

December 30, 2022

P.R.Nayak Associates Pvt Ltd: Long-term rating reaffirmed, short-term rating withdrawn; rated amount enhanced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	12.0	30.0	[ICRA]BB+ (Stable); reaffirmed/assigned
Short-term – Fund-based	15.0	-	[ICRA]A4+; reaffirmed and withdrawn
Total	27.0	30.0	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation factors in P.R. Nayak Associates Pvt Ltd's (PRN) strong market position as the exclusive authorised dealer for JCB India Limited (JCB) across several districts in Karnataka, the vast experience of its promoters in the auto dealership businesses and likely revival in demand on the back of higher Government spending on infrastructure. The company's principal, JCB, enjoys a healthy market position in the mining and construction equipment (MCE) industry, with its backhoe loaders enjoying a dominant market share and accounting for 80-83% of PRN's revenues in FY2022 and 7M FY2023. Going forward, the company's ability to increase its scale of operations and earnings remains crucial from the credit rating perspective, given its high dependence on a single product – backhoe loaders.

The ratings are, however, constrained by the company's low profitability, inherent to the dealership business and moderate financial risk profile marked by leveraged capital structure and moderate coverage indicators. Besides, competition from other dealers of other original equipment manufacturers (OEMs) in the Karnataka region exerts pressure on its sales and profit margin. The company's revenues reported a ~17% YoY decline in FY2022 to Rs. 206 crore, impacted by price hikes following the new emission norm changes and input cost escalations. The same were also affected by extended monsoons in its core markets, teething issues in a few models and pandemic-related disruptions in infrastructure projects (impacted cash in hand for new equipment purchase). However, YTD FY2023 has witnessed a healthy revival in sales, with revenues of Rs. 180 crore in eight months. With recovery in economic activity, and expectation of increase in infrastructure spending by Government prior to elections in CY2024, the demand for construction equipment is likely to witness healthy growth in the near to medium term.

The Stable outlook reflects that PRN will continue to benefit from its position as the exclusive authorised dealer for JCB.

Key rating drivers and their description

Credit strengths

Authorised dealer of JCB India Limited, market leader in backhoe loader segment - PRN has been an authorised dealer of JCB India Limited since 2014. JCB remains the market leader in the high-volume backhoe loader market, with a market share of close to 85 per cent.

Exclusive dealership of JCB in few clusters in Karnataka - PRN is an exclusive authorised dealer of JCB for the sale of earthmoving equipment in nine districts in Karnataka namely Bagalkot, Belgaum, Bellary, Chitradurga, Davangere, Dharwad, Gadag, Haveri, and Koppal. The company has a wide network of showrooms and sales and service outlets spread across 13 locations in Karnataka and it intends to increase its showroom count to 20 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 next few years.

Vast experience of promoters across automobile dealership and construction industry - PRN's promoters have extensive experience in the automotive dealership space, operating the dealership for passenger vehicles and two-wheelers and hotel businesses in Karnataka (under other companies). In addition, the promoters 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. Pandemic-led disruptions to projects, extended monsoon season in Karnataka and teething issues in newly launched BS-IV models adversely impacted the company's sales and profitability in FY2022. PRN is heavily reliant on working capital borrowings for maintaining its equipment inventories. Its working capital borrowings moderated slightly to Rs. 22.0 crore as on March 31, 2022 from Rs. 24 crore as on March 31, 2021 and the working capital intensity (NWC/OI) was at 9.8% in FY2022 (Vs. 9.5% in FY2021 and 8% in FY2020). Thus, PRN's capital structure remains moderately leveraged, with gearing at 1.2 times and TOL/TNW at 2.2 times as on March 31, 2022. The decline in operating profits entirely offset the reduction in debt levels and resulted in deterioration in coverage indicators with Total Debt/OPBIDTA and interest cover at 5 times and 2.3 times as on March 31, 2022 vis-à-vis 3.4 times and 4.1 times in March 31, 2021. 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 stiff competition from dealers of other earthmoving equipment manufacturers such as L&T, Komatsu, Volvo, Tata Hitachi, BEML, and Caterpillar in Karnataka, which results in increased pressure to pass on price discounts to customers, leading to lower profitability. Also, the sales are regionally concentrated as revenues emanating only from Karnataka. However, the risk is partially mitigated as it derives its total sales from backhoe loaders, wherein JCB 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 in turn depends on the level of economic activity and infra spending undertaken by the Karnataka 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. 2.85-crore free cash balances and Rs. 100-crore undrawn working capital lines (as of October 2022 end). The average utilisation of working capital limits and inventory funding lines availed by the company was ~80% for the 12 months that ended in October 2022. It has marginal term loans on its books (Rs. 0.15 crore) and has planned capex/investments of Rs. 1-2 crore p.a. towards network expansion, which it intends to fund through internal accruals. 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 ratings 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 ratings 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 sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology for Automobile dealerships Policy on Withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial statements.

About the company

P.R. Nayak Associates Pvt Ltd is an authorised dealer of JCB for the sale of earthmoving equipment in Karnataka and commenced its operations in September 2014. The company has presence via 13 outlets in nine districts namely Bagalkot, Bellary, Belgaum, Chitradurga, Davangere, Dharwad, Gadag, Haveri, and Koppal. It has a sale-service-spare (3S) showroom in Hubli, and the remaining spares and service outlets are spread across its dealership territories. The product mix comprises earthmoving equipment such as backhoe loaders, excavators, vibrators, and wheel loaders. 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)

	FY2021	FY2022	8M FY2023*
Operating income	247.5	206.8	180.0
PAT	3.6	1.5	-
OPBDIT/OI	2.9	2.1	-
PAT/OI	1.4	0.7	-
Total outside liabilities/Tangible net worth (times)	2.6	2.2	-
Total debt/OPBDIT (times)	3.4	5.0	-
Interest coverage (times)	4.1	2.3	-

Source: Company data, ICRA Research

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs. crore ; * Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2023)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding as on Oct 31, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				Dec 30, 2022	Sep 30, 2021	Apr 3, 2020	Mar 24, 2020
1 Fund-based/ Cash credit	Long-term	30.0	23.4	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)
2 Fund-based	Short-term	15.0*	-	[ICRA]A4+; reaffirmed and withdrawn	[ICRA]A4+	[ICRA]A4+	-

* The amount is now rated as fund-based/CC limit

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based/ Cash credit	Simple
Short-term – Fund-based	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	Aug 29, 2022	-	NA	30.0	[ICRA]BB+ (Stable)
NA	Fund-based limits-Short term	-	-	NA	15.0*	[ICRA]A4+; reaffirmed and withdrawn

Source: Company; * The amount is now rated as fund-based/CC limit

[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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