



Press Release

Reliable Industries

November 29, 2022

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	63.64	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Assigned	Simple
Short-Term Bank Facilities	0.70	IVR A3+ (IVR Single A Three Plus)	Assigned	Simple
Total	64.34 (INR Sixty-four crore and Thirty-four lakh only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Reliable Industries (RLI) derives comfort from extensive experience of the partners in automobile dealership industry and long track record of the firm backed by dominant market position of Maruti Suzuki India Limited in domestic PV segment and Hero MotoCorp Limited in two - wheeler segment. Further, the ratings also considered improvement in the financial performance of the firm in FY22 and in H1FY23 coupled with its comfortable financial risk profile. These rating strengths are partially offset by its partnership nature of its constitution and thin operating margin as prevalent in automobile dealership industry. Further, the ratings also note intense competition with regional concentration, working capital intensive nature of operation of the firm and exposure to inherent cyclicity in automobile industry.

Key Rating Sensitivities:

Upward factors

- Sustained growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals
- Improvement in the capital structure with improvement in overall gearing ratio to below 1.5x and/or improvement in debt protection metrics with improvement in interest coverage to over 3x
- Effective working capital management with improvement in operating cycle and liquidity



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Downward Factors

- Decline in operating income and/or profitability impacting the cash accruals on a sustained basis
- Moderation in overall gearing to over 2x with moderation in interest coverage to below 2x on a sustained basis
- Any substantial stretch in the operating cycle impacting the liquidity of the business

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of partners in automobile industry and long track record of operation of the firm**

Mr. Rajiv Sabhlok, managing Partner of the firm has rich professional experience of more than 30 years in the automobile dealership industry. This apart, he is assisted by other partner, Mr. Divish Sabhlok, his son, and a team of experienced personnel. Long experience of the partners in automobile industry has led to the established position of the firm in Jharkhand. Furthermore, the firm has started its operation from 1984 and over the last four decades the firm has established its presence in Jharkhand with its seventeen showrooms, fourteen workshop along with five stock yards.

- **Dominant market position of MSIL in domestic PV segment and HMCPL in two-wheeler segment**

MSIL and HMCPL has sustained its leadership position in the Indian domestic PV segment and in two-wheeler segment respectively driven by the success of its various models.

- **Improvement in financial performance in FY22 and in H1FY23**

The scale of operations of the firm remained rangebound over the past three fiscals in the range of Rs.350-Rs.370 crore. However, the operating margin of the firm though remained thin witnessed marginal improvement from 3.23% in FY21 to 3.72% in FY22 on the back of improvement in volume sales number and higher revenue from higher margin service works. Moreover, the PAT margin of the firm though remained thin also improved



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continuously from 1.07% in FY20 to 1.74% in FY22. During H1FY23, the firm has achieved a revenue of ~Rs.190 crore.

- **Comfortable financial risk profile**

The capital structure of the firm remained moderate over the past three account closing dates. However, the debt equity ratio and overall gearing improved from 0.35x and 2.09x respectively as on March 31,2021 to 0.14x and 1.75x respectively as on March 31,2022 driven by accretion of profit to reserves and repayment of term loans. Total indebtedness of the firm marked by TOL/TNW also remained comfortable at 2.06x as on March 31,2022 (2.54x as on March 31,2021).

Key Rating Weaknesses:

- **Partnership nature of constitution**

Given RLI's constitution as a partnership firm, it is exposed to the discrete risks including the possibility of withdrawal of capital by the partners and the risk of dissolution of the firm upon death, retirement or insolvency of the partners. Moreover, the partnership nature limits RLI's flexibility to tap external channels of financing.

- **Thin operating margin as prevalent in automobile dealership industry**

The operating margin of the firm has been low in the past on account of the dealership industry dynamics, wherein margins on vehicles, spares, service and accessories mainly controlled by the principal. However, the profit margins are higher for sale of spares and service income compared to vehicle sales. The vehicle sale is the main revenue driver for the firm, which accounted for ~89 % of the net income while the remaining ~11% was contributed by spares, services, accessories and other income over the last two years. RLI's operating margin remained thin at around 3%-3.5% over the past three fiscals till FY22.

- **Intense competition and regional concentration of sales**

The firm faces competition from dealers of other car manufacturers, along with dealers from the same principal resulting in increased pressure to pass on price discounts to customers. The sales are regionally concentrated with its revenue derived from seven districts across Jharkhand.

- **Working capital intensive nature of operations**

Inventory management is crucial for RLI as it needs to maintain optimal inventory of vehicles and spare parts to meet the customer demand and unforeseen supply shortage.



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Instances of build-up of inventory normally take place during the yearend in order to avail various discounts/incentives launched by OEMs in order to meet year end targets. Then also the average inventory period of the firm stood at around 24 days in FY22 (~26 days in FY21). Since, majority of the vehicles are financed by banks/financial institution and the processing of such vehicle loans takes up some time, the average collection period of the firm remained around 20 days. On the other hand, the principals do not provide any credit period. Hence working capital intensity of the business remained high. The operating cycle of the firm stood at 36 days in FY22 (unchanged from FY21).

- **Vulnerable to inherent cyclicity in automobile industry**

The firm remains vulnerable to cyclical downturns in automobile industry. Further, RLI revenues like other auto dealers remains vulnerable to the regulatory changes (like tax amendments, upward migration to pollution standards) also to consumer sentiments mainly given the discretionary nature of the spend.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Trading Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

Liquidity: Adequate

The firm has earned gross cash accrual of Rs.8.54 crore in FY22 and is expected to earn cash accruals of around Rs.8 crore as compared to its debt obligations in the range of Rs.0.60- Rs.1.60 crore during FY23-FY25. Further, the average cash credit utilisation of the firm remained at ~74% during the past 12 months ended October 2022 indicating satisfactory liquidity cushion. RLI's liquidity profile is expected to remain adequate in the near term with expected adequate cash accruals and buffer in undrawn working capital facilities.

About the Firm

Reliable Industries (RLI) was established in the year 1984 as a Partnership firm lead by one Mr. Rajiv Sabhlok of Dhanbad in Jharkhand. RLI is engaged in automobile dealership and servicing business since inception. The firm has dealership of Maruti Suzuki India Limited, Hero MotoCorp Limited, Castrol India Limited and EPIROC Mining India Ltd, a Sweden



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based mining, construction and earth moving heavy equipment manufacture. The firm has showrooms and servicing centres in seven districts of Jharkhand, with primary presence in Dhanbad and having around 11 such showrooms in total along with 14 service centres and five godowns. Currently two partners are in the business where, day to day affairs of the firm is looked after by Mr. Rajiv Sabhlok, Managing Partner, along with other partner Mr. Divish Sabhlok and a team of experienced personnel.

Financials of Reliable Industries: (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	366.32	351.11
EBITDA	11.84	13.07
PAT	4.26	6.10
Total Debt	51.75	49.98
Tangible Net worth	24.73	28.58
EBITDA Margin (%)	3.23	3.72
PAT Margin (%)	1.16	1.74
Overall Gearing Ratio (x)	2.09	1.75
Interest Coverage Ratio (x)	2.27	2.89

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: India Ratings vide its press release date October 22, 2021, has continued the rating into issuer not cooperating category due to non-submission of information by the company.

Any other information: Nil

Rating History for last three years:

(Rs. Crore)

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	Long Term	1.64	IVR BBB; Stable	-	-	-
2.	Cash Credit	Long Term	16.00	IVR BBB; Stable	-	-	-
3.	OD-EDFs	Long Term	46.00	IVR BBB; Stable	-	-	-
4.	Bank Guarantee	Short Term	0.70	IVR A3+	-	-	-



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Name and Contact Details of the Rating Analyst:

Name: Sanmoy Lahiri	Name: Mr. Avik Podder
Tel: (033) 46022266	Tel: (033) 46022266
Email: slahiri@infomerics.com	Email: apodder@infomerics.com

About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Term Loan	-	-	-	1.64	IVR BBB; Stable



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Long Term Fund Based Limits – Cash Credit	-	-	-	16.00	IVR BBB; Stable
Long Term Fund Based Limits – OD-EDFs	-	-	-	46.00	IVR BBB; Stable
Short Term Non-Fund Based Limits – Bank Guarantee	-	-	-	0.70	IVR A3+

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-Reliable-Industries-nov22.pdf>

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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.