

July 29, 2022

## RNS Earthmovers Private Limited: Rating reaffirmed; outlook revised to Negative

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based/CC	24.00	24.00	[ICRA]BBB reaffirmed; outlook revised to Negative from Stable
<b>Total</b>	<b>24.00</b>	<b>24.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The revision in outlook to Negative on the long-term rating of RNS Earthmovers Private Limited's (REPL/the company) factors in the decline in sales volume during FY2022 and Q1 FY2023 and ICRA's expectation that the company's performance will remain subdued in H1 FY2023. This is largely on account of revenues being impacted by supply chain constraints owing to global chip shortage, increase in commodity prices, high fuel prices, and high cost of ownership leading to deferment of consumer purchases. Furthermore, the decline in revenues combined with higher rental and employee expense resulted in the company reporting an operating loss of Rs. 4.1 crore in FY2022 over an operating profit of Rs. 4.5 crore in FY2021. REPL's fixed overheads have recently increased owing to the commencement of operations at new showrooms with relatively high rentals and high employee expenses. The rentals are primarily paid to directors of the company. ICRA expects a revival in demand on the back of expected, higher Government spending on infrastructure and a recovery in operating profit margin to a certain extent on the back of reduction in rents for outlets owned by the promoters. However, full recovery to previous levels is unlikely over the near-term. Going forward, the company's ability to increase its scale of operations with margin expansion remains crucial from the credit rating perspective, given its high dependence on a single product, backhoe loaders. The rating continues to factor in the company's strong market position as the exclusive authorised dealer for JCB India Limited (JCB) and Daimler Commercial Vehicle India Private Limited (BharatBenz/BB) trucks across identified districts in Karnataka and the vast experience of the promoters in the auto dealership business. 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.

The rating is constrained by the weak financial performance of the company in FY2022. However, with the general improvement in economic activity and increase in construction activities, infrastructure spending and new contracts released by the Government, the demand for JCB's construction equipment is expected to recover gradually, going forward. As for the BB truck division, the revenues are expected to remain subdued in the coming quarters due to supply chain constraints. REPL's margins from the sale of equipment and vehicles remains thin, inherent to the dealership business. Besides, competition from other dealers of other original equipment manufacturers (OEMs) in the Karnataka region exerts pressure on the company's sales and profit margin. Going forward, the company's ability to improve its revenues and expand its margins while maintaining its debt metrics and liquidity position would be a key rating monitorable.

### Key rating drivers and their description

#### Credit strengths

**Vast experience of promoters** – The promoters have extensive experience in the dealership business through another group concern (RNS Motors Limited; [ICRA]BBB+ (Stable)), which is an authorised dealership of Maruti Suzuki India Limited (MSIL). REPL has been the authorised dealer of JCB and BB for the Karnataka region since FY2011 and FY2014, respectively. The company's proven track record in the dealership business coupled with its presence in several districts across Karnataka supports its growth prospects to an extent.

**Extensive track record in dealership business** – REPL has a diversified presence across earthmoving equipment and commercial vehicles in Karnataka. It is the sole authorised dealer of JCB in seven districts in Karnataka, namely Bengaluru Urban, Bengaluru Rural, Kolar, Chikkaballapur, Mandya, Tumkur and Ramnagar. For BB, the company currently operates in six districts, namely Hubli, Belgaum, Vijayapur, Bijapur, Chittoor and Hospet (Bellary district). The expansion of the showrooms and service outlets is likely to help sustain market share in Karnataka over the next few years.

### Credit challenges

**Operating losses in FY2022 on account of decline in revenues and increase in overhead expenses** – REPL’s revenues declined by 11.2% in FY2022 largely on account of a weak demand environment. Further, relatively higher rental and employee expenses resulted in the company reporting an operating loss in FY2022. REPL’s fixed overheads have increased in the recent past on account of the commencement of operations at new showrooms with relatively high rentals and high employee expenses. The rentals are expected to reduce in FY2023 on the back of reduction in rent for outlets owned by the directors. 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

**Susceptibility of business to cyclical in earthmoving and commercial vehicle industries** – REPL’s volumes and revenues remain susceptible to the cyclical in the earthmoving and commercial vehicle industries, which, in turn, is linked to the level of economic activity in the region, given that the company derives its entire revenues from Karnataka.

**Stiff competition and regional concentration of sales** – Competition from other dealers of other OEMs in the Karnataka region exerts pressure on REPL’s sales and profit margin. Also, the sales are regionally concentrated with revenues received only from Karnataka.

### Liquidity position: Adequate

REPL’s liquidity position remains adequate as characterised by cash balance of Rs. 9.3 crore as on March 31, 2022, and sufficient buffer available in its working capital facilities. The average utilisation of working capital limits and inventory financing limits availed by the company stood at 50% of the sanctioned limit during July 2021 to June 2022. The company is looking to open an outlet in Bellary and is expected to incur capex of Rs. 1.5-2.0 crore in FY2023, which will be entirely funded through internal accruals. REPL has no external term loans on its books as on date and the absence of major capacity expansion plans and no term debt repayments to support liquidity.

### Rating sensitivities

**Positive factors** – The outlook will be revised to Stable if the company demonstrates a significant improvement in sales volume, which results in improvement in its profit metrics, interest coverage and TD/OPBITDA on a sustained basis.

**Negative factors** – The ratings could be downgraded if there is a decline in operating revenues, increase in overhead expense, and increase in working capital borrowings or stretch in the working capital cycle weakening the liquidity and debt metrics on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for automobile dealerships</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financials of the issuer.

Note (for analyst reference only):

## About the company

RNS Earthmovers Private Limited is a part of the RN Shetty Group of Companies. The Group has a presence in multiple industries including automobiles, hospitality, infrastructure, ceramics, power and educational institutes among others. Mr. Sunil R Shetty, the promoter of RNS Motors Limited and REPL, is the eldest son of the founder, Dr. RN Shetty. The various companies in the Group, namely Murudeshwar Ceramics Limited, RNS Power Limited, RNS Infrastructure Limited and Naveen Hotels Limited, are managed by the other brothers. There are no financial transactions between RNS Motors Limited and REPL, and the other companies in the Group; this is expected to continue going forward as well.

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

## Key financial indicators

LTHL Consolidated	FY2021	FY2022 (Provisional)
Operating income	486.1	429.5
PAT	0.8	-6.7
OPBDIT/OI	0.9%	-0.9%
PAT/OI	0.2%	-1.6%
Total outside liabilities/Tangible net worth (times)	2.3	3.9
Total debt/OPBDIT (times)	6.2	-9.5
Interest coverage (times)	2.2	-2.0

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 (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				July 29, 2022	Apr 30, 2021	-	Jan 13, 2020
1 Cash credit	Long term	3.0	--	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)
2 Inventory finance	Long term	21.0	--	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Long-term – Inventory finance	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: [www.icra.in](http://www.icra.in)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	3.00	[ICRA]BBB(Negative)
NA	Inventory finance	NA	NA	NA	21.00	[ICRA]BBB(Negative)

Source: Company

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

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