Rane Brake Lining Limited

January 10, 2019

Summary of rated instruments

Instrument*	Previously Rated Amount(Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based	38.00	30.50	[ICRA]AA- (Stable); reaffirmed
Long-term unallocated	97.82	112.82	
Short-term fund based	10.00	10.00	[ICRA]A1+; reaffirmed
Short-term fund based - sublimit	(102.00)	(62.00)	
Short-term fund based – sublimit#	(USD 1.5 million)	(USD 1.5 million)	
Short-term non-fund based	19.50	12.00	
Short-term non-fund based - sublimit	(50.00)	(42.50)	
Short-term non-fund based – sublimit#	(USD 1.5 million)	(USD 1.5 million)	
Commercial paper	30.00	30.00	
Total	**195.32**	**195.32**	

*Instrument details in Annexure – I

- Although the facility is denominated in foreign currency, ICRA's rating for the same is on national scale as distinct from international rating scale

Rationale

The ratings reaffirmation draws comfort from RBLL's strong operational and financial profile, and its business and financial flexibility by virtue of it being part of the larger 'Rane' group. 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 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 original equipment manufacturers (auto OEMs) in its direct and indirect customer profile. Further, RBLL continues to have a widespread pan-India distribution network in the replacement market and has increased its penetration in the north and west markets in the recent years. The company also benefits from its technology support from Nisshinbo Brakes Inc., Japan – a globally renowned player in friction materials, and its subsidiary company, TMD Friction S. A.

RBLL reported a decline in operating margins by 500 bps to 11.3% during H1 FY2019 (H1 FY2018: 16.3%), impacted by various factors: increase in commodity, forex and freight-related costs and inadequate compensation for the same; product-mix driven increase in power costs and royalty expenses; and, wage settlements in some of the plants and impact of minimum wage hikes in Tamil Nadu. Nevertheless, the margins remain healthy. The company's profitability remains strong at 31.0% for FY2018 (as against 25.4% for FY2017). RBLL's debt metrics and liquidity position have also continued to be robust in the last one-two years, given the modest capex amidst healthy accruals. RBLL does not have long-term debt from March 2017 and was net debt negative with cash and liquid balances of Rs. 32.4 crore as on September 30, 2018.

Organic growth, execution of new businesses and various strategic revenue improvement initiatives are likely to aid in pickup in revenues in the near to medium term, although the anticipated moderation in PV and M&HCV sales volumes in Q4 FY2019 (where RBLL's sales is concentrated) could hamper revenue growth in the near term. Although its profit margins are vulnerable to commodity and forex fluctuations, the company's cost saving initiatives, effective hedging and strong aftermarket presence are likely to cap impact of any unfavourable movements in the same. ICRA expects the company's capitalization, coverage metrics and liquidity to remain strong going forward as well, despite the sizeable capex plans of Rs. 115 crore for the three year period FY2019-FY2021.

RBLL witnesses competitive threat from other industry incumbents; nevertheless, the company's long-standing presence, market position and superior formulations mitigate the risk to a large extent. ICRA notes that the company plans to shift entirely to asbestos-free products in the aftermarket segment over the medium term; however, implementing the migration without loss of market share would remain critical.

Outlook: Stable

The stable outlook reflects that RBLL will continue to maintain its well-entrenched market position in the friction material space and that incremental revenues from existing/new businesses in the OEM segment and better aftermarket penetration with continue to drive revenues. Margins are likely to remain healthy aided by the various cost-saving initiatives and ongoing negotiations for raw material and forex passthrough. RBLL's debt metrics and liquidity position are also expected to remain strong in the medium term, despite the significant capex plans. The outlook may be revised to 'positive' if there is substantial improvement in RBLL's scale and profit margins, and its already-healthy market position improves significantly. The outlook may be revised to 'negative' if the company's revenues/margins are weaker-than-expected, or if RBLL's debt increases significantly – either due to working capital stretch or capex – and there is deterioration in the company's liquidity position.

Key rating drivers

Credit strengths

Financial and operational flexibility from being part of the Rane Group; technology support from Nisshinbo Brakes Inc., Japan – RBLL is a key company of the Chennai-based Rane Group, well-known in the domestic and international auto ancillary space, having total revenues of over Rs. 4,600 crore in FY2018. RBLL uses the strong 'Rane' brand for its products and pays trademark fees to Rane Holdings Limited for usage of the brand. The company also derives technology support from Nisshinbo Brakes Inc., Japan – which is a globally renowned player in friction materials, and TMD Friction S. A. – its subsidiary company. Nisshinbo Holdings Inc., Japan holds 20.2% stake in RBLL.

RBLL remains one of the leading friction material players in India – RBLL is a leading player in the domestic friction material industry and continues to hold sizeable market share in the OEM and aftermarket segments for friction materials. The company competes with other players like Sundaram Brake Linings Limited, Masu Brakes Private Limited, Allied JB Friction Private Limited and Hindustan Composites Limited to name a few.

Established customer profile in the domestic OEM segment – RBLL is a tier-II auto component supplier. The company counts several domestic tier-I suppliers and auto original equipment manufacturers (auto OEMs) in its direct and indirect customer profile; and has healthy share of business with its customers and the OEMs. RBLL has had healthy addition of new businesses in the last 12-18 months.

Pan India aftermarket distribution network; increased penetration in the north and west markets in the recent years – Aftermarket accounts for ~32% of the company's revenues and has grown by 16.9% during H1 FY2019. The company has nine distributors for its aftermarket sales, pan India; while six of them have been in existence for several years, the company added three of them recently to focus on specific geographies. In terms of geographies, south India contributed to ~70% of replacement sales 4-5 years back. This is at 50% currently, with better penetration in the north and west markets in the last few years.

Comfortable financial profile characterized by negligible debt and strong profitability – By virtue of the healthy accruals and modest capex undertaken in the last few years, the company's debt levels have gradually improved. RBLL has had no long-term debt and only negligible working capital borrowings over the last two years. The low debt levels have resulted in strong capital structure and coverage metrics. RBLL also has strong profitability, with a Return on Capital Employed (RoCE) of 31.0% in FY2018. ICRA expects the company's debt profile and profitability to remain comfortable going forward as well, despite the significant capex plans.

Credit challenges

Margins vulnerable to commodity prices and unfavourable forex movements – The company's margins are vulnerable to increase in commodity prices, given the limited ability to pass on incremental costs to customers. Also, RBLL is a net importer (net forex expenditure of Rs. 65.3 crore in FY2018) and its margins are vulnerable to unfavourable USD/JPY/Euro movements. However, ICRA believes that the company's ongoing negotiations for raw material and forex passthrough, its effective forex hedging mechanism and RBLL's strong aftermarket presence would cap impact of unfavourable commodity movements on margins to an extent, in the near to medium term.

Relatively high concentration in M&HCV and PV segments – The company currently derives over 80% of its revenues from the PV and M&HCV segments, exposing it to sales volatility in these segments. The anticipated moderation in PV and M&HCV sales volumes in Q4 FY2019 could hamper RBLL's revenue growth in the near term. However, the healthy medium-term growth outlook for PV and anticipated better penetration in the 2W segment going forward, provide some comfort.

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 competitive threat to a large extent. While the company's proposed research and development (R&D) investments are likely to strengthen its competitive position going forward, complete migration to asbestos-free products over the medium term without loss of market share would remain a challenge.

Significant capex plans over the next three years – RBLL has capex plans to the tune of Rs. 115 crore for the three year period FY2019-FY2021 for R&D initiatives, capacity enhancement and upgradation/maintenance. Although the capex is significant for the scale of operations and part of it is likely to be debt-funded, the company's capital structure, coverage metrics and cash flows are likely to remain strong going forward.

Liquidity Position:

RBLL's liquidity position has remained strong in the last one to two years, with healthy cash flows and negligible debt. The company reported strong positive free cash flows in FY2017 and FY2018, and its working capital utilisation has been less than 5% of sanctioned limits and drawing power as on month ends over the last two years. Also, RBLL does not have long-term debt from March 2017 and was net debt negative with cash and liquid balances of Rs. 32.4 crore as on September 30, 2018. The company has proposed capex of Rs. 115.0 crore over FY2019-21 and about Rs. 30.0 crore incremental borrowings are expected for the same. Despite this, ICRA expects RBLL's liquidity position to remain strong over the medium term.

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. RBLL does not have subsidiaries or joint ventures.

About the company:

Rane Brake Lining Limited (RBLL / the company) is primarily engaged in the manufacturing of 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 of the replacement segment and state transport units; c) Indian Railways; and d) export markets, primarily Sri Lanka, Nepal, Bangladesh and Europe. Majority of the RBLL's revenues during H1 FY2019 were derived from brake linings and disc pads (over 90%); and from asbestos-free products (~75% of revenues). The company has technology collaboration with M/s. Nisshinbo Brake Inc., Japan; and has four manufacturing capacities located in Chennai, Hyderabad, Puducherry and Trichy.

RBLL belongs to the larger Rane Group, represented by key companies such as Rane Holdings Limited (RHL, rated [ICRA]AA- (Stable) and [ICRA]A1+), Rane (Madras) Limited (rated [ICRA]A (Stable) and [ICRA]A1), Rane Engine Valve Limited (rated [ICRA]BBB (Stable) and [ICRA]A2), Rane TRW Steering Systems Private Limited (RTSSPL, rated [ICRA]AA- (Stable) and [ICRA]A1+) and Rane NSK Steering Systems Private Limited. RHL and M/s. Nisshinbo Holdings Inc., Japan hold 46.1% and 20.2% stakes in RBLL respectively (as on September 30, 2018).

Key Financial Indicators (audited)

Standalone	FY2017	FY2018
Operating Income (Rs. crore)	466.1	482.5
PAT (Rs. crore)	34.9	35.7
OPBDIT/ OI (%)	15.8%	15.9%
RoCE (%)	25.4%	31.0%
Total Debt/ TNW (times)	0.04	0.0
Total Debt/ OPBDIT (times)	0.08	0.0
Interest coverage (times)	94.4	207.9

Source: Company, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth; NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

<table>
<tr><th colspan="2" rowspan="2">Instrument</th><th colspan="4">Current Rating (FY2019)</th><th colspan="3">Chronology of Rating History for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding (Rs Crore)</th><th>Date & Rating</th><th>Date & Rating in FY2019</th><th>Date & Rating in FY2017</th><th>Date & Rating in FY2016</th></tr>
<tr><th></th><th></th><th>Jan 2019</th><th>Apr 2018</th><th>Jan 2017</th><th>Mar 2016</th></tr>
<tr><td>1</td><td>Long-term fund based</td><td>Long Term</td><td>30.50</td><td></td><td rowspan="2">[ICRA]AA- (Stable)</td><td rowspan="2">[ICRA]AA- (Stable)</td><td rowspan="2">[ICRA]A+ (Positive)</td><td rowspan="2">[ICRA]A+ (Stable)</td></tr>
<tr><td>2</td><td>Long-term unallocated</td><td>Long Term</td><td>112.82</td><td></td></tr>
<tr><td>3</td><td>Short-term fund based</td><td>Short Term</td><td>10.00</td><td></td><td rowspan="7">[ICRA]A1+</td><td rowspan="7">[ICRA]A1+</td><td rowspan="7">[ICRA]A1+</td><td rowspan="7">[ICRA]A1+</td></tr>
<tr><td>4</td><td>Short-term fund based - sublimit</td><td>Short Term</td><td>(62.00)</td><td></td></tr>
<tr><td>5</td><td>Short-term fund based – sublimit#</td><td>Short Term</td><td>(USD 1.5 million)</td><td></td></tr>
<tr><td>6</td><td>Short-term non-fund based</td><td>Short Term</td><td>12.00</td><td></td></tr>
<tr><td>7</td><td>Short-term non-fund based - sublimit</td><td>Short Term</td><td>(42.50)</td><td></td></tr>
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<tr><td>9</td><td>Commercial paper</td><td>Short Term</td><td>30.00</td><td></td></tr>
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Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
CC	NA			30.50	[ICRA]AA- (Stable)
Unallocated facilities				112.82	
Short-term loan/Buyer's credit				10.00	[ICRA]A1+
WCDL/PCFC/EPC/Buyer's credit - sublimit				(62.00)	
Buyer's credit - sublimit				(USD 1.5 million)	
LC/BG				12.00	
LC/BG - sublimit				(42.50)	
LC - sublimit				(USD 1.5 million)	
Commercial paper				30.00	

Source: Rane Brake Lining Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not applicable		

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About ICRA Limited:

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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.

For more information, visit www.icra.in

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