plus with Stable Outlook)	--	--
3.	Short Term Non-Fund Bank Facilities Post Shipment Credit	Short Term	5.00	IVR A2 (IVR A Two)	IVR A2 (IVR A Two)	--	--
4.	Short Term Non-Fund Bank Facilities Letter of Credit	Short Term	30.00	IVR A2 (IVR A Two)	IVR A2 (IVR A Two)	--	--

5.	Short Term Non-Fund Based Facilities – PSR	Short Term	2.00	IVR A2 (IVR A Two)	--	--	--

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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Annexure 1: Details of Facilities:

(INR Crore)

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility	Rating Assigned/ Outlook
Long Term Fund Based Bank Facilities – Term Loan	--	--	--	90.81	IVR BBB+/ Stable
Long Term Fund Based Bank Facilities – Cash Credit	--	--	--	55.00	IVR BBB+/ Stable
Short Term Non-Fund Bank Facilities Post Shipment Credit	--	--	--	5.00	IVR A2
Short Term Non-Fund Bank Facilities Letter of Credit	--	--	--	30.00	IVR A2
Short Term Non-Fund Based Facilities – PSR	--	--	--	2.00	IVR A2

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-Reliable-Autotech-nov23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.