June 25, 2020

Reliable Autotech Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund based – Cash Credit	35.00	35.00	[ICRA]BBB-(Stable); Reaffirmed
Long-term: Fund based – Term Loans	59.22	47.22	[ICRA]BBB-(Stable); Reaffirmed
Short-term: Non-fund based	33.89	33.89	[ICRA]A3; Reaffirmed
Short-term: Interchangeable^	(15.00)	(15.00)	[ICRA]A3; Reaffirmed
Total	**128.11**	**116.11**	

**Instrument details are provided in Annexure-1*
^Interchangeable with cash credit facility of Rs. 35.00 crore

Rationale

The rating reaffirmation takes into account the extensive experience of Reliable Autotech Private Limited's (RAPL) promoters spanning over three decades in the auto components industry, coupled with its reputed clientele across passenger / utility vehicles and the tractor segments. The rating also considers its well-established design and development capability, which aids in customer acquisition and retention. Moreover, the rating factors in the continued diversification of its customer base with increased focus on farm equipment and non-auto related segments as well as healthy order inflows from new customer acquisitions in the current fiscal. The rating further takes into account the company's present comfortable capital structure and adequate liquidity position supported by healthy free cash balance and adequate buffer in working capital limits.

The rating, however, continues to remain constrained by the pressure on sales volumes resulting in revenue de-growth of ~23% in FY2020 and lower absolute profits, thereby leading to moderation in coverage indicators. ICRA notes that sizeable term loan repayments in FY2020 led to weakening of debt service coverage (DSCR). However, moderation in the near-term repayments and favourable revision in interest rates are likely to improve the DSCR, going forward. The rating also remains constrained by the company's high reliance on Mahindra & Mahindra (M&M) and the John Deere Group of companies for sales generation. Limited ability of the company to pass on escalations in input cost to its customers in a timely manner and cyclicality of demand due to linkage with the auto sector (mainly passenger vehicles and tractors) which generates ~80% of the revenues is another rating challenge. ICRA notes that the near-term business environment remains challenging due to the prevailing pandemic linked disruptions and their impact on the already subdued auto industry. Thus, ICRA expects the company's top line for FY2021 to remain under pressure, and the recovery will primarily depend upon the relaxation and normalisation of economic activities. The eventual duration of the Covid-19 pandemic and its impact on the overall supply chain are likely to determine the extent of demand fallout.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the company shall continue to benefit from the extensive experience of its promoters in the auto components industry as well as diversification of its customer base.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the auto-component industry; Strong designing and manufacturing capability - RAPL's promoters have over three decades of experience in the auto component industry. The company also has an in-house tool, dies and jigs/fixtures designing and manufacturing facility, demonstrating its strong development abilities. Its Research and Development (R&D) centres at Nashik and Pune have received recognition from Department of Scientific and Industrial Research (DSIR), Government of India in March 2020. This has further strengthened its brand image, expanded the scope of bidding avenues in the near-term and provides opportunities for international collaborations.

Reputed clientele across passenger vehicle (PV) and tractor industry; diversification of clients over the last three years - The company's clientele includes leading automobile and tractor original equipment manufacturers (OEMs) like Mahindra & Mahindra, John Deere, Volkswagen, Kubota Tractors and Navistar Inc., as well as some of the Tier-1 suppliers of the OEMs. Over the last three years, RAPL has added new customers across varied segments including defence and gas meter casing, as well as witnessed increased orders from its existing customers, which has facilitated it to reduce its dependence on its largest customer (generating 21% of RAPL's FY2020 revenues over 26% in FY2019). RAPL has added new customers, including a few CV-component suppliers and a fork-lift manufacturer, during the current fiscal and has confirmed orders worth ~Rs. 88 crore from them, to be executed over two years. Meanwhile, ~Rs. 85 crore worth of orders are in the pipeline.

Diversification into non-auto related sectors coupled with addition of new export customers to support revenue and profitability in the near-to-medium term – RAPL's concentration on the passenger vehicle segment has reduced over the years to 36% in FY2020 from 59% in FY2016, while that for farm equipment has increased to ~43% in FY2020 from 24% in FY2016. The company has also diversified into non-auto segments with order wins from L&T's defence arm, orders for gas meter casings and an order from a fork-lift manufacturer, etc, in the domestic as well as export markets. The same will support revenue and profitability in the medium-term.

Comfortable capital structure and adequate liquidity – RAPL's capital structure was comfortable with gearing of 1.07 times as on March 31, 2020 (as per provisional estimates) over 1.45 times during the previous fiscal end. Its liquidity position was adequate, supported by healthy free cash and adequate buffer in working capital limits as on March 31, 2020, coupled with lower repayment obligations over the previous fiscal.

Credit challenges

Pressure on sales volume leading to de-growth in revenues in FY2020 which is likely to continue into FY2021; lower profits resulting in moderation in debt coverage metrics and weak DSCR – The company witnessed lower sales in FY2020 at Rs. 304.95 crore (provisional), a de-growth of ~23% over Rs. 395.22 crore in FY2019 due to pressure on sales volumes amid subdued auto sector demand. This has led to lower operating profit at Rs. 28.76 crore in FY2020 compared to Rs. 37.99 crore in the previous fiscal, thereby resulting in moderation in debt coverage indicators as reflected by interest cover of 2.52 times in FY2020 (3.19 times in FY2019) and weak DSCR at just about 1.0 time, given the sizeable term loan repayment of ~Rs. 15.6 crore in FY2020. However, with lower repayments at Rs. 5.02 crore in FY2021, the DSCR is expected to improve, going forward. ICRA notes that the company's top line for FY2021 will continue to remain under pressure due to ongoing pandemic linked disruptions and weak demand.

Sales largely concentrated on M&M and John Deere groups; Vulnerability to cyclicity of the auto industry - Although the company has made efforts to reduce dependence on a single customer by diversifying its customer base over the years, the concentration risk remains high with its top two client groups (M&M and John Deere) constituting ~60% of its total sales in FY2020 (56% in FY2019). However, RAPL supplies to a number of companies within these two groups, and dependence on a single customer within the group remains limited. Further, risk of business loss from a few customers remains, as witnessed in the past (as with Renault India and Ford Motors), driven by the performance of the OEMs and a few vehicle models that RAPL caters to. Further, the company currently derives ~80% of its revenues from the auto sector (mainly PVs and tractors) and hence the demand for RAPL's products remains vulnerable to cyclicity in the auto industry.

Susceptibility of revenues and profitability to volatility in raw material prices; partly mitigated through tri-partite agreements with customers and suppliers - Steel being RAPL's major raw material, any volatility in steel prices may impact its margins. While The company has price protection terms in place in its client contracts (quarterly in case of domestic customers and half yearly / yearly for export customers), the time lag in passing on the fluctuations in costs and the requirement to absorb minor fluctuations results in volatile margins. The risk is mitigated to an extent as the company has tri-partite agreements in place with its customers and suppliers, wherein its strategy is to be duly compensated for variation in prices.

Subdued demand from auto industry coupled with impact on operations due to nationwide lockdown due to pandemic to severely impact revenues in the near-term - ICRA notes the likely pressure on RAPL's revenues and profitability in FY2021 on account of the Covid-19 induced nationwide lockdown announced by the Government of India in March 2020 and the subdued demand scenario in the auto industry. However, commencement of partial operations at its plants and healthy order inflows from new customer additions is likely to support operations. The company's ability to ramp up its production activities after the cease of the lockdown period and ability to swiftly recoup the lockdown period losses will remain critical from the rating point of view and, hence, monitorable.

Liquidity position: Adequate

The company's liquidity position remains **adequate** supported by free cash and liquid balance of Rs. 6.2 crore and buffer of ~Rs. 8.4 crore in working capital limits as on March 31, 2020. The term loan repayment obligations are moderate at Rs. 5.02 crore in FY2021 (factoring in moratorium availed from March–August 2020), Rs. 9.84 crore in FY2022 and Rs. 9.91 crore in FY2023. The utilisation of the fund-based working capital limits remained moderate at 69% during the April 2019 to May 2020 period (with a buffer of Rs. 12.23 crore in CC limits as on May 31, 2020). The company's fund flows from operations have remained positive over the last five fiscals due to healthy profitability.

Rating sensitivities

Positive triggers – ICRA could upgrade the ratings If diversification into non-auto segments and new customer addition leads to sustained improvement in revenues and profitability and results in improvement of debt coverage indicators. Other factors that may lead to rating upgrade include interest cover over 3.5 times and Debt / OPBDITA below 2.3 times on sustained basis.

Negative triggers – Rating could be downgraded if RAPL reports lower-than-anticipated cash accruals leading to weakening of debt coverage indicators and/or liquidity position. Other factors that may lead of rating downgrade include interest cover below 2.8 times and Debt/OPBDITA over 3 times on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation/Standalone	Rating is based on standalone financial statements of the issuer.

About the company

RAPL is an auto component manufacturer, incorporated in 1996 by Mr. Rajendra Bagwe, Mr. Devendra Bapat and Mr. Amol Chitnis. The promoters have been in the auto component business since 1985. RAPL is mainly engaged in manufacturing sheet metal pressed, fabricated and welded components as well as aggregates for on-road and off-road vehicles. RAPL is focusing on diversifying into the engineering sector with its relatively recent foray into new sectors like defence, gas meter casings and dies. Utility vehicles (UVs) and tractors (farm equipment) are, at present, its key target segments. The company has eight manufacturing facilities, three in Nashik, two in Pune (Maharashtra), one in Sanand (Gujarat) and a start-up facility each in Pithampur (Madhya Pradesh) and Chakan (Maharashtra). RAPL's key customers include M&M, the John Deere Group, Benteler Automotive India, Volkswagen India, Navistar Inc., Kubota Tractors and L&T. It also exports its products to clients like John Deere in the US and Europe, and to Navistar Inc. in USA. Exports accounted for 21% of RAPL's sales in FY2020. The company is IATF 16949:2016, EMS-ISO 14001:2004, OHSAS 18001:2007 and ISO 9001:2015 certified.

RAPL reported a profit after tax (PAT) of Rs. 12.64 crore on an operating income (OI) of Rs. 395.22 crore in FY2019 against a PAT of Rs. 10.46 crore on an OI of Rs. 340.61 crore in FY2018. As per provisional estimates, it reported an OI of Rs. 304.95 crore and profit before tax (PBT) of Rs. 7.80 crore in FY2020.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	340.61	395.22
PAT (Rs. crore)	10.46	12.64
OPBDIT/ OI (%)	10.62%	9.61%
RoCE (%)	17.59%	18.32%
Total Outside Liabilities/Tangible Net Worth (times)	2.31	2.90
Total Debt/ OPBDIT (times)	2.47	2.43
Interest Coverage (times)	3.18	3.19
DSCR	1.43	1.19

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019		FY2018
					25-Jun-20	-	6-Mar-19	20-Jul-18	11-Sep-17
1	Term Loan	Long-term	47.22	46.24*	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)
2	Cash Credit	Long-term	35.00	-	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)
3	Fund based^	Short-term	(15.00)	-	[ICRA]A3	-	[ICRA]A3	[ICRA]A4+	[ICRA]A4+
4	Non-fund based	Short-term	33.89	-	[ICRA]A3	-	[ICRA]A3	[ICRA]A4+	[ICRA]A4+

Amount in Rs. crore
** as on May 31, 2020*
^Interchangeable with cash credit facility of Rs. 35.00 crore rated on the long-term scale

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loan 1	Oct-2015	9.50%	Apr-2023	7.10	[ICRA]BBB- (Stable)
-	Term loan 2	Jan-2014	10.00%	Dec-2020	0.75	[ICRA]BBB- (Stable)
-	Term loan 3	Jun-2016	10.00%	Nov-2023	9.84	[ICRA]BBB- (Stable)
-	Term loan 4	Jan-2019	10.00%	Jan-2026	18.00	[ICRA]BBB- (Stable)
-	Term loan 5	Aug-2019	11.25%	May-2026	9.00	[ICRA]BBB- (Stable)
-	Term loan 6	Jul-2014	10.00%	Nov-2020	1.01	[ICRA]BBB- (Stable)
-	Term loan 7	Oct-2013	10.00%	Oct-2020	0.72	[ICRA]BBB- (Stable)
-	Term loan 8	Jul-2014	10.00%	Dec-2020	0.80	[ICRA]BBB- (Stable)
-	Cash Credit	-	9.00%	-	35.00	[ICRA]BBB- (Stable)
-	EPC/EBD/EBN/PCFC^	-	-	-	(15.00)	[ICRA]A3
-	Bank Guarantee	-	-	-	7.50	[ICRA]A3
-	Letter of Credit	-	-	-	25.00	[ICRA]A3
-	Short-term non-fund based	-	-	-	1.39	[ICRA]A3

^Interchangeable with cash credit facility of Rs. 35.00 crore rated on the long-term scale *Source: RAPL*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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