

May 25, 2023

RNS Earthmovers Private Limited: Ratings reaffirmed; outlook revised to Stable; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ CC	24.00	30.00	[ICRA]BBB (Stable); reaffirmed and assigned to enhanced limits; outlook revised to stable from negative
Total	24.00	30.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in the outlook to Stable reflects the recovery in RNS Earthmovers Private Limited's (REPL/ the company) operating performance and credit metrics in FY2023, on the back of healthy sales volume witnessed during the year, with the uptick in infrastructure, construction and mining activities. Accordingly, the company reported a growth of 35.9% in its revenues during the year (as per provisional financials) and an improvement in earnings, which also helped it to pare down debt levels and improve on its coverage indicators.

The rating reaffirmation continues to factor in REPL's proven operational track record as an authorised dealer for JCB India Limited (JCB) and Daimler Commercial Vehicle India Private Limited (Daimler or Bharat Benz or BB) across identified districts in Karnataka, being the exclusive dealer for these OEMs (Original Equipment Manufacturer) in most of the locations it operates in. The company's principal, JCB, enjoys a healthy market position in the mining and construction equipment (MCE) industry, with its backhoe loaders having a dominant market share.

The ratings, however, continue to remain constrained by the thin profitability inherent to the dealership business, with intense competition faced from dealers of other OEMs (as well). The ratings also factor in the fact that REPL operates in a highly cyclical environment, with the demand for both MCE and Commercial vehicle (CV) industries being highly cyclical in nature. However, with the general improvement in economic activity and increase in construction activities, infrastructure spending and new contracts released by the Government, the demand for JCB's construction equipment and Daimler's tippers and trucks is currently on an uptrend. Going forward, the company's ability to improve its revenues and expand its margins while maintaining its debt metrics would continue to be a key rating monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectations that REPL would continue to maintain a stable operating and financial performance going forward as well, as an exclusive dealer for JCB and BB in select regions of Karnataka.

Key rating drivers and their description

Credit strengths

Vast experience of promoters – The promoters have extensive experience in the dealership business through another group concern (RNS Motors Limited; rated [ICRA]BBB+ (Stable)), which is an authorised dealership of Maruti Suzuki India Limited (MSIL) in regions like Bengaluru, Sirsi, Hubli, Bijapur, Murdeshwar, Nelamangala, etc. REPL has been the authorised and exclusive dealer of JCB and BB for some parts of Karnataka since FY2011 and FY2014, respectively. The company's and promoter's proven track record in the dealership business coupled with its exclusive presence in several districts across Karnataka supports its business prospects.

Diversified presence through dealership of two OEMs – Given its position as an authorised dealership for both JCB and BB, REPL has a diversified presence across earthmoving equipment and CVs. It is the sole authorised dealer of JCB in seven districts in Karnataka, namely Bengaluru Urban, Bengaluru Rural, Kolar, Chikkaballapur, Mandya, Tumkur and Ramnagar. For BB, the company currently operates in six districts, namely Hubli, Belgaum, Vijayapur, Bijapur, Chittoor and Hospet (Bellary district). As per the management, it has an established position in JCB sales, as the seventh largest JCB dealer in India and nineteenth largest globally in terms of volumes. Its presence across two different industries offers diversity to revenues and mitigates against cyclicalities in any particular sector.

Credit challenges

Thin profit margins – REPL's profit margins have historically been thin on account of the dealership industry dynamics, with margins on vehicles and accessories mainly being controlled by the principal. REPL's fixed overheads increased in the recent past on account of the commencement of operations at new showrooms with relatively high rentals and high employee expenses, impacting its margins further. While margins have revived to some extent in FY2023 due to operating leverage benefits, it still remains thin at 1.0%.

Susceptibility of business to cyclicalities in earthmoving and commercial vehicle industries – REPL's volumes and revenues remain susceptible to the cyclicalities in the underlying earthmoving and commercial vehicle industries, which, in turn, is linked to the level of economic activity in the region, given that the company derives its entire revenues from Karnataka.

Stiff competition and regional concentration of sales – Although it is the exclusive dealer for its principal OEMs in the regions that it operates, REPL faces competition from dealers of other OEMs in the Karnataka region, which exerts pressure on its sales and profit margin. Also, the sales are regionally concentrated with revenues derived only from Karnataka.

Liquidity position: Adequate

The company has an adequate liquidity profile, characterised by cash flow from operations of Rs. 4-5 crore, and cash and liquid investments of Rs. 0.97 crore as of March 31, 2023. In addition, the company has a buffer of more than Rs. 20 crore from unutilised working capital lines as on March 31, 2023. The capex of approximately Rs. 1.0 crore to be incurred during FY2024 is expected to be funded largely from existing liquidity. The company does not have any external long-term debt outstanding, and the debt outstanding from promoters do not have any defined repayment obligations.

Rating sensitivities

Positive factors – The rating could be upgraded if the company demonstrates a significant improvement in its sales volume and earnings on a sustained basis.

Negative factors – The ratings could be downgraded if there is a decline in operating revenues or earnings or stretch in the working capital cycle weakening the liquidity and debt metrics on a sustained basis. Specific metrics that could lead to a rating downgrade includes interest coverage of less than 2.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for automobile dealerships
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financials of the issuer.

About the company

RNS Earthmovers Private Limited is a part of the RN Shetty Group of Companies. The Group is a present in multiple industries including automobiles, hospitality, infrastructure, ceramics, power and education, among others. Mr. Sunil R Shetty, the promoter of RNS Motors Limited and REPL, is the eldest son of the founder, Dr. RN Shetty. The various Group companies, namely Murudeshwar Ceramics Limited, RNS Power Limited, RNS Infrastructure Limited and Naveen Hotels Limited, are managed by the family's other brothers. There are no financial transactions between RNS Motors Limited and REPL, or other Group companies; and this trend is expected to continue going forward as well.

Incorporated in 2011, REPL is engaged in operating dealerships for JCB earthmoving equipment and Bharat Benz trucks in several districts in Karnataka. The company started its operations from August 2011 with a single showroom at Sahakarnagar in Bangalore for the dealership of JCB India and has expanded its operations over the years. At present, the company holds the dealership of JCB for seven districts in Karnataka, namely Bangalore Urban, Bangalore Rural, Kolar, Chikkaballapur, Mandya, Chittoor, Gulbarga, Bijapur, Tumkur and Ramnagar. It currently operates three showrooms for JCB in Makali, Jigani and Tumkur, along with 15 spares and services outlets across its dealership territories, in addition to two mobile workshops. In April 2013, the company was awarded the dealership for Daimler, whose operations it started from September 2013. The company holds the Bharat Benz dealership rights for North Karnataka and operates from eight showrooms at Hubli, Belgaum, Vijayapur, Hospet (Bellary district), Murudeshwar, Kalburgi, Harihat and Gadag, along with four parts outlets.

Key financial indicators (audited)

RNS – Standalone	FY2021	FY2022
Operating income	486.1	429.5
PAT	0.8	-6.7
OPBDIT/OI	0.9%	-0.9%
PAT/OI	0.2%	-1.6%
Total outside liabilities/Tangible net worth (times)	2.3	3.9
Total debt/OPBDIT (times)	6.2	-9.5
Interest coverage (times)	2.2	-2.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Amount in Rs. Crore;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				May 25, 2023	July 29, 2022	April 30, 2021	-
1 Fund-based limits	Long-term	30.0	8.0	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based limits	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term fund based limits	NA	NA	NA	30.00	[ICRA]BBB(Stable)

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Annexure II: List of entities considered for consolidated analysis – Not Applicable

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