

January 19, 2023

Rane Brake Lining Limited: Ratings reaffirmed

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	[ICRA]AA- (Stable); reaffirmed
Short-term fund based	25.00	25.00	[ICRA]A1+; reaffirmed
Short-term fund based – sublimit	(37.50)	(37.50)	[ICRA]A1+; reaffirmed
Short-term non-fund based	19.50	19.50	[ICRA]A1+; reaffirmed
Short-term non-fund based – sublimit	(10.00)	(10.00)	[ICRA]A1+; reaffirmed
Total	165.32	165.32	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings draws comfort from Rane Brake Lining Limited's (RBLL/ the company) healthy operational and financial profile, and its financial and operational flexibility by being part of the larger Rane Group. The company also derives technology support from Nisshinbo Brakes Inc., Japan, which is a reputed global player in friction materials. 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) 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 OEMs in its direct and indirect customer profile. RBLL has had healthy new business wins in H1 FY2023. Further, it 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 remains debt-free and has strong liquidity position, and ICRA expects the company to remain net debt negative over the medium term, despite the moderate capex plans during H2 FY2023-FY2025.

The company posted a revenue growth of 29.4% in H1 FY2023 vis-à-vis H1 FY2022, backed by healthy organic growth across OEM and aftermarket segments, new business wins and increase in realisations. However, owing to the sharp cost inflation and unfavourable forex movements¹, and inadequate pass through of the same to its customers, RBLL's OPM contracted to 8.8% in FY2022 and 7.2% in H1 FY2023 vis-à-vis double-digit margins earlier. Going forward, ICRA expects the company to witness healthy revenue growth, aided by uptick in industry volumes, new business wins and geographic expansion. Further, the company's strategic initiatives, such as localisation and alternate source development, ongoing negotiations with its customers for raw material passthrough, softening of raw material prices and operating leverage benefits with anticipated improvement in topline are likely to result in improvement in margins. However, the ability to reach previous levels, given the competitive intensity, remains to be seen.

The company is exposed to environmental risks common for an entity using asbestos. RBLL currently derives ~20-25% of its revenues from asbestos formulations, although it has reduced from past levels. While the company's continued R&D and capability enhancement initiatives are likely to aid in strengthening its competitive position, complete migration to asbestos-free products over the medium term without loss of market share could remain a challenge.

¹ RBLL is a net importer

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 over Rs. 5,300 crore in FY2022. 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 reputed global 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 - 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 - ~38% in the OEM segment in FY2022 (34% in FY2021) and 19% in aftermarket in FY2022 (19% in FY2021), the other players being Sundaram Brake Linings Limited, Masu Brakes Private Limited, Allied JB Friction Private Limited, and Hindustan Composites Limited to name a few. 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. RBLL has had healthy new business wins in H1 FY2023. RBLL has minimal presence in export markets at present (~4% of the overall top line in H1 FY2023). While the company is undertaking focussed initiatives towards penetration into newer geographies, translation of the same into higher revenues remains to be seen.

Pan India aftermarket distribution network – The domestic aftermarket segment accounted for over 30% of the company's revenues in H1 FY2023. 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 5-6 years to focus on specific regions. In terms of geographies, South India contributes to ~60% to replacement sales. This has reduced from past levels, 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.

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 the last few years and has a strong liquidity position. This has resulted in strong capital structure and coverage metrics. Although the company has moderate capex plans between H2 FY2023 to FY2025, it is likely to be funded from internal accruals. ICRA expects the company to remain debt-free going forward as well.

Credit challenges

Moderation in margins in FY2022 and H1 FY2023 - Owing to the sharp cost inflation and unfavourable forex movements² in FY2022 and H1 FY2023, and inadequate pass through of the same to its customers, RBLL's OPM contracted to 8.8% in FY2022 and 7.2% in H1 FY2023 vis-à-vis double-digit margins earlier. 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 topline are likely to result in improvement in margins. However, the ability to reach previous levels remains to be seen.

Earnings exposed to cyclicity inherent in the automobile industry - The company is a tier-II supplier, deriving ~60% of its revenues from the domestic auto OEM segment, ~33% from the domestic aftermarket segment and the balance from railways/exports in H1 FY2023. Within the OEM segment, passenger vehicles constituted ~54% of revenues, thus exposing the

² RBLL is a net importer

revenues to any slowdown in this segment. Nevertheless, its healthy order book position and presence in the replacement market are likely to mitigate the risk to an 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 continued R&D and capability enhancement initiatives are likely to aid in strengthening its competitive position, complete migration to asbestos-free products over the medium term without loss of market share could remain a challenge.

Environmental and Social Risks

Environmental considerations - RBLL, being an auto component supplier, remains indirectly exposed to climate-transition risks by virtue of its automotive OEM customers manufacturing products used across different fuel powertrains. Accordingly, the prospects for RBLL are linked to the ability of its customers to meet tightening emission requirements. The company also remains exposed to tightening environmental regulations with regard to waste and pollution norms, which can lead to an increase in operating costs and new capacity instalment costs. RBLL has been taking steps to minimise the impact of environmental risks on its operations and carbon footprint, by enhancing its reliance on renewable sources and other energy saving efforts such as adoption of energy-efficient fixtures/equipment and water recycling. RBLL is also exposed to environmental risks arising from using asbestos in its products, although the proportion of asbestos products has reduced in the last few years. It has invested in capabilities to migrate entirely to asbestos-free friction materials, and the company also manufactures environment friendly products like copper-free friction material.

Social considerations - Social considerations for RBLL relate primarily to maintaining healthy industrial relations and product safety. Attracting and nurturing skilled manpower is critical as it seeks to keep pace with innovation and technological changes. On the product front, vehicle recalls by OEMs because of defective auto parts could create additional cost burden and liabilities. The company also has exposure to changing consumer preferences, including but not restricted to increasing awareness of the potential environmental damage from emissions, shift towards EVs, usage of sustainable materials and societal trends like preference for ride-sharing.

Liquidity position: Strong

RBLL's liquidity is strong with healthy anticipated cash accruals and undrawn fund-based working capital limits of Rs. 55.0 crore as on November 30, 2022. Also, RBLL does not have any long-term debt in its books. In relation to these sources of cash, RBLL has capex commitments of Rs. 12 crore in H2 FY2023, Rs. 43 crore in FY2024 and Rs. 27 crore in FY2025, 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, while maintaining its comfortable debt metrics 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. Specific credit metrics include net debt/OPBDITA greater than 1.0x on a sustained basis.

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 FY2023 was derived from brake linings and disc pads; and from asbestos-free products. 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)/[ICRA]A1+), Rane (Madras) Limited, Rane Engine Valve Limited, ZF Rane Automotive India Private Limited (ZFRAIPL, rated [ICRA]AA- (Stable)/[ICRA]A1+) and Rane NSK Steering Systems Private Limited. RHL and M/s. Nisshinbo Holdings Inc., Japan, hold 50.03% and 20.64% stakes, respectively, in RBLL (as on September 30, 2022).

Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating income	423.0	505.2
PAT	31.8	27.1
OPBDIT/OI	14.4%	8.8%
PAT/OI	11.1%	6.9%
Total outside liabilities/Tangible net worth (times)	0.6	0.6
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	126.9	177.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; 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: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Jan 19, 2023	Jan 27, 2022	Feb 26, 2021	Feb 27, 2020
1 Fund based	Long-term	30.50	-	[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)
3 Fund based	Short-term	25.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4 Fund based - sublimit	Short-term	(37.50)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5 Non-fund based	Short-term	19.50	-	[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+
7 Commercial paper	Short Term	-	-	-	-	-	[ICRA]A1+; withdrawn

Complexity level of the rated instruments

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: [Click Here](#)

Annexure I: 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	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				(37.50)	[ICRA]A1+
NA	LC/BG				19.50	[ICRA]A1+
NA	LC/BG/SBLC - sublimit				(10.00)	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545328

shamsherd@icraindia.com

Srikumar Krishnamurthy

+91 44 4596 4318

ksrikumar@icraindia.com

Vinutaa S

+91 44 4596 4305

vinutaa.s@icraindia.com

Bikram Keshari Swar

+91 44 4596 4311

bikram.swar@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

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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



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