



Press Release

Reliable Industries

January 02, 2024

Ratings

Facility	Amount (INR crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	74.25 (enhanced from INR 63.64 Cr)	IVR BBB/ Stable (IVR triple B with Stable outlook)	Reaffirmed	Simple
Short Term Bank Facility	0.70	IVR A3+ (IVR A three plus)	Reaffirmed	Simple
Total	74.95 (INR seventy four crore ninety five lakh only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Reliable Industries (RI) considers steady growth in the topline and net profit of the company. The ratings also derive strength from the extensive experience of partners in automobile industry and long track record of operation of the firm, dominant market position of Maruti Suzuki India Limited (MSIL) in domestic Passenger Vehicle (PV) segment, Castrol India Limited (CIL) and EPIROC Mining India Limited and Hero MotoCorp Limited (HMCL) in two wheeler segment, improvement in financial performance in FY23 and in H1FY24, and comfortable financial risk profile. However, thin operating margin as prevalent in automobile dealership industry, intense competition and regional concentration of sales, vulnerability to inherent cyclicity in automobile industry, and partnership nature of constitution are the rating constraints.

Rating Sensitivities

Upward Factors

- Sustained growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals



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- 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

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

Detailed Description of Key Rating Drivers

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 HMCL in two wheeler segment

MSIL and HMCL 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 FY23 and in H1FY24



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The scale of operations of the firm continues to improve. With an increase of ~22% it achieved a topline of INR 428.38 Cr during FY23 as compared to INR 351.11 Cr during FY22 on account of increase in quantity of sales. Similarly, absolute EBITDA increased from INR 13.07 Cr during FY22 to INR 17.82 Cr during FY23 and the PAT increased from INR 6.10 Cr during FY22 to INR 6.18 Cr during FY23. The EBITDA margin of the firm improved from 3.72% during FY22 to 4.16% during FY23. However, PAT margin declined from 1.74% during FY22 to 1.44% during FY23. Moreover, the Company performed satisfactorily during H1FY23 with its turnover clocking at INR ~214 Cr and absolute EBITDA reaching at INR 8.82 Cr along with PAT at INR 3.48 Cr

Comfortable financial risk profile

The long term debt equity ratio of the firm moderated slightly from 0.14x as on 31st March 2022 to 0.17x as on 31st March 2023 on account of availing a fresh GECL loan. However, it continues to remain comfortable. Overall gearing improved from 1.75x as on 31st March 2022 to 1.66x as on 31st March 2023 driven by accretion of profit to reserves and repayment of term loans. Total indebtedness of the firm marked by TOL/TNW moderated from 2.06x as on 31st March 2022 to 2.14x as on 31st March 2023.

Key Rating Weaknesses

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 are 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. RI's operating margin remained thin at around 3%-3.5% over the past three fiscals till FY23.

Intense competition and regional concentration of sales



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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.

Vulnerability to inherent cyclical in automobile industry

The firm remains vulnerable to cyclical downturns in automobile industry. Further, RI 's 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.

Partnership nature of constitution

Given RI'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.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Trading Companies](#)

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

[Criteria for assigning rating outlook](#)

Liquidity – Adequate

The firm has earned gross cash accrual of Rs.9.01 crore during FY23 and is expected to earn cash accruals of ~INR 6.50 crore as compared to its debt obligations in the range of Rs.0.19- Rs. 0.75 crore during FY24-FY26. Further, the average cash credit utilisation of the firm remained at ~72% during the past 12 months ended November 2023 indicating satisfactory liquidity cushion. RI's liquidity profile is expected to remain adequate in the near term with expected adequate cash accruals and buffer in undrawn working capital facilities.



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About the Firm

Reliable Industries (RI) was established in the year 1984 as a Partnership firm lead by Mr. Rajiv Sabhlok of Dhanbad in Jharkhand. RI 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 based mining, construction and earth moving heavy equipment manufacturer. The firm has showrooms and servicing centres in seven districts of Jharkhand, with primary presence in Dhanbad and having around 17 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 (Standalone):

(Rs. crore)

For the year ended* / As on	31.03.2022	31.03.2023
	Audited	Audited
Total Operating Income	351.11	428.38
EBIDTA	13.07	17.82
PAT	6.10	6.18
Total Debt	49.98	50.88
Tangible Net Worth	28.58	30.63
EBDITA Margin (%)	3.72	4.16
PAT Margin (%)	1.74	1.44
Overall Gearing Ratio (x)	1.75	1.66

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA:

India Ratings continues to maintain the rating of Reliable Industries in the Issuer Non-Cooperating category as the entity did not cooperate in the rating procedure despite repeated follow ups as per the Press Release dated October 26, 2023.

Any other information: Nil

Rating History for last three years:

Sl.	Name of	Current Rating (Year 2023-24)	Rating History for the past 3 years
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No.	Instrument/ Facilities	Type	Amount Outstand ing (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (Nov 29, 2022)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Guaranteed Emergency Credit Loan	Long Term	2.25	IVR BBB/ Stable	IVR BBB/ Stable	-	-
2.	Cash Credit Limits	Long Term	16.00	IVR BBB/ Stable	IVR BBB/ Stable	-	-
3.	OD-EDFs	Long Term	56.00	IVR BBB/ Stable	IVR BBB/ Stable	-	-
4.	Term Loan	Long Term	1.64	-	IVR BBB/ Stable	-	-
5.	Bank Guarantee	Short Term	0.70	IVR A3+	IVR A3+	-	-

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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 Facility

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Guaranteed Emergency Credit Loan	-	-	Dec 2026	2.25	IVR BBB/ Stable
Cash Credit	-	-	-	16.00	IVR BBB/ Stable
OD-EDFs	-	-	-	56.00	IVR BBB/ Stable
Bank Guarantee	-	-	-	0.70	IVR A3+

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-jan24.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