

July 03, 2023

## Ramani Cars Private Limited: Rating upgraded to [ICRA]BBB (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 – Working Capital Limits	70.00	90.00	[ICRA]BBB (Stable); rating upgraded from [ICRA]BBB- (Stable) for existing limits/assigned for enhanced amount
<b>Total</b>	<b>70.00</b>	<b>90.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating upgrade on the bank lines of Ramani Cars Private Limited (RCPL/the company) considers its healthy revenue growth of 47% in FY2023<sup>1</sup>, supported by improvement in both sales volumes and realisations, and ICRA's expectation of a sustained financial performance in the near to medium term, supported by its healthy business profile and stable PV demand. RCPL is the sole authorised dealer of Volkswagen India Private Limited's (VWIPL's) passenger vehicles (PVs) for all districts in Tamil Nadu, except Chennai and Vellore and accounted for 50-60% of VWIPL's Tamil Nadu sales in FY2023 and 7-10% of its pan India sales. Further, despite improvement in scale, the company's gross debt level remained stable at Rs. 65.3 crore as on March 31, 2023 (Rs. 60.2 crore as on March 31, 2022), and its coverage metrics are likely to improve going forward, aided by healthy accruals amid minimal capex plans over the medium term. RCPL's liquidity also remains adequate supported by anticipated healthy cash flows, and unencumbered cash and bank balances of Rs. 21.3 crore as on March 31, 2023. The company's operating margins are at 5-7%, aided by relatively higher share of revenues from sale of spares and services income, which together accounted for ~25% of revenues in FY2023.

VWIPL has a relatively low market position in the domestic PV market (market share of 1.06% in FY2023), and the company witnesses relatively high geographic concentration with Tamil Nadu, exposing its performance to region-specific event risks. Also, the company's scale remains moderate despite improvement in sales in FY2023. Further, while coverage metrics are expected to improve going forward, they are moderate currently, with interest coverage of 3.8x in FY2023.

### Key rating drivers and their description

#### Credit strengths

**Sole authorised dealer of VWIPL PVs across all districts of Tamil Nadu, barring Chennai and Vellore –** RCPL is the sole authorised dealer of VWIPL PVs in Tamil Nadu for all districts in Tamil Nadu, except Chennai and Vellore. It has an established presence, accounting for 50-60% of VWIPL's Tamil Nadu sales in FY2023 and 7-10% of its pan India sales. Currently, the company has nine 3S (sales, spares, and services) showrooms, seven sales outlets and three workshops. The promoters through its group companies have extensive experience of over two decades in the automobile industry and have interests in dealerships of other auto OEMs across various regions in Tamil Nadu, including that of Honda Cars India Limited (HCIL), Mahindra & Mahindra Limited (M&M) and Citroen India. The domestic PV demand outlook for FY2024 is stable (ICRA's growth outlook: 6-9%), which is expected to aid volume growth for dealers.

<sup>1</sup> unaudited

**Healthy operating margins for dealership business and adequate liquidity position** – RCPL’s operating margins are at 5-7%, aided by relatively higher share of revenues from sale of spares and services income, which together accounted for ~25% of revenues in FY2023. The operating margins are expected to remain at similar levels over the medium term. The company’s liquidity position is adequate, supported by its anticipated healthy cash flows, unencumbered cash and bank balances of Rs. 21.3 crore as on March 31, 2023 and undrawn working capital lines of Rs. 5.0 crore as on March 31, 2023, against minimal repayments and capex plans over the medium term.

### Credit challenges

**Low market position of VWIPL in domestic PV market** – VWIPL’s domestic sales are heavily dependent on its limited product portfolio, exposing it to product concentration risk. VWIPL continues to be a marginal player in India with domestic market share of 1.06% for FY2023. While the OEM has launched new PVs such as Taigun (sports utility vehicle (SUV) launched in September 2021), Tiguan (SUV, launched in December 2021) and Virtus (sedan, launched in June 2022) in the last one to two years, the product portfolio is expected to remain limited in FY2024 as well.

**Moderate scale of operations; sales concentrated in the Tamil Nadu region** – The company’s operating income remains moderate (relative to the market size) at Rs. 456.9 crore, despite healthy YoY growth of 47% in FY2023. Further, the company witnesses high geographic concentration, with its entire sales being generated from Tamil Nadu. This exposes the company’s performance to region-specific event risks.

**Moderate debt coverage metrics** – RCPL’s gross debt stood at Rs. 65.3 crore (predominantly working capital borrowings) and its net debt was Rs. 44.0 crore as on March 31, 2023. The debt levels have remained stable, despite significant improvement in RCPL’s operating income. The company’s coverage indicators remain moderate with interest coverage at 3.8x in FY2023 and net debt/OPBDITA at 1.8x as on March 31, 2023. However, they are likely to improve going forward, aided by healthy accruals amid capex plans over the medium term.

### Liquidity position: Adequate

The liquidity position of the company is adequate supported by anticipated healthy cash flows and unencumbered cash and bank balances of Rs. 21.3 crore as on March 31, 2023. The working capital utilisation has been at ~85% of sanctioned limits (May 2022 to April 2023) and the company had undrawn working capital lines of Rs. 5.0 crore as of March 31, 2023. Against these sources of cash, the company has repayments of Rs. 0.6 crore in FY2024, Rs. 0.5 crore in FY2025, and Rs. 0.2 crore in FY2026 on its existing term loans. Further, the company is expected to incur minimal maintenance capex over the medium term, to be funded through internal accruals.

### Rating sensitivities

**Positive factors** – ICRA could upgrade RCPL’s ratings if it achieves material improvement in its scale of operations, profit margins and coverage metrics on a sustained basis.

**Negative factors** – Negative pressure on RCPL’s ratings could arise from sharp deterioration in the earnings or significant rise in net debt on sustained basis, or any significant increase in loans and advances to group companies. Specific credit metrics that could lead to a downgrade include interest coverage < 3.5 times on sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Automobile Dealerships</a>
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on standalone financial statements of the company.

## About the company

Ramani Cars Private Limited was incorporated in 2009 and has since been operating as the sole authorised dealer for Volkswagen India Private Limited across all districts of Tamil Nadu, except Chennai and Vellore. RCPL has nine 3S showrooms, seven sales outlets and three workshops. RCPL is currently managed by its three directors, Mr. S. Jagadeesan, Mr. J. Sudersan and Mr. K.S. Sasikumar. The company has also won several awards including the Diamond Pin Global Award (2015), Gold Pin National Award (2013, 2014), Best Performance Customer Care (eight times from 2010 to 2017), Best of Best Dealer Award (2021), Outstanding Retail Performance Award, and Overall Excellence Award (2018, 2019).

## Key financial indicators (audited)

Standalone	FY2022	FY2023 (Unaudited)
Operating income	311.6	456.9
PAT	11.0	11.9
OPBDIT/OI	6.4%	5.3%
PAT/OI	3.5%	2.6%
Total outside liabilities/Tangible net worth (times)	1.6	1.5
Total debt/OPBDIT (times)	3.0	2.7
Interest coverage (times)	6.6	3.8

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Financial ratios are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances.

## 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 of May 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				July 03, 2023	June 15, 2022	June 03, 2021	-
1 Working capital limits	Long term	90.00	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable) withdrawn	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based working capital	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 analysing 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 are available on ICRA's website: [Click Here](https://www.icra.in)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Electronic Dealer Finance Scheme (EDFS)	NA	NA	NA	90.00	[ICRA]BBB (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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