

July 05, 2019

Rane TRW Steering Systems Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	30.00	60.00	[ICRA]AA- (Stable); reaffirmed
Long-term fund based CC	80.00	115.50	
Short-term fund based	40.00	125.00	[ICRA]A1+; reaffirmed
Short-term non-fund based	65.00	35.00	
Short-term non-fund based – sublimit	(20.00)	(35.50)	
Total	215.00	335.50	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of ratings draws comfort from RTSSPL's healthy financial profile and its operational and financial flexibility by virtue of the company being a 50:50 JV between Rane Holdings Limited (the hold co of the Chennai-based Rane Group, which is well-known in the domestic and international auto ancillary space) and TRW Automotive JV LLC (a leading global auto component supplier). RTSSPL has witnessed healthy revenue growth of ~21% in FY2019, aided by strong growth from occupant safety and steering gears segments. Further, RTSSPL maintained its healthy margins (13% for FY2019; PY 12.8%) and conservative debt metrics. Although RTSSPL's total debt increased from Rs.155.5 crore in FY2018 to Rs. 211.8 crore in FY2019, with the incremental debt used for funding capex and working capital requirements, the company's gearing was comfortable at 0.6 as on March 31, 2019 (According to unaudited financials, PY: 0.5 times) while its NCA/Total debt and interest coverage stood at 44.4% and 22.4 times respectively for FY2019 (according to unaudited financials). Also, the company liquidity position remained healthy with healthy accruals and positive fund flow from operations in FY2019. The ratings also draw comfort from RTSSPL's diversified product portfolio, comprising of steering gears and pumps (~55% of revenues in FY2019), airbags (~19.5% of revenues in FY2019) and seat belts (~25.5% of revenues in FY2019), mitigating product specific risks to a large extent. RTSSPL has established market position in hydraulic steering gears and occupant safety products and the company caters to several renowned Passenger Vehicle (PV) and Commercial Vehicle (CV) original equipment manufacturers (OEMs), both in the domestic and export markets. The company has had healthy addition of new businesses of Rs.90-100 crore in the last one year.

However, the ratings are constrained by the muted demand outlook for the domestic auto industry in FY2020. While the sharp correction is expected to spill over into the supply chain, RTSSPL's sales volumes are also likely to be impacted by subdued demand environment in the global auto industry. Nevertheless, the company's healthy orderbook could aid in higher-than-industry growth. RTSSPL also has high customer concentration with the top five customers constituting about 76% of FY2019 revenues. While this could risk revenues in the event of loss of customers to competitors, the ability of the company to add new businesses, as demonstrated in the last few years mitigates the risk to a large extent. While RTSSPL's sizeable capex plans of over Rs. 200 crore for FY2020-FY2022 is expected to impact the company's free cash flows, the capital structure, coverage metrics and liquidity position are expected to remain comfortable over the medium term.

Any issues and consequent recalls in products manufactured by RTSSPL; or migration from hydraulic power steering to electric power steering in the CV space could result in loss of business opportunities and would be key rating sensitivities. 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.

Outlook: Stable

ICRA believes that RTSSPL will continue to maintain its well-entrenched market position in the hydraulic power steering and occupant safety segments. Also, ICRA expects RTSSPL's margins to remain range-bound and its debt metrics to remain comfortable over the medium term. The outlook may be revised to 'Positive' if the company is able to achieve substantial revenue growth and margin improvement and reduce its debt levels significantly. This would improve the company's liquidity position and strengthen its financial risk profile. The outlook may be revised to 'Negative' if revenues or margins are weaker than expected or if RTSSPL's debt increases significantly – either due to working capital stretch or higher than expected 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 TRW Automotive JV LLC- RTSSPL is a 50:50 joint venture between Rane Holdings Limited (RHL) and TRW Automotive JV LLC. RTSSPL is a key company of the Chennai-based Rane Group, which is well-known in the domestic and international auto ancillary space. RTSSPL 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 TRW Automotive JV LLC, which is a renowned global auto component supplier.

Diversified product profile – RTSSPL manufactures hydraulic power steering gears and pumps from its steering gear division; and airbags and seat belts from its occupant safety division. The steering gear products constituted about 55% of revenues in FY2019, while airbags and seat belts contributed to 19.5% and 25.5% of revenues respectively for the same period. The diverse product portfolio mitigates vulnerability of RTSSPL's revenues to product-specific risks to a large extent.

RTSSPL is one of the leading players in hydraulic steering gears and an established player in airbags and seat belts in India – Hydraulic power steering is primarily used in utility vehicles (UV) and CV, and RTSSPL is a renowned player in both the segments. In the UV space, Sona Koyo Steering Systems Private Limited and RTSSPL are the major players; and in CV steering gears, ZF Steering Gear (India) Limited and RTSSPL are the primary players in the domestic market. The company gained market share in hydraulic steering gears in the past 12-18 months, supported by its technological expertise and adequate capacity to cater to demand surges. While Autoliv India Private Limited is the market leader in airbags and seat belts, RTSSPL is also a reputed player and commands reasonable market share

Established customer profile; healthy new business addition across products in FY2019 – RTSSPL is a tier-I supplier of automobile components and caters to reputed auto OEMs including Mahindra and Mahindra Limited (M&M), Renault India Private Limited, Ford India Private Limited, Tata Motors Limited and Ashok Leyland Limited in the domestic market; and Hyundai Motor Company, Korea and Kia Motors, Korea in the export segment. The company has healthy share of business for the product categories in the models supplied. Also, RTSSPL has won ~Rs. 90-100 crore of new businesses in FY2019, largely driven by orders for the occupant safety division and has new orders of ~Rs. 200 crore to be executed over the next two years as on FY2019.

Strong revenue growth in FY2019; healthy operating margins continue – RTSSPL’s revenues have grown at a CAGR of 26.7% over the last two years, driven by stellar growth from the occupant safety division because of strong demand from exports segment. For FY2019 (Unaudited financials), RTSSPL’s operating income grew by ~21% and stood at Rs.1,387.5 crore. The revenue growth came in from both export and domestic markets, the former because of strong growth from occupant safety segment and the latter because of strong demand from CV segment for the steering gear division. RTSSPL’s operating margins remained largely stable at 13.0% in FY2019 (according to unaudited financials, PY: 12.8%), aided by cost reduction initiatives and benefits from scale improvement, despite increase in proportion of the relatively lower margin occupant safety business.

Comfortable capitalisation and coverage indicators– RTSSPL’s capitalisation and coverage indicators remained comfortable supported by the healthy accruals, despite increase in debt levels. Although the company’s debt increased from Rs.155.5 crore as on March 31, 2018 to Rs.211.8 crore as on March 31, 2019 (Unaudited financials) and is relatively high for the scale of operations, the company’s gearing was comfortable at 0.6 times as on March 31, 2019 (According to unaudited financials, PY: 0.5 times) while its TD/OPBITDA stood at 1.2 times in FY2019 (Unaudited financials, PY: 1.1 times) and interest coverage ratio stood at 22.4 times in FY2019 (Unaudited financials, PY: 29 times). RTSSPL anticipates incremental long-term debt of Rs. 55 crore over the next two years, to fund its capex plans. Nevertheless, the capitalisation and coverage indicators are expected to remain comfortable going forward.

Credit challenges

Muted auto demand to impact RTSSPL’s revenues in FY2020, although the company’s healthy orderbook could result in higher-than-market growth– RTSSPL derives 70% of its revenues from the domestic market and 30% of revenues from export markets, predominantly from Korea. Thus, RTSSPL’s revenues would be vulnerable to the ongoing slowdown in the domestic and global auto industry. However, the healthy new order book is likely to facilitate higher-than-industry growth, through increased market share/penetration.

High customer concentration – RTSSPL has high client concentration with its top five customers constituting close to 76% of revenues in FY2019. This exposes the company’s revenues to volatility arising from any slowdown in orders from the prime customers. However, the ability of RTSSPL to add new businesses, as demonstrated in the last few years mitigates the risk to a large extent.

Significant capex plans over the next three years – RTSSPL has an aggregate capex of over Rs.200 crore for the three year period – FY2020 to FY2022, primarily for capacity enhancement in occupant safety division and maintenance capex for steering gear division. While this is subject to demand conditions, the significant capex could impact RTSSPL’s free cash flows. Nevertheless, anticipated funding of the capex primarily through accruals provides comfort to an extent.

Liquidity Position:

RTSSPL’s liquidity has remained comfortable with positive fund flow from operations in FY2019 (according to unaudited financials). Its average working capital utilization for FY2019 was comfortable at 51% of sanctioned limits. Going forward, RTSSPL has repayment obligations of Rs. 8.0 crore in FY2020, Rs. 19.0 crore each in FY2021 and FY2022 for its existing term debt. Also, the company has total capex plans of over Rs.200 crore over the medium term towards maintenance and capacity additions, with ~25% of it likely to be debt-funded. With the capex and repayment obligations likely to be relatively lower than anticipated accruals, ICRA expects RTSSPL’s liquidity position to remain comfortable 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. 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 (hold co of the Rane Group – an established auto ancillary group in India, rated [ICRA]AA- (Stable)/[ICRA]A1+) and TRW Automotive JV LLC (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 (~55% of revenues in FY2019) and seat belts and airbags in the latter (~45% of revenues in FY2019). In terms of industry segments, RTSSPL derives over 55% of its revenues from passenger vehicles and the remaining primarily from commercial vehicles; exports constituted about 30% of sales in FY2019. The company has six manufacturing plants – five in Tamil Nadu (including the recently commenced occupant safety plant in Trichy) and one in Uttarakhand.

The Rane Group is represented by key companies such as Rane Engine Valve Limited (rated [ICRA]BBB(Stable)/[ICRA]A2), Rane Brake Lining Limited (rated [ICRA]AA- (Stable) / [ICRA]A1+), Rane (Madras) Limited and Rane NSK Steering Systems Private Limited, apart from Rane Holdings Limited and RTSSPL.

Key financial indicators

	FY2018 (audited)	FY2019 (Unaudited)
Operating Income (Rs. crore)	1,147.8	1,387.5
PAT (Rs. crore)	72.1	88.6
OPBDIT/OI (%)	12.8%	13.0%
RoCE (%)	27.3%	28.2%
Total Debt/TNW (times)	0.5	0.6
Total Debt/OPBDIT (times)	1.1	1.2
Interest coverage (times)	29.0	22.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				July 2019	Jan 2018	Oct 2016	Jan 2016
1 Term loans	Long Term	60.00	43.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	-
2 Long-term fund based CC	Long Term	115.50	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Positive)
3 Short-term fund based	Short Term	125.00	-	[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	(35.50)	-	[ICRA]A1+	[ICRA]A1+	-	-

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
Term loans	FY2018	8.7%	FY2022	60.00	[ICRA]AA- (Stable)
LT Fund based CC				115.50	
Short term loan/Export credit	NA			125.00	[ICRA]A1+
LC/BG				35.00	
LC/BG – sublimit				(35.50)	

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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