

January 27, 2022

Rane Brake Lining Limited: Rating reaffirmed at [ICRA]AA- (Stable)/ [ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based	30.50	30.50	[ICRA]AA- (Stable); reaffirmed
Long-term unallocated	90.32	90.32	
Short-term fund based	25.00	25.00	[ICRA]A1+; reaffirmed
Short-term fund based - sublimit	(37.50)	(37.50)	
Short-term non-fund based	19.50	19.50	
Short-term non-fund based - sublimit	(10.00)	(10.00)	
Total	165.32	165.32	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of ratings draws comfort from Rane Brake Lining Limited's (RBLL/ the company) strong financial profile, characterised by the absence of debt on its books and its healthy liquidity position, marked by cash and liquid investments of Rs. 17.3 crore and undrawn working capital lines of Rs. 55.0 crore as on September 30, 2021. ICRA expects RBLL to remain net debt negative over the medium term, despite the sizeable capex plans of Rs. 75.0 crore during FY2022-FY2024. The rating also considers strong operational and financial flexibility enjoyed by the company, by virtue of being a part of the larger Rane Group. RBLL also benefits from the technological support from Nisshinbo Brakes Inc., Japan, a globally reputed player in friction materials, which holds 20.64% stake in the company. 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 original equipment manufacturer (OEM) (~34% in FY2021) and aftermarket segments (~19% in FY2021) for friction materials. The company markets its products under the established 'Rane' brand and counts several domestic tier-I suppliers and 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 Indian markets in the recent years.

RBLL's profit margins remain vulnerable to unfavourable commodity and forex fluctuations, and product mix changes. Owing to sharp increase in commodity prices/freight costs and inadequate pass through of the same to the tier-I (end customers), the operating margins contracted to 7.2% in H1 FY2022 (OPM of 9.2% in H1 FY2021). Increase in freight expenses and employee costs also contributed to the margin decline. While the strategic initiatives, such as localisation and alternate source development, RBLL's ongoing negotiations with its customers for raw material passthrough and operating leverage benefits with improvement in top line and softening in raw material prices are likely to result in margin improvement, RBLL's ability to reach previous levels remains to be seen. Akin to other auto-component players, the company's revenues are exposed to risks arising from supply chain issues in the near term. However, its healthy order book position and established aftermarket presence mitigate the risks to a large extent. RBLL witnesses competitive threat from other industry incumbents; nevertheless, its long-standing presence, established market position and superior formulations mitigate the risk to a large extent. While the company is undertaking focused initiatives to penetrate newer geographies, the translation of the same into higher revenues remains to be seen. The company is exposed to environmental risks common for an entity using asbestos. RBLL currently derives ~60% of its revenues (under aftermarkets) from asbestos formulations and the same has reduced from 80% as of four to five years earlier. While the company plans to shift entirely to asbestos-free products in the aftermarket segment over the near future, implementing the migration without loss of market share in the replacement market will remain a monitorable.

Key rating drivers and their description

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 reputed Rane Group, with cumulative revenues of ~Rs. 4,140 crore in FY2021. RBLL uses the '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. The same has aided in market share gains and new business wins for the company over the past several years. Nisshinbo Holdings Inc., Japan holds 20.64% stake in RBLL.

RBLL remains one of the leading friction material players in India; established customer profile in domestic OEM segment and healthy market share with most OEMs – RBLL is a tier-II auto component supplier and a leading player in the domestic friction material industry. It continues to hold sizeable market share in the OEM and aftermarket segments for friction materials—34% in the OEM segment in FY2021 (31% in FY2020) and 19% in aftermarket in FY2021 (18% in FY2020). The company counts several domestic tier-I suppliers and auto OEMs in its direct and indirect customer profile; and enjoys healthy share of business with its customers and OEMs. 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. RBLL has minimal presence in export markets at present (~5% of the overall top line in H1 FY2022). While the company is undertaking focussed initiatives towards penetration into newer geographies, the translation of the same into higher revenues remains to be seen.

Pan India aftermarket distribution network - Aftermarket accounted for over 40% of the company's revenues in FY2021. The company has 13 key distributors for its aftermarket sales across India. While eight of them have been in existence for several years, the company added five more in the last 4-5 years to focus on specific regions. In terms of geographies, South India contributed ~60% to replacement sales 5-6 years back. This has reduced to ~50-52% currently, with increased penetration in the north and west markets in the last few years. Further, the company is also enhancing its footprint in the 2-wheeler market by adding separate dealer network, with around 33 dealers added in the past two years.

Comfortable capital structure and coverage metrics; continues to remain debt-free - By virtue of its modest capex compared to accruals and effective working capital management, RBLL has remained debt free in its last few years and has a strong liquidity position, marked by cash and liquid investments of Rs. 17.3 crore as on September 30, 2021, and undrawn working capital lines of Rs. 55.0 crore as on December 31, 2021. The low debt levels have resulted in strong capital structure and coverage metrics. Although the company has sizeable capex plans (to the tune of Rs. 75-80.0 crore) between FY2022 to FY2024, it is likely to be funded from internal accruals. ICRA expects the company to remain debt-free going forward as well.

Credit challenges

Decline in margins owing to sharp increase in commodity prices and freight costs and inadequate pass through of the same; margins remain vulnerable to unfavourable forex movements, with RBLL being a net importer - Over the last several years, RBLL has enjoyed double-digit operating profit margins (OPM) in the range of 12-15%. Owing to the sharp increase in the commodity prices including steel, copper and resins in the past 12-15 months, and inadequate pass through of the same to its customers, the OPM contracted to 7.2% in H1 FY2022 (9.2% in H1 FY2021). Higher freight expenses with inward freight rates increasing multifold and increase in employee costs/other fixed expenses also impacted the margins. Also, RBLL is a net importer (net forex expenditure of ~Rs. 63 crore in FY2021), thus making its margins vulnerable to unfavourable USD/JPY/Euro movements. Nevertheless, the company's ongoing negotiations for forex passthrough and its effective forex hedging mechanism mitigates the forex risk to a large extent. Going forward, the company's strategic initiatives, such as localisation and alternate source development, ongoing negotiations with its customers for raw material passthrough, softening in raw

material prices and operating leverage benefits with anticipated improvement in top line are likely to result in improvement in margins. However, the ability to reach previous levels remains to be seen.

Earnings susceptible to headwinds such as supply-chain issues, akin to other industry players; exposed to cyclicality inherent in the automobile industry - The company is a tier-II supplier, deriving ~60% of its revenues from the domestic auto OEM segment, ~34% from the domestic aftermarket segment and the balance from railways/exports in H1 FY2022. Within the OEM segment, passenger vehicles/utility vehicles constituted ~71% of revenues, thus exposing the revenues to any slowdown in this segment. Nevertheless, presence in aftermarket segment mitigates the risk to a large extent. Akin to other players, the company is exposed to supply chain issues such as semiconductor chip shortage, which has affected production volumes of auto OEMs across segments. Consequently, this may impact RBLL's volumes in the near term. Nevertheless, its healthy order book position and presence in the replacement market are likely to mitigate the risk to a large extent.

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

Liquidity position: Strong

RBLL's liquidity is strong with positive free cash flows in FY2021 and healthy cash profits of ~ Rs. 227 crore in the past five years ended FY2021. The company had cash and bank balances, and liquid investments of Rs. 17.3 crore and undrawn fund-based working capital limits of Rs. 55.0 crore as on December 30, 2021. Also, RBLL does not have any long-term debt and the company has had negligible utilisation of its fund-based working capital lines in the last three years. In relation to these sources of cash, RBLL has capex commitments of Rs. 25-30.0 crore per annum, during FY2022-FY2024, to be funded through internal accruals. Overall, ICRA expects RBLL to be able to meet its medium-term commitments through internal sources of cash and yet be left with cash/liquid investments surplus. The company also has strong financial flexibility and lender/investor comfort by virtue of being a part of the Rane Group and this is expected to continue going forward as well.

Rating sensitivities

Positive factors – Substantial improvement in RBLL's scale and profit margins could result in a rating upgrade.

Negative factors – Downward pressure on the rating could emerge if there is substantial weakening of RBLL's profitability; or higher capex or working capital stretch causing significant increase in debt levels or deterioration in the liquidity position.

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 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 FY2022 was derived from brake linings and disc pads (over 95%); and from asbestos-free products (~78% of revenues). The company has technology collaboration with M/s. Nisshinbo Brake Inc., Japan; and has four manufacturing capacities 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, Rane Engine Valve Limited, 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 47.70% and 20.64% stakes, respectively, in RBLL (as on December 31, 2021).

Key financial indicators (audited)

Particulars	FY2020	FY2021
Operating Income (Rs. crore)	471.0	423.4
PAT (Rs. crore)	34.3	31.8
OPBDIT/OI (%)	12.9%	14.4%
PAT/OI (%)	7.3%	7.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.6
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	3,031.5	244.4

Source: RBLL, ICRA Research

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				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	Date & Rating in FY2020	Date & Rating in FY2019	
					Jan 27, 2022	Feb 26, 2021	Feb 27, 2020	Jan 10, 2019	Apr 06, 2018
1	Fund based	Long-term	30.50	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	Unallocated	Long-term	90.32	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
3	Fund based	Short-term	25.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	fund based - sublimit	Short-term	(37.50)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	non-fund based	Short-term	19.50	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	non-fund based - sublimit	Short Term	(10.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Commercial paper	Short Term	-	-	-	-	[ICRA]A1+; withdrawn	[ICRA]A1+;	[ICRA]A1+;

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term - Fund based	Simple
Long-term - Unallocated	NA
Short term - Fund based	Simple
Short term - Fund based - sublimit	Very Simple
Short term - Non-fund based	Very Simple
Short term - Non-fund based – sublimit	Very 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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	CC	NA			30.50	[ICRA]AA- (Stable)
NA	Unallocated facilities				90.32	[ICRA]AA- (Stable)
NA	Short-term loan/Buyer's credit				25.00	[ICRA]A1+
NA	WCDL/PCFC/EPC/Buyer's credit - sublimit				(37.50)	[ICRA]A1+
NA	LC/BG				19.50	[ICRA]A1+
NA	LC/BG/SBLC - sublimit				(10.00)	[ICRA]A1+

Source: RBLL

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, 2022 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.