ICRA

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Rane Brake Lining Limited: Ratings continue to be on Watch with Developing Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based	20.50	17.50	[ICRA]AA-; Rating continues to be on Watch with Developing Implications
Long-term unallocated	100.32	105.32	
Short-term fund based	25.00	25.00	[ICRA]A1+; Rating continues to be on Watch with Developing Implications
Short-term fund based – sublimit	(27.50)	(27.50)	
Short-term non-fund based	19.50	17.50	
Total	**165.32**	**165.32**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings continue to be on watch with developing implications due to the ongoing amalgamation process of Rane Brake Lining Limited (RBLL/the company) with Rane (Madras) Limited and the operational and financial synergies expected for the company following the same. The amalgamation, which was announced in February 2024, is currently pending approval from the National Company Law Tribunal (NCLT).

The ratings draw comfort from the company's financial and operational flexibility being part of the larger Rane Group, and technology support derived from Nisshinbo Brakes Inc., Japan, a reputed global player in friction materials. RBLL is an established player in the domestic friction material industry with several decades of presence and continues to hold significant market share in the original equipment manufacturer (OEM) and aftermarket segments for friction materials. The company markets its products under the established 'Rane' brand and counts several domestic tier-I suppliers and auto OEMs in its direct and indirect customer profile. RBLL has had healthy new business wins in FY2024 and H1 FY2025 as well. Further, it continues to have a widespread, pan-India distribution network in the replacement market and has increased its penetration in the North and West Indian markets in recent years. RBLL has comfortable debt metrics and adequate liquidity position. ICRA expects the company's capital structure and coverage metrics to remain comfortable over the medium term, despite the moderate capex plans during FY2025-FY2027.

The company posted a revenue growth of 7.5% in H1 FY2025 vis-à-vis H1 FY2024, backed by higher vehicle sales volume, new order wins (including exports) and scale up in revenues from new orders won in the last few years. The operating profit margins also improved to 11.0% in H1 FY2025 vis-à-vis 9.7% in H1 FY2024, supported by improved operating leverage, softer commodity prices and cost optimisation initiatives undertaken by the company. Going forward, ICRA expects the company's revenue growth to be supported by an uptick in industry volumes, new business wins and geographic expansion. Further, the company's strategic cost optimisation initiatives, including but not restricted to increased use of renewable energy and productivity improvements, along with operating leverage benefits are likely to result in improved margins. However, the ability to reach operating margins of 13–15% witnessed during FY2019–FY2021, remains to be seen, given the competitive intensity, and vulnerability of earnings to the automotive industry cyclicality, unfavourable forex and any volatility in commodity prices.

The company is exposed to environmental risks common for an entity using asbestos. RBLL currently derives 10-15% of its revenues from asbestos formulations, although it has reduced the same from past levels. While the company's continued R&D

and capability enhancement initiatives are likely to aid in strengthening its competitive position, complete migration to asbestos-free products over the medium term without loss of market share remains to be seen.

Key rating drivers and their description

Credit strengths

Financial and operational flexibility as part of Rane Group; technology support from Nisshinbo Brakes Inc., Japan – RBLL is a key company of the reputed, Chennai-based Rane Group, with cumulative revenues of ~ Rs. 7,300 crore in FY2024. RBLL uses the 'Rane' brand for its products and pays trademark fees to Rane Holdings Limited for brand usage. The company also derives technology support from Nisshinbo Brakes Inc., Japan, a reputed global player in friction materials. The same has aided in market share gains and new business wins for the company over the past several years. Nisshinbo Holdings Inc., Japan, holds 20.64% stake in RBLL (as on September 30, 2024).

RBLL remains a leading friction material player in India – RBLL is a tier-II auto component supplier and a leading player in the domestic friction material industry. It continues to hold sizeable market share in the OEM and aftermarket segments for friction materials - ~38% in the OEM segment and ~29% in the aftermarket during FY2024. Other key industry players include Sundaram Brake Linings Limited (rated [ICRA]BBB+ (Stable)/ [ICRA]A2), Masu Brakes Private Limited, Allied JB Friction Private Limited, and Hindustan Composites Limited. The company counts several domestic tier-I suppliers and auto OEMs in its direct and indirect customer profile; and enjoys healthy share of business with its customers and OEMs. RBLL has had healthy new business wins in FY2024 and H1 FY2025 as well. RBLL's has limited presence in the export market at present (~7% of the overall topline in H1 FY2025). While the company has made in-roads towards penetration into newer geographies, translation of the same into higher revenues remains to be seen.

Pan India aftermarket distribution network – The domestic aftermarket segment accounted for over 25% of the company's revenues in H1 FY2025. The company has 13 key distributors for its aftermarket sales across India. While eight of them have been in existence for several years, the company added five more in the last 6-7 years to focus on specific regions. In terms of geographies, South India generates ~50% of its replacement sales. This has reduced from past levels, with increased penetration into the northern and western Indian markets in the last few years.

Comfortable capital structure and coverage metrics – By virtue of its modest capex compared to accruals and effective working capital management, RBLL has had minimal debt levels in the last few years, with adequate liquidity position. This has resulted in comfortable capital structure and coverage metrics. Although the company has moderate capex plans between FY2025 and FY2027, the same is likely to be primarily funded through internal accruals. ICRA expects the company's debt metrics to remain comfortable going forward.

Credit challenges

Earnings exposed to cyclicality inherent in the automobile industry – The company is a tier-II supplier, deriving ~60% of its revenues from the domestic auto OEM segment, over 25% from the domestic aftermarket segment and the balance from railways/exports in H1 FY2025. Within the OEM segment, passenger vehicles constituted ~45% of its revenues, thus exposing RBLL's revenues to any slowdown in this segment. Nevertheless, its healthy order book position and presence in the replacement market are likely to mitigate the risk to an extent.

Margins vulnerable to commodity prices and unfavourable forex movements – The company's margins are vulnerable to increase in commodity prices, if any, given the limited ability to pass on costs to customers. Also, RBLL is a net importer (net forex expenditure of Rs. 112.9 crore FY2024) and its margins are vulnerable to unfavourable USD/JPY/Euro movements. However, the company's periodic negotiations for raw material and forex passthrough, its effective forex hedging mechanism, and RBLL's strong aftermarket presence could cap the impact of unfavourable commodity and forex movements on margins to an extent.

Intense competition from other industry incumbents – Although the company witnesses intense competition from other industry players, RBLL's established presence, strong market position and technological expertise from the Nisshinbo collaboration mitigate the competitive threat to an extent. While the company's continued R&D and capability enhancement initiatives are likely to aid in strengthening its competitive position, complete migration to asbestos-free products over the medium term without loss of market share remains to be seen.

Environmental and Social Risks

Environmental considerations - RBLL, being an auto component supplier, remains indirectly exposed to climate-transition risks by virtue of its automotive OEM customers manufacturing products used across different fuel powertrains. Accordingly, the prospects for RBLL are linked to the ability of its customers to meet tightening emission requirements. The company also remains exposed to tightening environmental regulations with regard to waste and pollution norms, which can lead to an increase in operating costs and new capacity instalment costs. RBLL has been taking steps to minimise the impact of environmental risks on its operations and carbon footprint, by enhancing its reliance on renewable sources and other energy saving efforts such as adoption of energy-efficient fixtures/equipment and water recycling. RBLL is also exposed to environmental risks arising from using asbestos in its products, although its share of asbestos products has reduced in the last few years. RBLL has invested in capabilities to migrate entirely to asbestos-free friction materials, and it also manufactures environment friendly products like copper-free friction material.

Social considerations – Social considerations for RBLL relate primarily to maintaining healthy industrial relations and product safety. Attracting and nurturing skilled manpower are critical as it seeks to keep pace with innovation and technological changes. On the product front, vehicle recalls by OEMs because of defective auto parts could create additional cost burden and liabilities. The company is also exposed to changing consumer preferences, including but not restricted to increasing awareness of the potential environmental damage from emissions, shift towards electric vehicles (EVs), usage of sustainable materials and societal trends like preference for ridesharing.

Liquidity position: Adequate

RBLL's liquidity position is adequate with healthy anticipated cash accruals and undrawn fund-based working capital limits of over Rs. 15 crore as on October 31, 2024. Also, RBLL does not have any long-term debt in its books. In relation to these sources of cash, RBLL has capex commitments of Rs. 47 crore in FY2025, and Rs. 25 crore each in FY2026 and FY2027, to be funded primarily through internal accruals. Overall, ICRA expects RBLL to be able to meet its medium-term commitments through internal sources of cash and yet be left with cash/liquid investments surplus.

Rating sensitivities

Positive factors – The rating watch would be resolved once the amalgamation with Rane (Madras) Limited (RML) is complete. Substantial improvement in RBLL's scale and profit margins, while maintaining its comfortable debt metrics could result in a rating upgrade.

Negative factors – The rating watch would be resolved once the amalgamation with RML is complete. Downward pressure on the rating could emerge if there is substantial weakening of RBLL's profitability; or higher capex or working capital stretch causing significant increase in debt levels or deterioration in the liquidity position. Specific credit metrics include net debt/OPBDITA greater than 1.0x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company. RBLL does not have subsidiaries or joint ventures.

About the company

Rane Brake Lining Limited is primarily engaged in manufacturing friction material, such as brake linings, disc pads, clutch facings, clutch buttons and brake pads, primarily for the automobile industry. The company caters to four broad segments—a) tier-I suppliers of automobile OEMs; b) aftermarkets, comprising the replacement segment and state transport units; c) the Indian Railways; and d) export markets, primarily Sri Lanka, Nepal, Bangladesh and Europe. Majority of RBLL's revenues during H1 FY2025 were derived from brake linings and disc pads, as well as from asbestos-free products. The company enjoys a technology collaboration with M/s. Nisshinbo Brake Inc., Japan; and has four manufacturing capacities in Chennai, Hyderabad, Puducherry and Trichy.

RBLL is part of the larger Rane Group, represented by key companies such as Rane Holdings Limited (RHL, rated [ICRA]AA-(Stable)/[ICRA]A1+), Rane (Madras) Limited, Rane Engine Valve Limited, ZF Rane Automotive India Private Limited (ZFRAIPL, rated [ICRA]AA- (Stable)/[ICRA]A1+) and Rane NSK Steering Systems Private Limited. RHL and M/s. Nisshinbo Holdings Inc., Japan, hold 50.03% and 20.64% stakes respectively in RBLL (as on September 30, 2024).

Key financial indicators (Audited)

Standalone	FY2023	FY2024
Operating income	598.8	660.8
PAT	33.5	40.3
OPBDIT/OI	9.5%	11.5%
PAT/OI	5.6%	6.1%
Total outside liabilities/Tangible net worth (times)	0.4	0.4
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	1142.0	2527.7

Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with numbers reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	FY2022
				Jan 09, 2025	Feb 20, 2024	Jan 04, 2024	Jan 19, 2023	Jan 27, 2022
1	**Long-term fund based**	Long-Term	17.50	**[ICRA]AA-; Rating Watch with Developing Implications**	[ICRA]AA-; Rating Watch with Developing Implications	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	**Long-term unallocated**	Long-Term	105.32	**[ICRA]AA-; Rating Watch with Developing Implications**	[ICRA]AA-; Rating Watch with Developing Implications	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
3	**Short-term fund based**	Short-Term	25.00	**[ICRA]A1+; Rating Watch with Developing Implications**	[ICRA]A1+; Rating Watch with Developing Implications	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	**Short-term fund based – sublimit**	Short-Term	(27.50)	**[ICRA]A1+; Rating Watch with Developing Implications**	[ICRA]A1+; Rating Watch with Developing Implications	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	**Short-term non-fund based**	Short-Term	17.50	**[ICRA]A1+; Rating Watch with Developing Implications**	[ICRA]A1+; Rating Watch with Developing Implications	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	**Short-term non-fund based-sublimit**	Short-Term	-	-	-	-	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term-Fund based	Simple
Long-term–Unallocated	NA
Short term -Fund based	Simple
Short term -Fund based- Sublimit	Very Simple
Short term -Non-fund based	Very 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/Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	17.50	[ICRA]AA-; Rating Watch with Developing Implications
NA	**Unallocated facilities**	NA	NA	NA	105.32	[ICRA]AA-; Rating Watch with Developing Implications
NA	**Short-term loan/Buyer's credit**	NA	NA	NA	25.00	[ICRA]A1+; Rating Watch with Developing Implications
NA	**WCDL/PCFC/EPC/Buyer's Credit**	NA	NA	NA	(27.50)	[ICRA]A1+; Rating Watch with Developing Implications
NA	**LC/BG**	NA	NA	NA	17.50	[ICRA]A1+; Rating Watch with Developing Implications

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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