

## RNS Earthmovers Private Limited

October 22, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based facilities	20.00	24.00	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
<b>Total</b>	<b>20.00</b>	<b>24.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has upgraded the long-term rating to [ICRA]BBB (pronounced ICRA Triple B) from [ICRA]BBB- (pronounced ICRA triple B minus) <sup>1</sup> to the Rs. 24.00 crore (enhanced from Rs. 20.00 crore) <sup>2</sup> fund-based facilities of RNS Earthmovers Private Limited (REPL/ the company). The outlook on the long-term rating is Stable.

### Rationale

The rating upgrade factors in the improvement in REPL's credit profile supported by strong growth in the mining and construction equipment (MCE) and Medium and Heavy Commercial Vehicle (M&HCV) segments in the last one and half years. During FY2018, REPL's revenues grew by ~30% supported by healthy increase in sales volume of both JCB India Limited (JCB) equipment (up 30% YoY in FY2018) and Daimler Commercial Vehicle India Private Limited (Bharatbenz) trucks (up 35% YoY in FY2018). REPL's position as the sole authorized dealer for JCB and Bharatbenz across several districts in Karnataka and the promoters experience in the auto dealership business supports its business profile. While the operating margins witnessed 40 bps contraction due to higher discounts, REPL's net profits grew by 21% during FY2018. Also, the dependence on working capital loans reduced due to improved operating cycle on the back of faster collections and lower inventory. Better accruals and limited dependence on debt supported REPL's debt indicators - with gearing of 0.6x, interest cover of 8.7 times and total debt to operating profit of 1.5 times as of March 2018. The rating remains constrained by the vulnerability of earnings to the performance of MCE and M&HCV segments, both of which are cyclical and linked to the level of economic activities. The rating also considers REPL's limited bargaining power with the OEMs and intense competition from other OEMs exerting pressure on profit margin which are inherently thin.

### Outlook: Stable

ICRA believes REPL will continue to benefit from the near-term favourable demand outlook for MCE and M&HCV and its position as the sole authorized dealer for JCB and Bharatbenz across several districts in Karnataka and the extensive experience of the promoters in the dealership business. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> 100 lakh = 1 crore = 10 million

## Key rating drivers

### Credit strengths

**Long track record in the dealership business** - REPL is amongst the largest authorized dealers for JCB and Bharatbenz in Karnataka region with a wide sale network of showrooms and sales and service outlets spread across Bangalore, Belgaum, Gulbarga, Tumkur, Ramanagra, Hospet, Hubli, Bijapur, Murdeshwar, Vijayapur and Chittoor. Expansion of showrooms and service outlets are likely to aid in sustaining market share in Karnataka over the next few years.

**Experience of promoter** – The promoters have extensive experience in the dealership business through another group concern (RNS Motors Limited, [ICRA]BBB+ (Stable)), an authorized dealership of Maruti Suzuki India Limited (MSIL).

**Strong growth in revenues in FY2018** – The company has witnessed healthy CAGR of sales (~18% over the past five years ending FY2018). The revenues grew by~30% (y-o-y), supported by strong 30% volume growth in JCB sales and 35% growth in Bharatbenz vehicles. REPL derives 65% share of revenues from sales of JCB vehicles, and balance 35% from sale of Bharatbenz vehicles.

**Comfortable debt coverage indicators** – Strong growth in revenues coupled with better operating cycle leading to lesser dependence on debt and consequently lower interest outgo, resulted in 13% growth in REPL's net cash accruals. With better accruals and lower debt, REPL's capital structure and coverage indicators improved. Liquidity position also improved with better working capital cycle; cash balances of Rs. 18.8 crore as on March 31, 2018 supported the liquidity profile. RNSML has 0.6x gearing, interest coverage ratio and TOL/TNW of 8.7x and 2.2x respectively as on March 31, 2018.

**Positive and long-term demand outlook for domestic MCE industry** - Over the past 18 months, the domestic MCE industry has revived on the back of investments in infrastructure projects by the Government across various sectors. ICRA expects the industry to witness strong volume growth in the current fiscal supported by continued investments in various projects.

### Credit challenges

**Low operating margins** - Inherent to dealership nature of business, REPL's operating margins have remained low between 1.7-2.2% over the years. Operating margins declined to 1.8% during FY2018 because of increase in employee costs with revision in minimum wages, higher rental expenses (newly opened showroom at Gulbarga) and higher discounts offered. Going forward, margins are likely to improve supported by increase in dealership incentives and increased focus on high value addition business.

**Susceptibility of business to cyclicity in the earthmoving and commercial vehicle industry** - The company's volumes and revenues remain susceptible to the cyclicity in the earthmoving industry and commercial vehicle industry which in turn is linked to the level of economic activity in the region.

**Increasing and high competitive pressures** – The company faces increasing and high competitive pressures from earthmoving equipment manufacturers and commercial vehicle manufacturers although strong market share mitigates competitive pressures to an extent

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Automobile Dealership](#)

**About the company:**

RNS Earthmovers Private Limited (REPL/ the company) is a part of the RN Shetty Group of Companies. The Group has presence across multiple industries including automobiles, hospitality, infrastructure, ceramics, power and educational institutes among others.

Incorporated in 2011, REPL is engaged in dealership of earthmoving equipment and trucks for JCB India Limited (JCB) and Daimler India Commercial Vehicles Private Limited (Daimler) respectively. Under the JCB dealership, the company presently holds the dealership for seven districts in Karnataka namely Bangalore Urban, Bangalore 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, the company was awarded the dealership for Daimler for North Karnataka. The company presently operates from six showrooms at Hubli, Belgaum, Vijayapur, Bijapur, Chittoor and Hospet (Bellary district).

**Key financial indicators (audited)**

	RNS Earthmovers Private Limited		RNS Motors Limited	
	FY2017	FY2018	FY2017	FY2018
Operating Income (Rs. crore)	346.0	448.2	709.7	632.2
PAT (Rs. crore)	3.8	4.6	11.9	4.9
OPBDIT/OI (%)	2.2%	1.8%	3.6%	2.4%
RoCE (%)	26.1%	26.1%	32.4%	16.4%
Total Debt/TNW (times)	0.8	0.6	0.1	0.2
Total Debt/OPBDIT (times)	1.6	1.5	0.3	0.8
Interest coverage (times)	5.4	8.7	709.7	632.2

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating October 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
					July 2017	April 2016	July 2015	
1 Cash Credit facility	Long Term	3.00	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
2 Inventory Finance	Long Term	21.00	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	

### 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 [www.icra.in](http://www.icra.in)

## 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	Cash Credit facilities	-	-	-	3.00	[ICRA]BBB (Stable)
NA	Inventory Finance	-	-	-	21.00	[ICRA]BBB (Stable)

Source: Company

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