

Rane TRW Steering Systems Private Limited

	Amount (Rs. Crore)	Rating Action
LT Fund Based limits	50.0 (reduced from 75.0)	[ICRA]AA- (Stable); upgraded from [ICRA]A+
ST Fund Based limits	40.0	[ICRA]A1+; assigned
ST Non Fund Based limits	35.0	[ICRA]A1+; assigned

ICRA has upgraded the long term rating outstanding on the Rs. 50.0 crore (reduced from Rs 75.0 Crore) fund based facilities of Rane TRW Steering Systems Private Limited ("RTSSPL"/"the company") from [ICRA]A+ (pronounced as ICRA A plus) to [ICRA]AA- (pronounced ICRA double A minus) ¹. The outlook on the rating is stable. ICRA has assigned the short term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs 40.0 crore short term fund based limits and Rs 35.0 Crore short term non-fund based limits of RTSSPL.

The upgrade in ratings reflect the steady improvement in operational and financial performance witnessed during the recent past, driven by the consistent volume and revenue growth witnessed across both the steering gear and Occupant Safety Divisions (OSD). While the continued strong volumes witnessed in the domestic Medium and Heavy Commercial Vehicle (M&HCV) segment has been the key growth driver in the steering gear division, the occupant safety division has benefitted from the increasing penetration of safety components in the Passenger Vehicle (PV) segment. The ratings also consider the company's continued healthy market position in the domestic hydraulic power steering segment, its established relationship with all the major CV and PV OEMs in the country, strong financial profile characterized by conservative capital structure with adequate coverage metrics and operational and financial flexibility enjoyed by virtue of its strong parentage.

RTSSPL's diversified business profile with healthy volume share in the domestic steering gear market has supported the performance over the years; the revival in M&HCV segment has buffered the impact of modest volumes in the Passenger car (PC) and Utility Vehicles (UV) segments during the last two fiscals. The growth has also been aided by recovery in volumes of the Light Commercial Vehicle (LCV) segment during recent quarters, spurred further by the increasing penetration of HPS in the segment. While supplies of steering gears to the PC segment is likely to be minimal going forward, the overall growth from the division is expected to be steady aided by the strong market position in the M&HCV segment coupled with expected steady growth in demand and also volume share in the UV and LCV segments. The overall growth of the company is also likely to be aided by the strong volume growth in the OSD, with the implementation of the crash regulations October 2017 driving demand, export orders and improving volume share in the domestic PV segment aided by its consistent quality (on the back of technological support from ZF TRW) is also expected to drive medium term volumes in the OSD.

The growing scale of operations and focused cost control measures have aided the company in improving its operating margins during the recent past, albeit to lower than peak levels, limited by the increasing revenue contribution from the lower margin OSD and weak utilization of the rack and pinion gear facility catering to the PV industry. Going forward, in addition to the scale economics aiding margin expansion, overall improvement would also be supported by increasing revenue from higher margin CV segment in the steering gear division and likely increased margins of OSD during FY2017. RTSSPL's financial profile remains healthy, aided by the steady growth in earnings from operations and limited funding requirements in the business, resulting in gearing and Total Debt/OPBDITA improving to 0.3 times and 0.9 times respectively as on March 31, 2016 (adjusted for the bills discounted, these ratios further improve to 0.2 times and 0.6 times respectively).

The ratings also factor in the moderate operating margins in the business with limited pricing flexibility amidst intense competition and the growing dependence of the steering gear division on the cyclical domestic M&HCV segment. Nevertheless, revenues and earnings are likely to be supported by continuous product development and customer / market diversification measures undertaken across both the steering gear and occupant safety divisions. To sustain long term revenue growth and product diversification, RTSSPL could incur capital expenditure over the medium term although the quantum is yet to be finalized. While its strong parentage and

¹ For complete rating scale and definitions, please refer to ICRA's Website www.icra.in or other ICRA Rating Publications

healthy liquidity position with adequate unutilized lines of credit and steady growth in earnings lend financial flexibility, any considerable debt funded expenditure could impact its credit metrics and would remain a key rating sensitivity going forward.

Company Profile

Rane TRW Steering Systems Private Ltd. (RTSSPL, erstwhile Rane TRW Steering Systems Limited), incorporated in 1987, is the leading supplier of hydraulic power steering systems in India. The company is a joint venture between Rane Holdings Limited (holding company of the established Rane group - a leading domestic auto ancillary supplier and rated [ICRA]AA-/Stable/[ICRA]A1+) and TRW Automotive Inc., USA (one of the largest suppliers of automotive systems in the world). The company which was initially incorporated as Rane Power Steering Ltd., where the Rane group had a 50% stake, TRW - 26% and the rest were held by financial institutions, became a 50:50 joint venture (JV) between the Rane group and TRW in 1998 and subsequently renamed as RTSSPL. The company currently has four manufacturing plants in the steering gear division – three units in Tamil Nadu and one in Pant Nagar, Uttarakhand. In 2003, TRW Rane Occupant Restraints Limited (TROR, a then equal joint venture between the Rane group and TRW Automotive Inc) was merged with RTSSPL. Following the merger, RTSSPL acquired a manufacturing plant at Singaperumalkoil (Chennai) under the Occupant Safety Division (OSD), where the company currently manufactures seatbelts, airbags, reservoirs and other products. As on September 30, 2016, RTSSPL had capacity of 1 million units of steering gears, 0.6 million units of hydraulic pumps, 3.6 million units of seatbelts and about 0.6 million units of airbags.

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