December 18, 2024

RNS Motors 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	43.00	43.00	[ICRA]BBB+(Stable); reaffirmed
Total	**43.00**	**43.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for the bank lines of RNS Motors Private Limited's (RNSMPL/the company) considers the company's healthy business and financial profile and ICRA's expectation of a sustained financial performance in the near to medium term, supported by Maruti Suzuki India Limited (MSIL)'s dominant position in the domestic passenger vehicle (PV) market, RNSMPL's established presence in Karnataka and the company's relatively low reliance on borrowings. MSIL has sustained its leadership position in the Indian domestic PV segment, driven by the success of its new models and the healthy performance of existing models. MSIL's market share has largely remained stable at ~42% in FY2024 and ~40.6% in H1 FY2025 as against ~41% in FY2023. RNSMPL has been an authorised dealer of MSIL's passenger vehicles for Karnataka since 1995. It is among the larger authorised dealers for MSIL in Karnataka, with a sales and service network spread across Bengaluru, Sirsi, Hubli, Bijapur, Murdeshwar, Nelamangala Dharwad, etc. The company has had low reliance on external debt, aided by its accruals amid minimal capex and low working capital intensity. This has resulted in comfortable gearing and coverage metrics for the company. The company's gearing (total debt/total net worth) stood at 0.2 times as on September 30, 2024, while its interest coverage stood at 11.4 times for H1 FY2025[1]. The debt metrics are expected to remain comfortable going forward as well, in the absence of significant capex plans.

The ratings, are however, constrained by RNSMPL's thin margins, akin to other dealership businesses. It reported operating profit margins of 3.1% and net profit margins of 2.8% in H1 FY2025. Further, the margins remain vulnerable to competition from dealerships of the same principal as well as competing original equipment manufacturers (OEMs). Also, the company's operating income remains moderate (relative to the market size) at Rs. 820.1 crore in FY2024 and Rs. 445.6 crore in H1 FY2025 vis-a-vis Rs. 765.6 crore in FY2023. Further, the company witnesses high geographic concentration, with its entire sales being generated from Karnataka. This exposes the company's performance to region-specific event risks. RNSMPL derives its revenues from the domestic PV industry, thereby making it susceptible to any demand slowdown or cyclicality in the segment. Further, the muted PV growth outlook for FY2025 and relatively high PV inventory currently pan-India could exert pressure on RNSMPL's sales in FY2025. However, the company's established presence and periodic showroom expansions mitigate revenue risk to an extent.

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 going forward.

[1] According to unaudited financials

Key rating drivers and their description

Credit strengths

Long track record of RNSMPL in automobile dealership business – RNSMPL has been an authorised dealer of MSIL's passenger vehicles for Karnataka since 1995. It is among the larger authorised dealers for MSIL in Karnataka, with a sales and service network spread across Bengaluru, Sirsi, Hubli, Bijapur, Murdeshwar, Nelamangala Dharwad, etc. Its proven track record in the dealership business, healthy share of MSIL's business in Karnataka, presence across 15 locations and periodic expansion of showrooms and workshops, would support growth prospects.

Healthy financial profile characterised by low gearing and comfortable debt coverage indicators – The company has had low reliance on external debt, aided by its accruals amid minimal capex and low working capital intensity. This has resulted in comfortable gearing and coverage metrics for the company. The company's gearing (total debt/total net worth) stood at 0.2 times as on September 30, 2024, while its interest coverage stood at 11.4 times for H1 FY2025. The debt metrics are expected to remain comfortable going forward as well, in the absence of significant capex plans.

Dominant market position of MSIL in the domestic PV segment – MSIL has sustained its leadership position in the Indian domestic PV segment, driven by the success of its new models and the healthy performance of existing models. The market share has been largely stable at ~42% in FY2024 and ~40.6% in H1 FY2025 as against ~41% in FY2023. MSIL's models like Baleno, Vitara Brezza, Ertiga, Wagon R, Swift and Swift Dzire were among the best-selling models in the country in the last couple of fiscals.

Credit challenges

Thin margins inherent to dealership business; intense competition – RNSMPL's profit margins have historically been thin, akin to other automobile dealers. It reported operating profit margins of 3.1% and net profit margins of 2.8% in H1 FY2025. Further, the margins remain vulnerable to competition from dealerships of the same principal as well as competing OEMs. However, the company's established presence and benefits from healthy operating leverage are likely to support accruals to an extent going forward.

Exposure to inherent cyclicality of Indian PV industry – RNSMPL derives its revenues from the domestic PV industry, thereby making it susceptible to any demand slowdown or cyclicality in the segment. Further, the muted PV growth outlook for FY2025 and relatively high PV inventory currently pan-India could exert pressure on RNSMPL's sales in FY2025. However, the company's established presence and periodic showroom expansions mitigate revenue risk to an extent.

Geographic concentration in Karnataka – The company's operating income remains moderate (relative to the market size) at Rs. 820.1 crore in FY2024 and Rs. 445.6 crore in H1 FY2025 vis-a-vis Rs. 765.6 crore in FY2023. Further, the company witnesses high geographic concentration, with its entire sales being generated from Karnataka. This exposes the company's performance to region-specific event risks.

Liquidity position: Adequate

RNSMPL's liquidity position remains adequate supported by its anticipated accruals, undrawn working capital lines of Rs. 7.3 crore, and free cash and bank balance of Rs. 20.0 crore as on September 30, 2024. As against these sources of cash, RNSMPL has negligible external term loans on its books as on date and minimal maintenance capex. Overall, ICRA expects the company to meet its medium-term commitments through internal sources of funds and be left with adequate cash surplus and buffer in working capital.

Rating sensitivities hope exactly same as rationale

Positive factors – The rating could be upgraded if the company demonstrates material improvement in its geographical diversification along with significant improvement in its scale of operations while maintaining its margins, liquidity position and debt protection metrics.

Negative factors – The rating could be downgraded if there is a decline in the operating revenues and an increase in the overhead expenses and working capital borrowings, or if a stretch in the working capital cycle weakens liquidity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Automobile dealership
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1995, RNS Motors Limited is part of the R.N. Shetty Group of companies, a 50-year-old group with presence across hospitality, real estate, education, auto dealership, etc. RNSMPL was initially a part of RN Shetty & Co. and was later floated as a separate private limited company in 2003.

RNSMPL is involved in the passenger vehicle dealership for Maruti Suzuki India Ltd., and currently operates from 15 showrooms in and around Bengaluru. Along with 15 sales outlets, RNSMPL has 14 workshops and five warehouses with a total stocking capacity of ~2,000 cars.

Key financial indicators (audited)

Standalone	FY2023	FY2024
Operating income	765.6	820.1
PAT	19.5	12.6
OPBDIT/OI	3.9%	2.4%
PAT/OI	2.5%	1.5%
Total outside liabilities/Tangible net worth (times)	0.4	0.4
Total debt/OPBDIT (times)	0.3	0.8
Interest coverage (times)	20.3	7.6

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

	Current (FY2025)			Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Dec 18, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based facilities	Long Term	43.00	[ICRA]BBB + (Stable)	-	-	Sep 28,2023	[ICRA]BBB + (Stable)	Jun 28,2022	[ICRA]BBB + (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based facilities	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	**Long-term fund-based facilities**	Nov 05, 2020	9.50%-10.50%	NA	43.00	[ICRA]BBB+ (Stable)

Source: Company

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 4596 4318
ksrikumar@icraindia.com

Vinutaa S.
+91 44 4596 4305
vinitha.s@icraindia.com

Rahul Mhaskar
+91 80 4332 6427
rahul.mhaskar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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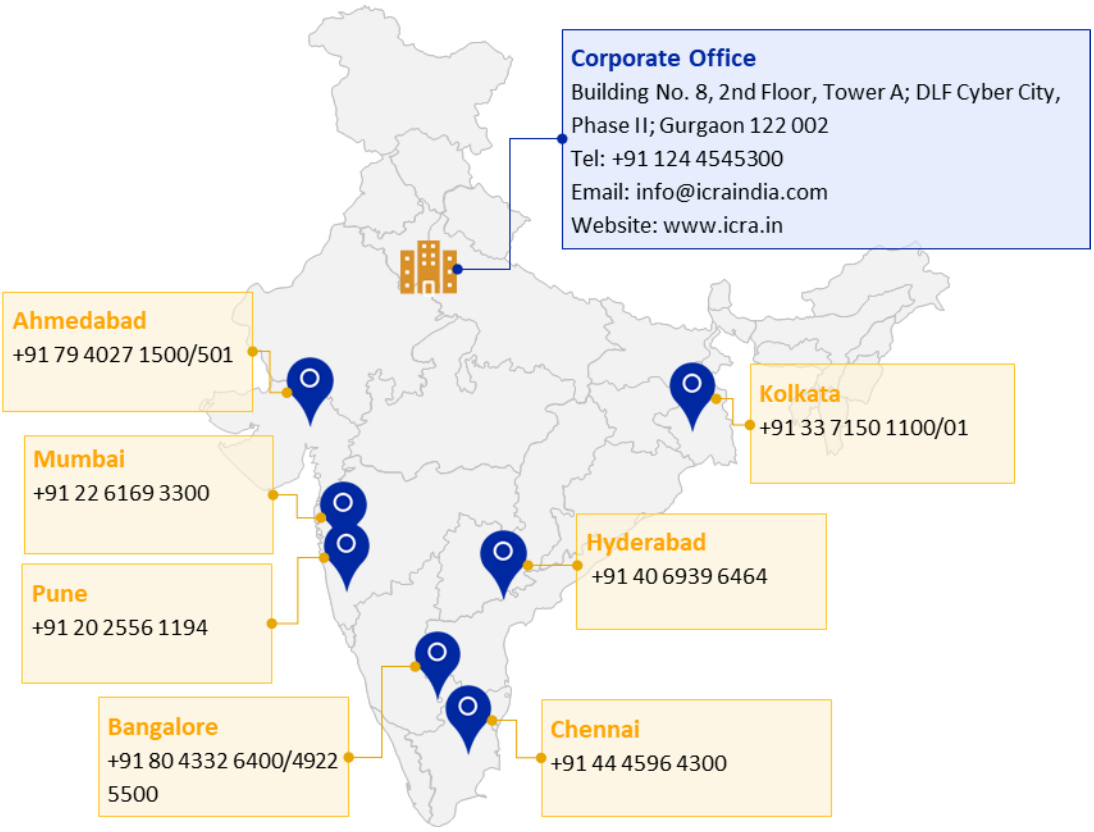
ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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