

December 14, 2022

Rane Holdings Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	81.70	69.96	[ICRA]AA- (Stable); reaffirmed
Long-term fund-based	5.00	5.00	[ICRA]AA- (Stable); reaffirmed
Long-term/ short-term unallocated	13.30	25.04	[ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed
Total	100.00	100.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings draw comfort from Rane Holdings Limited's (RHL) position as the holding company of the Rane Group (Group) of companies and its strategic importance to the promoters; the hands-on management; and the healthy credit profile of majority of the large investee entities. RHL's five key investee entities are auto component manufacturers, exposing its revenues to cyclicalities in the automobile industry. Nevertheless, within the auto component industry, revenues are well diversified across products (steering products, friction material, valve train, seat belts, light metal castings and air bags); as well as across domestic original equipment manufacturers (OEMs), domestic replacement and exports.

RHL encourages its group companies to fund their capital requirements on their own merits, while usually limiting its role to that of a strategy provider. However, the company is open to creeping acquisitions and stake increases in the group companies. Going forward, RHL is likely to infuse Rs. 11.25 crore in the next 12-18 months in Rane Engine Valve Limited (REVL). Over the past four to five years, the hold co. has also invested ~Rs. 30.0 crore (\$4.52 million) in Auto Tech I, LP, USA, an auto venture capital fund in the US, with residual investment commitments of Rs. 3.9 crore (\$0.48 million) over the next one year. The company does not envisage significant investments after FY2023.

In December 2021, RHL divested 1% stake in ZF Rane Automotive India Private Limited (ZFRAIPL, erstwhile Rane TRW Steering Systems Private Limited) to its joint venture partner, ZF Automotive JV LLC, USA (ZF), for a consideration of Rs. 20.2 crore. Pursuant to the transfer, RHL holds 49% and ZF holds the remaining 51% shares in ZFRAIPL (previously RTSSPL was a 50:50 JV between RHL and ZF). The strategic divestment has improved access to ZF's technological and production capabilities, in turn translating into incremental business opportunities.

RHL, as the holding company, derives its revenues from dividends (from investee companies), trademark fees for the use of the 'Rane' brand and income earned from extending common services on general management, training, information technology (IT), infrastructure and business development support. With no operations of its own, the standalone entity remains modest-scaled, with revenues of Rs. 88.8 crore in FY2022 and Rs. 68.7 crore in H1 FY2023. Further, the company has moderate debt levels (Rs. 64.3 crore as on September 30, 2022), repayment obligations and letter of comfort-related potential liabilities for its scale of operations. Nevertheless, RHL's standalone debt and letter of comfort, compared to the market value of its unencumbered listed investments, have been low for the last several years, lending strong financial flexibility to the company. ICRA also draws comfort from RHL's ability to access capital markets at short notice and its strong relationships with lenders.

Key rating drivers and their description

Credit strengths

Position as the holding entity of the reputed Rane Group – RHL’s ratings draw comfort from its position as the holding company of the Rane Group. The promoters hold 46.6% stake in RHL, and RHL in turn holds stake in all Group companies with no cross-holdings among entities. The promoters, Mr. L. Lakshman (Chairman Emeritus), his brother, Mr. L. Ganesh (Chairman and Managing Director), and son, Mr. Harish Lakshman (Vice Chairman), have been involved in the auto component industry for decades. The latter two are involved in the daily operations of the company currently.

Relatively healthy credit profile of majority of the large investee companies – Three Group companies, Rane Brake Lining Limited (RBLL, rated [ICRA]AA- (Stable)/[ICRA]A1+), ZFRAIPL (rated [ICRA]AA- (Stable)/[ICRA]A1+) and Rane NSK Steering Systems Private Limited (RNSSPL) have strong financial profiles. These three entities have been driving a sizeable share of the Group’s cash flows and the hold co.’s dividends in the last several years. In FY2022, RBLL and ZFRAIPL accounted for ~91% of the dividend income earned by RHL.

Lower debt levels than the market value of unencumbered listed investments – RHL’s standalone debt and letter of comfort, compared to the market value of its unencumbered listed investments, have been low for the last several years, lending strong financial flexibility to the company. This is despite increase in RHL’s debt levels in the last two-three years owing to the debt-funded investments. In addition, RHL also has high-return offering unlisted investments in namely ZFRAIPL and RNSSPL. Further, vulnerability of the investment buffer (market value of unencumbered listed investments minus book value of investments) to industry-related systemic risks exists, because of the concentration of investments in a single industry. Nevertheless, debt as a proportion of market value of its unencumbered listed investments is expected to remain low, going forward.

Credit challenges

Modest scale on standalone basis with moderate financial risk – The standalone entity does not have operations on its own, thus limiting scale. RHL’s standalone operating income was Rs. 88.8 crore in FY2022 and Rs. 68.7 crore in H1 FY2023. Further, the company’s debt levels have increased over the past two-three years owing to planned debt-funded investments. Consequently, the company’s repayment obligations are likely to be relatively high as proportion of its anticipated accruals over the medium term. Nevertheless, relatively stable revenue streams in the form of service income and trademark fees, and RHL’s healthy financial flexibility by virtue of the market value of its unencumbered listed investments remaining sizeable over its standalone debt and letter of comfort, provide comfort to an extent.

Concentration of investments in automobile space; vulnerable to cyclicity inherent in the auto industry, and any other headwinds – The Rane Group entities are entirely focused on the auto component space. As a result, the performance of RHL’s investee companies is strongly correlated to the automobile industry. Further, the Group derived ~63% of its revenues from the passenger vehicle segment in FY2022. However, within the automotive industry, the product portfolio of investee companies is diversified across steering, valve train, friction material, light metal casting, seat belts and airbags. The focus on the automotive industry and lack of diversification exposes the company’s revenues and earnings to the cyclicity inherent in the auto industry, regulatory changes and headwinds like supply-chain issues and cost inflation. The Group’s established presence and diversified customer base of several large Indian and global auto/auto component players, as well as its ability to bag repeat orders provide comfort.

Environmental and Social Risks

Environmental considerations - RHL's investee companies, being auto component suppliers, remain indirectly exposed to climate-transition risks by virtue of its automotive manufacturing customers manufacturing products used across different fuel powertrains. Accordingly, the prospects of RHL's investee entities are linked to the ability of its customers to meet tightening emission requirements. Further, its investee entities catering to certain product segments like engine and transmission parts specifically face climate transition risks, as customer demand progressively shifts away from fossil fuel-based powertrains, and the emission standards further tighten. RHL's investee entities also remain 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. This can also require capital investments to upgrade its infrastructure to reduce the carbon footprint and waste generation. One of the investee entities also has asbestos products, although the contribution of the same to the group's topline is relatively low. The Group 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 extensive water recycling. Also, on the product front, the company manufactures environment friendly products like asbestos-free and copper-free friction productions and is engaged in light weighting measures, among others. Moreover, it has invested in capabilities to migrate entirely to asbestos-free friction materials.

Social considerations - Social considerations for RHL relate primarily to maintaining healthy industrial relations and product safety in its investee entities. Attracting and nurturing skilled manpower is critical as it seeks to keep pace with innovation and technological changes. On the product front, vehicle recalls by original equipment manufacturers (OEMs) because of defective auto parts could create additional cost burden and liabilities on investee entities. The Rane Group also has exposure to changing consumer preferences, including but not restricted to increasing awareness of the potential environmental damage from emissions, shift towards EVs, usage of sustainable materials and societal trends like preference for ride-sharing. The company is also vulnerable to data security and data privacy risks. However, its ability to mitigate risks arising from human capital issues in the past, provides comfort.

Liquidity position: Adequate

The company's standalone liquidity position is adequate, with positive free cash flows in the last five years and negligible utilisation of working capital limits in the last several years. In addition, the sizeable market value buffer on its investments lends strong financial flexibility to RHL. Further, being the Rane Group's flagship company, RHL can access capital markets at short notice and enjoys strong relationships with the banks. These factors are cumulatively expected to support the company's liquidity position over the medium term. RHL has capex commitments of Rs. 15-20 crore during H2 FY2023 to FY2025, which are likely to be funded primarily through internal accruals, barring some portion through existing undrawn term loans in H2 FY2023. The company has an investment commitment of ~Rs. 15 crore during H2 FY2023 and FY2024, while its repayment obligations for existing and sanctioned loans are Rs. 6.3 crore for H2 FY2023, Rs. 15.8 crore for FY2024 and Rs. 16.2 crore for FY2025. Overall, ICRA expects RHL to be able to meet its medium-term commitments through internal sources of cash and undrawn term loans, and yet be left with adequate cash surplus.

Rating sensitivities

Positive factors – Significant improvement in the business and financial profile of the investee companies; or diversification of the company's investment portfolio across multiple sectors could result in a rating upgrade.

Negative factors – Downward pressure on the ratings could emerge if there is a significant deterioration in the credit profile of RHL's major investee companies, resulting in significantly higher-than-budgeted debt-funded investment requirements, or if its income reduces significantly, resulting in increased leverage and pressure on its coverage metrics, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology for holding companies
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

RHL is the holding company of the larger Rane Group, an auto component manufacturing house with aggregate revenues of over Rs. 5,300 crore in FY2022. The promoters hold 46.6% stake (as on September 30, 2022) in RHL, which in turn holds strategic investments in subsidiaries and joint ventures. In addition to acting as a holding company, RHL also provides various support services to the Group companies like training, infrastructure, IT and business development support.

RHL has nine investee companies manufacturing/ trading/ servicing different products. Of RHL's subsidiaries, Rane (Madras) Limited, Rane Brake Lining Limited (rated [ICRA]AA- (Stable)/[ICRA]A1+) and Rane Engine Valve Limited manufacture automotive components. Rane Holdings America Inc. and Rane Holdings Europe GmbH are engaged in business development support for Group products in their respective geographies, while Rane T4U Private Limited provides services for connected mobility solutions. Both the joint ventures, ZFRAIPL (rated [ICRA]AA-(Stable)/[ICRA]A1+) and Rane NSK Steering Systems Private Limited, manufacture automotive components.

Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating income	65.1	88.8
PAT	1.4	33.9
OPBDIT/OI	55.0%	60.8%
PAT/OI	2.1%	38.2%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	2.2	1.3
Interest coverage (times)	11.6	9.2

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: 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 Sep 30, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Dec 14, 2022	Dec 01, 2021	Jan 04, 2021	Nov 27, 2020	Nov 29, 2019
1	Term loans	Long Term	69.96	64.30	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	Long-term fund based	Long Term	5.00	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
3	Long-term/short-term unallocated	Long Term/Short Term	25.04	-	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	-
4	Commercial paper	Short Term	-	-	-	-	-	-	[ICRA]A1+; Withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Long-term fund based	Simple
Long-term/short-term unallocated	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	Term loan – I	FY2019	6.64%	FY2024	3.46	[ICRA]AA- (Stable)
NA	Term loan – II	FY2021	7.90%	FY2028	56.50	[ICRA]AA- (Stable)
NA	Term loan – III	FY2022	7.81%	FY2027	10.00	[ICRA]AA- (Stable)
NA	Long-term fund based	FY2021	NA	NA	5.00	[ICRA]AA- (Stable)
NA	Long- term/short-term unallocated	NA	NA	NA	25.04	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company

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

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Branches



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