

April 30, 2021

RNS Earthmovers Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/CC	24.00	24.00	[ICRA]BBB (Stable); reaffirmed
Total	24.00	24.00	

*Instrument details are provided in Annexure-1

Rationale

The rating continues to factor in RNS Earthmovers Private Limited's (REPL) strong market position as the exclusive authorised dealer for JCB India Limited (JCB) and Daimler Commercial Vehicle India Private Limited (BharatBenz/BB) trucks across identified districts in Karnataka and the vast experience of the promoters in the auto dealership business. The rating also factors in the company's healthy financial profile characterised by a strong capital structure, comfortable debt coverage metrics and a stable working capital cycle. 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. REPL derived about 90% of its revenues in FY2020 and 9M FY2021 from the backhoe loaders segment. In 9M FY2021, the company posted a 24.7% YoY growth in the sales volume in the JCB segment on the back of an increase in road construction activities, higher focus on rural infrastructure, healthy rural volume offtake given the good monsoon, and regular payment flow from the government to contractors. Demand was also supported by steady inflows from the Central Government on infrastructure spend, particularly on roads even though the state infrastructure expenditure was severely curtailed and diverted to Covid-19 management.

The rating strengths are partially offset by the weak operating performance of the BharatBenz segment with a YoY decline of 28.9% and 42.4% in the sales volume in FY2020 and 9M FY2021, respectively, due to the Covid-19 pandemic, uncertainties surrounding regulatory changes, overall slowdown in the economy and the tightening liquidity position. However, with the general improvement in economic activity and the pickup in the construction, mining, manufacturing and consumption sectors, the demand for trucks has improved since Q4 FY2021. REPL's margins from the sale of equipment and vehicles remains thin, inherent to the dealership business. Besides, competition from other dealers of other original equipment manufacturers (OEMs) in the Karnataka region exerts pressure on the company's sales and profit margin. Demand headwinds in the coming quarters for the MCE industry could continue with limited fiscal bandwidth to invest in infrastructure on account of the rising second wave of Covid-19, and the price hikes following the upcoming emission norm changes (sale of vehicles post October 2021 and production post April 2021 to be in accordance with new norms), which could impact demand for construction equipment if the prices hikes are higher than expected. Going forward, the company's ability to improve its revenues and expand its margins in the face of the Covid-19 impact and increasing competition while maintaining its debt metrics would be a key rating sensitivity.

The Stable outlook reflects that REPL will continue to benefit from the near-term favourable demand outlook for MCE and medium and heavy commercial vehicles (M&HCV), its position as the exclusive authorised dealer for JCB and BB across several districts in Karnataka and the extensive experience of the promoters in the dealership business. The outlook also reflects ICRA's expectation that REPL's debt protection metrics and liquidity will remain comfortable.

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; [ICRA]BBB+ (Stable)), which is an authorised dealership of Maruti Suzuki India Limited (MSIL). REPL has been the authorised dealer of JCB and BB for the Karnataka region since FY2011 and FY2014, respectively. The company's proven track record in the dealership business coupled with its presence in several districts across Karnataka supports its growth prospects to an extent.

Long track record in dealership business – REPL has a diversified presence across earthmoving equipment and commercial vehicles in Karnataka. It is the sole authorised dealer of JCB in seven districts in Karnataka, namely Bengaluru Urban, Bengaluru Rural, Kolar, Chikkaballapur, Mandya, Chittoor, Gulbarga, Bijapur, Tumkur and Ramnagar. For BharatBenz, the company currently operates in six districts, namely Hubli, Belgaum, Vijayapur, Bijapur, Chittoor and Hospet (Bellary district). The expansion of the showrooms and service outlets is likely to help sustain market share in Karnataka over the next few years.

Financial profile characterised by comfortable gearing and debt coverage indicators – REPL's capital structure and coverage indicators are characterised by limited dependence on external debt. The liquidity position is comfortable with an unutilised working capital facility of Rs. 21.7 crore as on December 31, 2020. REPL's gearing stood at 0.9x as on March 31, 2020 while its interest coverage ratio and TOL/TNW stood at 3.1x and 1.6x, respectively, with the same expected to remain healthy as on March 31, 2021 as well. The company is planning to expand its presence in Karnataka by opening smaller outlets and showrooms. However, it is unlikely to avail incremental borrowings for the same and plans to fund entirely through its internal accruals.

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 have increased in the recent past on account of the commencement of operations at new showrooms with relatively high rentals and high employee expenses. These factors had a significant impact on the company's profit margins in FY2020 with the same expected to remain subdued in FY2021 as well. However, revenues derived from higher-margin segments including service charges, insurance commission, finance commission, and incentives have been on an increasing trend and the same has supported its profits to an extent.

Susceptibility of business to cyclicity in earthmoving and commercial vehicle industries – REPL's volumes and revenues remain susceptible to the cyclicity in the 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 – Competition from other dealers of other OEMs in the Karnataka region exerts pressure on REPL's sales and profit margin. Also, the sales are regionally concentrated with revenues received only from Karnataka.

Liquidity position: Adequate

REPL's liquidity position remains adequate as characterised by the sufficient buffer of Rs. 21.7 crore as on December 31, 2020 available in its working capital facilities. The average utilisation of working capital limits and inventory financing limits availed by the company stood at 22% of the drawing power during April 2020 to March 2021. The company is looking to open smaller showrooms across Karnataka and is expected to incur capex of Rs. 2-3 crore per annum for the next three years, which will be entirely funded through internal accruals. REPL has no external term loans on its books as on date and the absence of major capacity expansion plans and no term debt repayments support liquidity.

Rating sensitivities

Positive factors – The rating could be upgraded if the company demonstrates a significant improvement in its sales volume, which results in an improvement in its credit metrics on a sustained basis.

Negative factors – The rating could be downgraded if there is a decline in operating revenues, increase in overhead expenses and increase in working capital borrowings or if a stretch in the working capital cycle weakens the liquidity and debt metrics 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 has a presence in multiple industries including automobiles, hospitality, infrastructure, ceramics, power and educational institutes among others. Mr. Sunil R Shetty, the promoter of RNS Motors Limited and REPL is the eldest son of the founder, Dr. R N Shetty. The various companies in the Group, namely Murudeshwar Ceramics Limited, RNS Power Limited, RNS Infrastructure Limited and Naveen Hotels Limited are managed by the other two brothers. There are no financial transactions between RNS Motors Limited and REPL, and the other companies in the Group; this is expected to continue going forward as well.

Incorporated in 2011, REPL is engaged in dealership of earthmoving equipment and trucks for JCB India Limited (JCB) and Daimler Commercial Vehicles India Private Limited (Daimler), respectively. Under the JCB dealership, the company currently holds the dealership for seven districts in Karnataka, namely Bengaluru Urban, Bengaluru Rural, Kolar, Chikkaballapur, Mandya, Tumkur and Ramnagar. The products sold by the company include backhoe loaders, excavators, pick and carry cranes and vibrators. In FY2014, REPL was awarded the dealership for Daimler for North Karnataka. It currently operates from six showrooms in Hubli, Belgaum, Vijayapur, Bijapur, Chittoor and Hospet (Bellary district).

Key financial indicators (audited)

Standalone	FY2019	FY2020
Operating Income (Rs. crore)	448.4	409.6
PAT (Rs. crore)	2.7	2.3
OPBDIT/OI (%)	1.5%	1.3%
PAT/OI (%)	0.6%	0.6%
Total Outside Liabilities/Tangible Net Worth (times)	3.6	1.6
Total Debt/OPBDIT (times)	2.9	3.9
Interest Coverage (times)	3.4	3.1

Source: Company and ICRA research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2018	
					Apr 30, 2021				
1	Cash credit	Long term	3.00	0.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	
2	Inventory finance	Long term	21.00	2.60	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	

Source: Company

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 [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based – CC	April 2020	7.90%	NA	3.00	[ICRA]BBB (Stable)
NA	Inventory finance	April 2020	8.30%	NA	21.00	[ICRA]BBB (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	REPL Ownership	Consolidation Approach
NA	NA	NA

Source: Company

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