

October 24, 2024

## Ramani Cars Private Limited: Rating downgraded

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Working Capital Limits	90.00	90.00	[ICRA]BBB- (Stable); downgraded from [ICRA]BBB (Stable)
<b>Total</b>	<b>90.00</b>	<b>90.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating downgrade on the bank lines of Ramani Cars Private Limited's (RCPL/the company) follows its weaker-than-expected performance in FY2024 and moderation in ICRA's expectations for FY2025. RCPL reported weaker operating margins of 3.6% in FY2023 and 3.2% in FY2024, as against 6.5% and 6.4% in FY2021 and FY2022, impacted by lower margins in new vehicles, additional discounts and inability to completely pass on cost inflationary pressures. This has resulted in lower profits and accruals. The company's working capital borrowings have also increased with increase in inventory days, resulting in increase in total debt to Rs. 83.8 crore as on March 31, 2024, from Rs. 60.2 crore as on March 31, 2022. As a result, there has been moderation in debt metrics on sustained basis, with the company reporting interest coverage of 1.8x for FY2024 and net debt/OPBDITA of 4.1x as on March 31, 2024, as against interest coverage of 6.6 times in FY2022 and net debt/OPBDITA of 2.0 times as on March 31, 2022. While debt metrics could improve going forward, in the absence of debt-funded capex plans, the extent of improvement remains to be seen.

The rating, however, remain supported by RCPL being 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 accounting for 50-60% of VWIPL's Tamil Nadu sales in FY2024 and 6-10% of its pan India sales. RCPL's liquidity also remains adequate supported by unencumbered cash and bank balances of Rs. 29.6 crore and undrawn working capital lines of Rs. 9.4 crore as on September 30, 2024. The rating remains constrained by VWIPL's relatively weak market share in the domestic PV market (market share of 1.2% in FY2024), and the company's relatively high geographic concentration with Tamil Nadu, exposing its performance to region-specific event risks. Also, the company's scale remains moderate at Rs. 433.9 crore in FY2024 (YoY decline of 2.2%), and the muted PV growth outlook for FY2025 and relatively high PV inventory across dealerships currently, could exert pressure on RCPL's sales in FY2025.

The stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile and debt metrics supported by its cash accruals, adequate liquidity position and absence of debt-funded capex, despite the muted PV growth outlook for FY2025 and relatively high PV inventory across dealerships currently.

### 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 FY2024 and 6-10% 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 their group companies, have extensive experience of over two decades in the automobile industry and have interests in dealerships of other auto original equipment manufacturers (OEMs) across various regions in Tamil Nadu, including that of Honda Cars India Limited (HCIL), Mahindra & Mahindra Limited (M&M) and JSW MG Motor India Pvt Ltd.

**Adequate liquidity position** – The liquidity position of the company is adequate supported by anticipated cash accruals from the business, unencumbered cash and bank balances of Rs. 29.6 crore and undrawn working capital lines of Rs. 9.4 crore as on September 30, 2024. Against these sources of cash, the company only has minimal capex and repayments of Rs. 0.4 crore in H2 FY2025, Rs. 0.6 crore in FY2026 and Rs. 0.3 crore in FY2027 on its existing loans.

### Credit challenges

**Moderation in debt coverage metrics** - RCPL reported weaker operating margins of 3.6% in FY2023 and 3.2% in FY2024, as against 6.5% and 6.4% in FY2021 and FY2022, impacted by lower margins in new vehicles, additional discounts and inability to completely pass on cost inflationary pressures. This has resulted in lower profits and accruals. The company's working capital borrowings have also increased with increase in inventory days, resulting in increase in total debt to Rs. 83.8 crore as on March 31, 2024, from Rs. 60.2 crore as on March 31, 2022. As a result, there has been moderation in debt metrics on sustained basis, with the company reporting interest coverage of 1.8x for FY2024 and net debt/OPBDITA of 4.1x as on March 31, 2024, as against interest coverage of 6.6 times in FY2022 and net debt/OPBDITA of 2.0 times as on March 31, 2022. While debt metrics could improve going forward, in the absence of debt-funded capex plans, the extent of improvement remains to be seen.

**Low market share 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 1.2% for FY2024. While the OEM has launched new PVs in the last one to two years, the product portfolio is expected to remain limited in the next one year as well. Further, the muted PV growth outlook for FY2025 and relatively high PV inventory across dealerships currently, could exert pressure on RCPL's sales in FY2025.

**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. 433.9 crore in FY2024 vis-a-vis Rs. 443.7 crore 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.

### Liquidity position: Adequate

RCPL's liquidity position is adequate supported by anticipated cash accruals from the business, unencumbered cash and bank balances of Rs. 29.6 crore and undrawn working capital lines of Rs. 9.4 crore as on September 30, 2024. Against these sources of cash, the company only has minimal maintenance capex and repayments of Rs. 0.4 crore in H2 FY2025, Rs. 0.6 crore in FY2026 and Rs. 0.3 crore in FY2027 on its existing loans. Overall, ICRA expects the company to meet its medium-term commitments through internal sources of funds/debt and be left with adequate cash surplus and buffer in working capital.

### Rating sensitivities

**Positive factors** – ICRA could upgrade RCPL's ratings if it achieves material improvement in its scale of operations, accruals and coverage metrics on a sustained basis. Specific credit metrics that could lead to an upgrade include interest coverage > 3.5 times on 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.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Automobile Dealers</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	FY2023	FY2024
Operating income	443.7	433.9
PAT	5.7	3.4
OPBDIT/OI	3.6%	3.2%
PAT/OI	1.3%	0.8%
Total outside liabilities/Tangible net worth (times)	1.7	1.7
Total debt/OPBDIT (times)	4.1	6.0
Interest coverage (times)	2.5	1.8

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	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Oct 24, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Working Capital Limits	Long Term	90.00	[ICRA]BBB-(Stable)	03-Jul-23	[ICRA]BBB-(Stable)	15-Jun-22	[ICRA]BBB-(Stable)	03-Jun-21	[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](#)

#### 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	~8.7%	NA	82.00	[ICRA]BBB- (Stable)
NA	Cash Credit	NA	~9%	NA	8.00	[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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