

December 01, 2021

Rane Holdings Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	94.86	81.70	[ICRA]AA- (Stable); reaffirmed
Long-term fund based	5.00	5.00	[ICRA]AA- (Stable); reaffirmed
Long-term/short-term unallocated	0.14	13.30	[ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed
Total	100.00	100.00	

*Instrument details are provided in Annexure-1

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 cyclicity 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); and across domestic original equipment manufacturers (OEM), 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. The holding company has invested Rs. 170.0 crore in Rane (Madras) Limited (RML) during FY2018 – H1 FY2022 to support its acquisition, with the balance Rs. 15.0 crore of the committed investments to be invested by end of FY2022. RHL has also invested Rs. 8.5 crore in Rane T4U Private Limited (Rane T4U) in H1 FY2022 towards meeting the latter's working capital requirements/financial commitments. Over the past four and half years, the hold co has also invested ~Rs. 30.0 crore (USD 4.52 million) in Auto Tech I, L.P, USA, an auto venture capital fund in the United States of America (USA), with residual investment commitments of Rs. 3.6 crore (USD 0.48 million) over the next one year. The company does not envisage major investments post FY2022.

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. 65.1 crore in FY2021 and Rs. 49.2 crore in H1 FY2022. Nevertheless, it enjoys healthy margins aided by a lean cost structure and the operating profit margins remained strong in FY2021 (despite decline in top line of ~33% on a YoY basis), aided by cost saving initiatives undertaken by RHL. The company has moderate debt levels (Rs. 75.7 crore as on Sep 30, 2021), repayment obligations and letter of comfort-related potential liabilities for its scale of operations. Nevertheless, RHL's standalone debt and letter of comfort given, compared to the market value of its unencumbered listed investments has been low for the last seven 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 Rane group of companies with strong support from promoters – RHL's ratings draw comfort from its position as the holding company of the Rane Group. The promoters hold 46.4% stake in RHL, and RHL in turn holds stake in all group companies with no cross-holdings in the group. 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 day-to-day operations of the company currently.

Relatively healthy credit profile of majority of the large investee companies – Three group companies: RBLL (rated [ICRA]AA-(Stable)/[ICRA]A1+), Rane TRW Steering Systems Private Limited (RTSSPL, rated [ICRA]AA-(Stable)/[ICRA]A1+) and Rane NSK Steering Systems Private Limited (RNSSPL) have strong financial profiles. These three entities have been contributing to a sizeable proportion of the group's cashflows and the hold co.'s dividends in the last several years. In FY2021, RBLL and RTSSPL accounted for ~98% of the dividend income earned by RHL.

RHL's policy of largely limiting support to group concerns – RHL usually limits financial support to its investee entities with each company expected to service its repayments and capex requirements independently. However, the company is open to creeping acquisitions and stake increases. The hold co. has invested Rs. 170.0 crore during FY2018 - H1 FY2022 in RML, with the balance Rs. 15.0 crore of the committed investments expected to be done in H2 FY2022. The company has also invested Rs. 8.5 crore in Rane T4U in H1 FY2022, for supporting the latter's working capital requirements and financial commitments. Going forward, the investments in group cos are likely to minimal post the committed investments.

Relatively low debt levels compared to market value of unencumbered listed investments – RHL's standalone debt and letter of comfort given, compared to the market value of its unencumbered listed investments has been low for the last seven years, resulting in strong financial flexibility. In addition, RHL also has high-return offering unlisted investments namely RTSSPL and RNSSPL. RHL's debt levels have increased in the last 18 months owing to the debt-funded investments. 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 its own operations, thus limiting scale. RHL's standalone operating income was Rs. 65.1 crore in FY2021 (lower by ~33% on a YoY basis, impacted by the pandemic) and Rs. 49.2 crore in H1 FY2022. Further, the company's debt levels have increased over the past 18 months 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 market value of its unencumbered listed investments remaining sizeable as compared to standalone debt and letter of comfort given, provides comfort to an extent.

Concentration of investments in the automobile space; vulnerable to cyclicality inherent in the auto industry/commodity price movements/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 ~62% of revenues from the passenger vehicle segment in FY2021. 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 to the cyclicity inherent in the auto industry and headwinds like supply-chain issues and cost inflation. However, the Group's established presence and diversified customer base, comprising of several large auto/auto component players in India and globally and its ability to bag repeat orders 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 utilization 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. 10 crore during H2 FY2022 and FY2023, which are likely to be funded through debt and internal accruals. The company has an investment commitment of ~Rs. 18-19.0 crore during H2 FY2022 and FY2023, while its repayment obligations are Rs. 5.4 crore for H2 FY2022, Rs. 15.6 crore for FY2023 and Rs. 14.5 crore for FY2024 (including that for undrawn loans).

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, thus 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 (the Group), an auto component manufacturing house with aggregate revenues of about Rs. 4,140 crore in FY2021. The promoters hold 46.4% stake (as on September 30, 2021) 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 (RML), Rane Brake Lining Limited (RBLL, [ICRA]AA- (Stable)/A1+) and Rane Engine Valve Limited (REVL) manufacture automotive components. Rane Holdings America Inc. and Rane Holdings Europe GmbH are engaged in business development support for Group products in the respective geographies, while Rane T4U Private Limited provides services for connected mobility solutions. Both the joint ventures manufacture automotive components – Rane TRW Steering Systems Private Limited (RTSSPL, [ICRA]AA-(Stable)/[ICRA]A1+) and Rane NSK Steering Systems Private Limited (RNSSPL).

Key financial indicators (audited)

	Standalone	
	FY2020	FY2021
Operating Income (Rs. crore)	97.3	65.1
PAT (Rs. crore)	50.8	1.4
OPBDIT/OI (%)	63.7%	55.0%
PAT/OI (%)	52.2%	2.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.2
Total Debt/OPBDIT (times)	0.6	2.2
Interest Coverage (times)	28.5	11.6

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 FY2019
						Dec 01, 2021	Jan 04, 2021	Nov 27, 2020	Nov 29, 2019
1	Term loans	Long Term	81.70	75.70	[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	13.30	-	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	-	-
4	Commercial paper	Short Term	-	-	-	-	-	-	[ICRA]A1+

Complexity level of the rated instrument

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: 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	FY2019	5.72%	FY2024	5.76	[ICRA]AA- (Stable)
NA	Term loan – II	FY2019	6.10%	FY2024	5.12	[ICRA]AA- (Stable)
NA	Term loan – III	FY2018	9.65%	FY2023	1.82	[ICRA]AA- (Stable)
NA	Term loan – IV	FY2018	9.65%	FY2023	4.00	[ICRA]AA- (Stable)
NA	Term loan – V	FY021	7.90%	FY2028	65.00	[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	13.30	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Rane Holdings Limited

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545 328

shamsherd@icraindia.com

K Srikumar

+91 44 4596 4318

ksrikumar@icraindia.com

Vinutaa S

+91 44 4596 4305

Vinutaa.s@icraindia.com

William Charles

+91 44 4297 4305

villiam.charles@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.