

December 27, 2021

Rane TRW Steering Systems Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT Fund based CC	100.00	100.00	[ICRA]AA- (Stable); reaffirmed
LT Fund based TL	76.00	55.72	[ICRA]AA- (Stable); reaffirmed
ST Fund based	75.00	75.00	[ICRA]A1+; reaffirmed
ST Non fund based	35.00	35.00	[ICRA]A1+; reaffirmed
ST Interchangeable	(40.00)	(40.00)	[ICRA]A1+; reaffirmed
LT/ST: Unallocated	49.50	69.78	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Total	335.50	335.50	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of ratings draw comfort from Rane TRW Steering Systems Private Limited's (RTSSPL) healthy operational and financial profile and ICRA's expectation that the same will continue going forward as well. RTSSPL has a diversified product portfolio comprising steering gears and pumps, airbags and seat belts mitigating product-specific risks to a large extent. It has an established market position across the products and derives technological support from its JV partner, TRW Automotive LLC (a leading global auto component supplier). Aided by a lower base in Q1 FY2021, increase in market share, pick up in commercial vehicle (CV) segment and robust exports, the company witnessed a strong YoY revenue growth of ~72% in H1 FY2022. ICRA expects healthy revenue prospects for RTSSPL going forward driven by incremental revenues from new customer additions, increase in market share and higher safety content per vehicle anticipated in the near to medium term. While the company's revenues are exposed to risks arising from supply chain issues in the near term, its healthy order book mitigates the risk to a large extent. Though RTSSPL's operating profit margins expanded to 8.3% in H1 FY2022 (vis-à-vis 2.7% in H1 FY2021), it was partly impacted by higher commodity prices and the same is likely to impact the full year margins as well. Nevertheless, the company's ability to pass on raw material price increases to its customers, albeit with a lag of three to six months, would mitigate the risk to a large extent. RTSSPL's gearing remained comfortable at 0.4 times as on September 30, 2021 and interest coverage was healthy at 14.5 times in H1 FY2022. While the company's sizeable debt funded capex plans during FY2022-FY2024, is likely to moderate Net Debt/OPBIDA from the pre-covid levels, it is likely to remain comfortable. RTSSPL's liquidity remains comfortable, and it also derives strong financial flexibility by virtue of it being a 50:50 JV between Rane Holdings Limited (RHL; the holding company of the Chennai-based Rane Group, which is well-known in the domestic and international auto ancillary space) and TRW Automotive JV LLC.

RTSSPL's has high customer concentration with the top five customers constituting about ~70% of H1 FY2022 revenues. This exposes the company's revenues to volatility arising from any slowdown in orders from the prime customers. However, the company's established presence, long validation/testing cycles in safety-critical products and RTSSPL's demonstrated ability to add new customers mitigates the risk to a large extent. Any issues and consequent recalls in products manufactured by RTSSPL; or migration from hydraulic power steering (HPS) to electronic power steering (EPS) in the CV space could result in loss of business opportunities. However, ICRA notes that the company has not had any instances of the former in the past and that the latter migration is unlikely in the medium term. Also, the company is working on EPS for the CV segment, to equip itself as an early mover for the technology.

Key rating drivers and their description

Credit strengths

Financial and operational flexibility as part of the Rane Group; technology support from TRW Automotive JV LLC – RTSSPL is a 50:50 JV between RHL and TRW Automotive JV LLC. RTSSPL is a key company of the Chennai-based Rane Group, well-known in the domestic and international auto ancillary space, with cumulative revenues of about Rs. 4,140 crore in FY2021. RTSSPL uses the strong Rane brand for its products and pays trademark fees to Rane Holdings Limited for usage of the brand name. The company also derives technology support from TRW Automotive J.V. LLC (part of ZF Friedrichshafen AG), which is a renowned global auto component supplier.

Diversified product profile; healthy share of exports in overall revenue mix – RTSSPL manufactures hydraulic power steering gears, pumps and reservoirs under steering gear division, and airbags, seat belts and cushions under occupant safety division. The steering gear products constituted ~42% of H1 FY2022 revenues, while OSD contributed to the remaining. Within OSD, airbags and seat belts contributed to 21% and 31% of the revenues, while cushions contributed to ~6% in H1 FY2022. The diverse product portfolio mitigates the vulnerability of RTSSPL's revenues to product-specific risks to a large extent. Also, RTSSPL is likely to benefit from the anticipated growth for safety critical products in the auto industry. The company also derives a healthy proportion of its revenues from exports (~40% in H1 FY2022, primarily under OSD), which is likely to mitigate the risks stemming from the inherent cyclicity of the domestic auto industry.

One of the leading players in hydraulic steering gears and an established player in airbags and seat belts in India; healthy addition of new business in FY2021 and H1 FY2022 - RTSSPL is a tier-I supplier of automobile components, catering to reputed OEMs in the PV/UV and CV industry. Hydraulic power steering is primarily used in CV and UV, and RTSSPL is a one among the two major players, gaining healthy market share in the past 12-18 months, post the BS-VI transition. RTSSPL is also a reputed player in airbags and seat belts, witnessing improvement in market share and has had new customer additions in the last one year. Consequently, RTSSPL has new orders of over ~Rs. 900 crore to be executed over the next two years as on September 30, 2021. While RTSSPL's steering gear division is likely to benefit from pick up in CV industry and increase in market share, ICRA expects RTSSPL's occupant safety division to exhibit significant revenue growth going forward, driven by new business wins in domestic and export markets and higher safety content per vehicle expected in the near to medium term.

Comfortable capital structure and coverage metrics – RTSSPL's capitalisation and coverage indicators have remained comfortable, supported by its healthy accruals and relatively low working capital intensity. While the net debt levels had increased to Rs. 195.7 crore as on March 31, 2021, primarily owing to increase in year-end sales, and consequent increase in working capital requirements, the same has reduced as on September 30, 2021 with normalization of inventory and debtor levels. The net gearing stood at 0.4 times as of September 30, 2021 and interest coverage remained healthy at 10.4 times in H1 FY2022. While the company has sizeable debt-funded capex plans over the next two-three years, which is likely to moderate the Net debt/OPBITDA from the pre-pandemic levels, ICRA expects the capitalisation and coverage indicators to remain comfortable over the medium term, aided by sequential improvement in profits and scheduled repayment of term loans.

Credit challenges

Earnings susceptible to headwinds such as supply-chain issues and commodity inflation, akin to other industry players – RTSSPL is a tier-I supplier, deriving majority of its revenues from the PV segment (over 60% of the revenues in H1 FY2022), while large part of the balance revenues is contributed by the CV segment (~30%). Akin to other players, the company is exposed to supply chain issues such as semiconductor shortage, which has affected auto OEM's production volumes across segments and consequently may impact RTSSPL's volumes in the near term. Nevertheless, its healthy orderbook position (by virtue of increase in market share and new customer additions) is likely to facilitate healthy growth for the company and mitigate the risk to a large extent. Further, RTSSPL's margins are vulnerable to unfavourable commodity price movements, which presently remain at elevated levels. Although the margins witnessed expansion to 8.3% in H1 FY2022 (vis-à-vis 2.7% in

H1 FY2021), it was impacted to an extent owing to higher commodity prices. Nevertheless, the company's ability to pass on raw material price increases to its customers, albeit with a lag of three to six months, would mitigate the risk to a large extent.

Sizeable capex plans as a proportion of anticipated accruals: RTSSPL has an aggregate capex of Rs. 250-270.0 crore for the three-year period – FY2022 to FY2024, primarily for backward integration (as part of localisation initiatives), capacity enhancement in occupant safety division, enhancement in testing capabilities and maintenance capex. While the significant capex could impact RTSSPL's free cash flows over the medium term, ICRA draws comfort from the fact that majority of this capex is likely to be funded through internal accruals.

High customer concentration – RTSSPL has high client concentration with its top five customers constituting about ~70% of revenues in H1 FY2022. This exposes the company's revenues to volatility arising from any slowdown in orders from the prime customers. However, RTSSPL's established presence, long validation/testing cycles in safety-critical products and its demonstrated ability to add new customers mitigates the risk to a large extent.

Liquidity position: Adequate

RTSSPL's liquidity has remained adequate with positive fund flow from operations of Rs. 67.9 crore in FY2021. Its average working capital utilisation for the 12-months period ended September 2020 has been comfortable at ~37% of the sanctioned limits and ~42% of the drawing power. Further, the company had cash and liquid investments of Rs. 31.1 crore and undrawn working capital lines of Rs. 84.0 crore as on September 30, 2021. As against these sources of cash, the company has long-term debt repayment obligations (on existing loans) of Rs. 25.5 crore in FY2022, Rs. 19.0 crore in FY2023 and Rs. 9.0 crore in FY2024. RTSSPL has sizeable debt-funded capex plans of ~Rs. 260-270 crore during FY2022-FY2024, largely towards capacity additions in OSD, setting up manufacturing facility of inflators and enhancement in testing capabilities for airbags. The company's liquidity position is expected to remain adequate over the medium term, supported by its healthy operational profile and accruals. The company also has strong financial flexibility and lender comfort by virtue of being a part of the Rane Group.

Rating sensitivities

Positive factors: Improvement in profitability and reduction in debt levels leading to an improvement in coverage metrics could lead to a rating upgrade. Specific metrics that could trigger an upgrade would include RoCE above 20% and net debt/OPBDITA of less than 1.0x on a sustained basis.

Negative factors: Negative pressure on ratings could arise with significant weakening in RTSSPL's revenues or margins or sizeable increase in debt levels as a result of working capital stretch or significant capex. Specific metrics that could trigger a downgrade could include net debt/OPBDITA of greater than 2.2x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company. RTSSPL does not have subsidiaries

About the company

Established in 1987, Rane TRW Steering Systems Private Limited (RTSSPL) is a 50:50 joint venture between Rane Holdings Limited [holding company of the Rane Group – an established auto ancillary group in India, rated [ICRA]AA- (Stable)] and TRW Automotive JV LLC (part of ZF Friedrichshafen AG, one of the largest global auto component suppliers). The company is tier-I auto component supplier and has two divisions—hydraulic steering gears and occupant safety products. RTSSPL manufactures

hydraulic power steering and pumps in the former (~42% of revenues in H1 FY2022) and seat belts, airbags and cushions in the latter (~58% of revenues in H1 FY2022). RTSSPL derives ~60% of its revenues from the domestic market (41% from PVs, 49% from CVs and the balance from spares and farm tractors) and ~40% from the overseas market (predominantly PVs). The company has six manufacturing plants—five in Tamil Nadu and one in Uttarakhand.

The Rane Group is represented by key companies such as Rane Holdings Limited (rated [ICRA]AA- (Stable)/[ICRA]A1+), Rane Engine Valve Limited, Rane Brake Lining Limited (rated [ICRA]AA- (Stable)/ [ICRA]A1+), Rane (Madras) Limited and Rane NSK Steering Systems Private Limited, apart from RTSSPL.

Key financial indicators (audited)

	Standalone	
	FY2020	FY2021
Operating Income (Rs. crore)	1,132.1	1,034.8
PAT (Rs. crore)	33.2	25.0
OPBDIT/OI (%)	8.1%	8.3%
PAT/OI (%)	2.9%	2.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.4
Total Debt/OPBDIT (times)	1.5	2.6
Interest Coverage (times)	8.9	11.3

Source: Company, ICRA Research; Note: Amount in Rs. crore; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances.

Status of non-cooperation with previous CRA: Not applicable

Any other information: No

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2018
					Dec 27, 2021	Oct 30, 2020	Jul 5, 2019	Jan 31, 2018
1	Long-term fund based-CC	Long Term	100.00	-	[ICRA]AA-(Stable)	[ICRA]AA- (Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	Long-term fund based-TL	Long Term	55.72	55.72	[ICRA]AA-(Stable)	[ICRA]AA- (Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
3	Short-term fund based	Short Term	75.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Short-term non fund based	Short Term	35.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Short-term non-fund based-sublimit	Short Term	(40.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+ -
6	Long-term/Short-term: Unallocated	Long Term/Short Term	69.78	-	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	-	- -

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund based	Simple
Short-term fund based - sublimit	NA
Short-term non-fund based	Very Simple

Commercial paper	Very Simple
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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

Annexure-1: Instrument details

ISIN No/ banker name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	FY2018	7.20%	FY2022	4.54	[ICRA]AA- (Stable)
NA	Term Loan-II	FY2018	5.77%	FY2023	14.99	[ICRA]AA- (Stable)
NA	Term Loan-III	FY2021	6.50%	FY2026	36.19	[ICRA]AA- (Stable)
NA	Cash credit	NA	6.00%	NA	100.00	[ICRA]AA- (Stable)
NA	Short term loan/Export credit	NA			75.00	[ICRA]A1+
NA	LC/BG				35.00	[ICRA]A1+
NA	LC/BG-sublimit				(40.00)	[ICRA]A1+
NA	LT/ST: Unallocated				69.78	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Rane TRW Steering Systems Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation approach
NA	NA	NA

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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Branches



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