

April 30, 2024

P.R.Nayak Associates Pvt Ltd: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/Cash credit	30.0	34.0	[ICRA]BB+ (Stable); Reaffirmed and assigned for enhanced amount
Total	30.0	34.0	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in P.R. Nayak Associates Pvt Ltd's (PRN) market position as the exclusive authorised dealer for JCB India Limited (JCB) across several districts in Karnataka and the long-standing experience of its promoters in the dealership businesses. The medium-to-long-term demand outlook for construction equipment remains favourable, driven by higher Government spending on infrastructure. The company's principal original equipment manufacturer (OEM), JCB, enjoys a strong market position in the mining and construction equipment (MCE) industry, with its backhoe loaders enjoying a dominant market share. With strong demand in the domestic MCE industry, PRN's revenue witnessed robust growth of 53% and 6.5% in FY2023 and 11M FY2024, respectively.

The rating is, however, constrained by the cyclicity of the MCE industry, PRN's low profitability inherent to the dealership business, working capital-intensive nature of operations and modest debt coverage indicators with interest cover of 2.1 times in FY2023. Besides, competition from dealers of other OEMs in Karnataka exert pressure on its sales and profit margin. The company's operating margins are impacted by increasing operating costs owing to addition of new branches and thin dealer margins. The operations are working capital intensive with sizeable funds blocked in inventory and receivables, whereas there is low credit period from its principal OEM. Given the cyclicity associated with the MCE industry, sharp downturn in demand dynamics could result in liquidity crunch and hence prudent working capital management remains crucial for the company to sustain its credit profile. Going forward, PRN's ability to increase its scale of operations and earnings, on a sustained basis, while judiciously managing its working capital cycle remains crucial from the credit perspective.

The Stable outlook reflects that PRN will continue to benefit from its position as the exclusive authorised dealer for JCB for the region and continue to maintain a stable operating and financial performance going forward as well.

Key rating drivers and their description

Credit strengths

Authorised dealer of JCB India Limited, exclusive dealership in few clusters in Karnataka – PRN is the exclusive authorised dealer of JCB since 2014 for the sale of earthmoving equipment in ten districts in Karnataka namely Bagalkot, Belgaum, Chitradurga, Davangere, Dharwad, Gadag, Haveri, Hospet, Bellary and Koppal. It has a wide network of showrooms, sales and service outlets spread across seventeen locations in Karnataka. The company intends to add three to four small branches in FY2025, along with two to four new warehouses over the next two years. Expansion in its network and a healthy market position of JCB are expected to sustain PRN's market share in Karnataka over the medium term.

Vast experience of promoters across automobile dealership and construction industry – PRN's promoters have extensive experience in the automotive dealership business, operating dealerships for passenger vehicles, two-wheelers. The promoters are also involved in hotel businesses in Karnataka (under other companies). In addition, the promoters also have a construction business in Karnataka and regularly purchase construction equipment from PRN, which support its revenues to some extent.

The company’s proven track record in the dealership business, coupled with its presence in several districts across Karnataka, supports its growth prospects to some extent.

Credit challenges

Low profit margins and moderate coverage indicators – Given the nature of the dealership business, the commission on vehicle sales, spares, and service, etc, are decided by the principal, resulting in thin profitability margins. PRN is heavily reliant on working capital borrowings for maintaining its equipment inventories. The company’s working capital borrowings increased to Rs. 23.9 crore as on January 31, 2024, from Rs. 16.1 crore as on March 31, 2023 (Rs. 21.6 crore as on March 31, 2022) and its working capital intensity (NWC/OI) was at 3.9% in FY2023 (9.6% in FY2022). PRN’s capital structure remains moderately leveraged, with TOL/TNW at 2.6 times as on March 31, 2023 (2.2 times as on March 31, 2022). PRN has marginal term loans on its books (Rs. 1.1 crore as on January 31, 2024) and has planned capex of Rs. 3.5-4 crore p.a. over the next two years towards network expansion, which it intends to fund in debt to equity mix of 80:20. Going forward, the company’s ability to improve its revenues and revive its margins, while maintaining its debt metrics and liquidity position, would be a key rating monitorable

Stiff competition and regional concentration of sales – PRN’s operations are exposed to intense competition from dealers of other earthmoving equipment manufacturers, which results in increased pressure to pass on price discounts to customers, leading to lower profitability. Also, the sales are regionally concentrated with revenues emanating only from Karnataka. However, the risk is partially mitigated as it derives its total sales from backhoe loaders, wherein JCB as a market leader enjoys a dominant pan-India market share.

Susceptibility of business to cyclical in MCE industry – The company’s volume and revenue are susceptible to cyclical in the MCE industry, which depends on the level of economic activity and infra spending undertaken by the Government.

Liquidity position: Adequate

PRN’s liquidity position is expected to remain adequate, aided by expectation of steady cash flow generation from operations and supported by Rs. 5.9 crore of free cash balances and Rs. 10.15 crore of undrawn working capital lines (as of January 2024 end). The average utilisation of working capital limits and inventory funding lines availed by the company stood at ~77% for the 10 months that ended in January 2024. The projected cash flow operations and available working capital lines are likely to be adequate to meet the business requirements over the next 12 months.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company is able to attain a sustained increase in its scale of operations and earnings, coupled with improvement in its liquidity position.

Negative factors – ICRA could downgrade the rating in case of a significant and sustained decline in the company’s earnings or if an increase in working capital intensity stretches its liquidity position and weakens its coverage indicators. Specific credit metrics that could lead to a downgrade include interest coverage less than 2.0 times on a prolonged 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 company’s standalone financial statements.

About the company

PRN is an authorised dealer of JCB India Limited (JCB) for the sale of earthmoving equipment in Karnataka. Incorporated in 2005, the company commenced operations in September 2014. Its product offerings comprise earthmoving equipment like backhoe loaders (BHL), excavators, vibrators, and wheel loaders, etc. It holds rights to exclusive dealership in ten districts in Karnataka namely – Bagalkot, Belgam, Chitradurga, Davengere, Dharwad, Gadag, Haveri, Hospet, Bellary and Koppal and has a network of 17 branches.

Promoted by Mr. P.R. Nayak and his family, PRN belongs to the PRN Group of companies, which has strong presence in Karnataka and operates across auto dealerships, construction, and real estate industries.

Key financial indicators (audited)

	FY2022	FY2023
Operating income (Rs. crore)	206.8	317.0
PAT (Rs. crore)	1.5	1.5
OPBDIT/OI (%)	2.1%	1.5%
PAT/OI (%)	0.7%	0.5%
Total outside liabilities/Tangible net worth (times)	2.2	2.6
Total debt/OPBDIT (times)	5.0	3.4
Interest coverage (times)	2.3	2.1

Source: Company, ICRA Research; 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 (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Jan 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Apr 30, 2024	Mar 22, 2024	Dec 30, 2022	Sep 30, 2021
1 Fund-based/ Cash credit	Long-term	34.00	23.85	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2 Fund-based	Short-term	-	-	-	-	[ICRA]A4+; reaffirmed and withdrawn	[ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based/ Cash credit	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](#).

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based limits-Cash credit	Nov 18, 2023	-	NA	34.00	[ICRA]BB+ (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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