

August 21, 2024

RNS Earthmovers 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 – Cash Credit	30.00	30.00	[ICRA]BBB- (Stable); downgraded from [ICRA]BBB (Stable)
Total	30.00	30.00	

*Instrument details are provided in Annexure-1

Rationale

The rating downgrade of RNS Earthmovers Private Limited (REPL) is driven by the company's sustained lower profitability. Despite an improvement in the top line, REPL's operating margins have remained constrained in the past few years. This, coupled with high interest payments, resulted in a deterioration in the debt coverage metrics (including interest coverage metrics, which remained below the defined negative trigger of 2.8 times over the last two fiscals). ICRA expects the operating margin to remain low in the near term, and the high interest expenses would continue to affect the liquidity of the company. The rating continues to remain constrained because of the thin profitability inherent to the dealership business, amid intense competition from dealers of other OEMs. The rating also considers the factor that the company operates in a highly cyclical environment, as demand in both mining and construction equipment (MCE) and commercial vehicle (CV) industries is highly cyclical in nature.

The rating, however, continues to factor in the company's proven operational track record as an authorised dealer for JCB India Limited (JCB) and Daimler Commercial Vehicle India Private Limited (Daimler) across identified districts in Karnataka, as it is the exclusive dealer for these Original Equipment Manufacturers (OEMs) in most of the locations where it operates. The company's principal, JCB, enjoys a healthy market position in the MCE industry, with its backhoe loaders having a dominant market share. 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 and Daimler's tippers and trucks is currently seeing an uptrend. Going forward, the company's ability to improve its revenues and expand its margins while maintaining its debt metrics would continue to be key rating factors.

The Stable outlook on the long-term rating reflects ICRA's expectations that the company's long relationship with the OEMs, and stable outlook on the construction sector in India would benefit REPL. It is also expected that the company would continue to enjoy exclusive dealership for JCB and Daimler in select regions of Karnataka.

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; rated [ICRA]BBB+ (Stable)), which is an authorised dealer of Maruti Suzuki India Limited (MSIL) in regions like Bengaluru, Sirsi, Hubli, Bijapur, Murdeshwar, Nelamangala, etc. The company has been the authorised and exclusive dealer of JCB and Daimler Commercial Vehicles for some parts of Karnataka since FY2011 and FY2014, respectively. The company's and the promoter's proven track record in the dealership business coupled with REPL's exclusive presence in several districts across Karnataka supports its business prospects.

Diversified presence through dealership of two OEMs – Given its position as an authorised dealer for both JCB and Daimler commercial vehicles, the company has a diversified presence across earthmoving equipment and CVs. 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 Daimler, the company currently operates in six districts, namely Hubli, Belgaum, Vijayapur, Bijapur, Chittoor and Hospet (Bellary district). As per the management, it has an established position in JCB sales as the seventh largest JCB dealer in India and the nineteenth largest globally in terms of volumes. Its presence across two different industries offers diversity to revenues and mitigates the risk of cyclicity in any particular sector.

Credit challenges

Low operating profitability, resulting in a deterioration in coverage metrics – REPL’s profit margins have historically been thin on account of the dealership industry dynamics, with margins on vehicles and accessories mainly controlled by the principal. The profit margins remain low, with operating margins of 0.9-1.0% and net margins of 0.3% in FY2024 owing to increased discounts amid competition from other manufacturers such as L&T, Tata, Komatsu, etc. Owing to a rise in the overall debt levels and increase in utilisation of limits, the interest cover stood at 2.1 times in FY2024 against 2.0 times in FY2023.

Susceptibility of business to cyclicity in earthmoving and commercial vehicle industries – REPL’s volumes and revenues remain susceptible to the cyclicity in the underlying earthmoving and commercial vehicle industries, which, in turn, are linked to the level of economic activity in Karnataka as the company derives its entire revenues from the state.

Stiff competition and regional concentration of sales – Although REPL is the exclusive dealer for its principal OEMs in the regions where it operates, the company faces competition from dealers of other OEMs in Karnataka, which exerts pressure on its sales and profit margin. Also, its sales are regionally concentrated with revenues derived only from Karnataka.

Liquidity position: Adequate

The company has an adequate liquidity profile, characterised by cash flow from operations of Rs. 3.3 crore, and cash and liquid investments of Rs. 3.2 crore as of March 31, 2024. In addition, the company has a buffer of more than Rs. 20.0 crore from unutilised working capital lines as on March 31, 2024. The promoter has supported the liquidity by providing unsecured loans of Rs. 19.5 crore as of March 31, 2024. The capex of approximately Rs. 0.3 crore to be incurred in FY2025 is expected to be funded from internal cash accruals. The company does not have any external long-term debt outstanding, and the debt outstanding from promoters do not have any defined repayment obligation.

Rating sensitivities

Positive factors – The rating could be upgraded if the company demonstrates a sustained increase in its operating profitability, improving the debt coverage metrics.

Negative factors – The rating could be downgraded if there is a decline in earnings or a stretch in the working capital cycle, weakening the liquidity and coverage metrics on a sustained basis. Specific metric that could lead to a rating downgrade includes an interest coverage of less than 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for automobile dealerships
Parent/Group support	Not applicable

Consolidation/Standalone

The rating is based on the standalone financials of the issuer.

About the company

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

Incorporated in 2011, REPL operates dealerships for JCB earthmoving equipment and Bharat Benz trucks in several districts in Karnataka. The company started its operations in August 2011 with a single showroom at Sahakarnagar in Bangalore for the dealership of JCB India and has expanded its operations over the years. At present, the company holds the dealership of JCB for seven districts in Karnataka, namely Bangalore Urban, Bangalore Rural, Kolar, Chikkaballapur, Mandya, Chittoor, Gulbarga, Bijapur, Tumkur and Ramnagar. It currently operates three showrooms for JCB in Makali, Jigani and Tumkur, along with 15 spares and services outlets across its dealership regions, in addition to two mobile workshops. In April 2013, the company was awarded the dealership for Daimler, operations of which started from September 2013. The company holds the Bharat Benz dealership rights for North Karnataka and operates eight showrooms at Hubli, Belgaum, Vijayapur, Hospet (Bellary district), Murudeshwar, Kalburgi, Harihat and Gadag, along with four parts outlets.

Key financial indicators (audited)

RNS – Standalone	FY2022	FY2023	FY2024*
Operating income	428.0	579.8	725.6
PAT	-7.6	2.0	2.3
OPBDIT/OI	-1.3%	0.6%	0.9%
PAT/OI	-1.8%	0.3%	0.3%
Total outside liabilities/Tangible net worth (times)	4.7	3.3	5.3
Total debt/OPBDIT (times)	-6.8	10.2	7.1
Interest coverage (times)	-3.0	2.0	2.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Amount in Rs. Crore; *Provisional data

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Chronology of rating history for the past 3 years			
			Current rating (FY2025)		Date & rating in	
			Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Aug 21, 2024	May 25, 2023	July 29, 2022	April 30, 2021
1 Fund-based – Cash Credit	Long- term	30.0	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	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, is 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 – Cash Credit	NA	9.50%	NA	30.00	[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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