

## Rane Holdings Limited

October 09, 2018

### Summary of rated instruments

Instrument*	Previously Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Term loans	13.50	25.06	[ICRA]AA- (Stable) reaffirmed
Long-term fund based	5.00	5.00	
Long-term unallocated	31.50	19.94	
Commercial Paper	10.00	10.00	[ICRA]A1+ reaffirmed
<b>Total</b>	<b>60.00</b>	<b>60.00</b>	

\*Instrument details in Annexure – I

### Rating action

ICRA has reaffirmed the [ICRA]AA- (pronounced ICRA double A minus) rating outstanding on the Rs.5.00 crore long-term fund-based facilities, the Rs.25.06 crore term loan facilities (revised from Rs.13.50 crore) and Rs. 19.94 crore long-term unallocated facilities (revised from Rs.31.50 crore) of Rane Holdings Limited (RHL/the company). The outlook on the long-term rating is stable. ICRA has also reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating outstanding on the Rs. 10.00 crore commercial paper programme of the company.

### Rationale

The ratings draw comfort from RHL's 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 consistent healthy performance of most large investee entities. The Group, via. its five key entities, derives majority of its revenues from sale of auto components, exposing the Group's 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; die-casting systems and air bags); automotive segments (passenger vehicle, commercial vehicles, tractors, multi-utility vehicles, and two-wheelers); and across domestic original equipment manufacturers (OEM), domestic replacement and export segments.

Given the expected growth in the domestic auto component industry over the next 2-4 quarters, ICRA expects the Group to post healthy revenue growth. The Group's profits are also expected to remain stable during FY2019. The Group has capex plans of around Rs. 800.0 crore over the next three years, primarily for capacity enhancement and upgradations/maintenance. Despite the additional borrowings, the debt metrics are expected to remain comfortable.

Consolidation measures like voluntary retirement schemes (VRS) undertaken within the group over the past two to three years are expected to support profits over the medium term; this has also freed up sizeable land bank. While part of these have been monetised, the group continues to hold the balance and will divest them as and when required. However, there is no plan for sale in the near term.

RHL encourages its group companies to fund their capital requirements on their own merits except in case of need, while limiting its role to that of a strategy provider – however, the company is open to creeping acquisitions and stake increase in the group companies, like the recent ones in Rane (Madras) Limited (RML) and Rane Engine Valve Limited (REVL). RML, in August/September 2017, did preferential allotment of warrants and shares to RHL – to the tune of Rs. 80 crore (Rs. 60

crore equity and Rs. 20 crore warrants; Rs. 15.0 crore of this to be pumped in FY2019 upon exercise of warrants). In REVL, the company acquired 3.75% stake through a secondary market transaction in September 2018.

The Group has been undertaking acquisitions in the last 1-2 years. The performance of Rane Precision Die Casting., Inc, USA (RPDC) which was acquired in Q4 FY2016 (by RML) continues to remain subdued. The group also acquired another company, Rane t4U Private Limited in September 2017 – providing services for connected mobility solutions – as part of its product diversification strategy. While RHL has invested Rs. 19.8 crore into the company as on March 31, 2018, the company is expected to infuse an additional Rs.7.2 crore over the medium term, depending on requirements. RHL has also invested Rs. 10.3 crore (USD 1.5 billion) in Auto Tech I, L.P, USA, an auto venture capital fund in the USA and has commitments to invest Rs. 22.2 crore (USD 3.4 million) over the next five years. The Group continues to be open to small to medium scale inorganic acquisitions in related verticals.

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 support. With no operations on its own, the standalone entity remains modest-scaled, with revenues of Rs. 95.6 crore in FY2018. Also, although RHL (standalone) enjoys healthy margins, the company has moderate debt levels and repayment obligations for its scale of operations. RHL's debt profile comprises of term loans (primarily from the Rane t4U acquisition) to the tune of Rs. 28.4 crore (as of March 30, 2018), with total repayments of Rs. 20.9 crore over FY2019 – FY2021. Also, the market value premium of RHL's group investments (as against the book value) has reduced to 216% as on October 03, 2018 compared to 536% of book value as of September 8, 2017 and is susceptible industry-related systemic risks.

## Outlook: Stable

The 'stable' outlook reflects that RHL will continue to maintain its position as the holding company of the established Rane Group and that the Group's aggregate financial profile will continue to remain healthy over the medium term. The outlook may be revised to 'positive' if there is significant improvement in the business and financial profile of the investee companies, and the company is able to diversify its investment portfolio into multiple sectors. The outlook may be revised to 'negative' if the financial profile of the investee entities deteriorates; if the holding company's return on investments is weaker-than-expected; or the standalone repayment obligations/investment commitments increase from current levels. The group continues to be open to small to medium scale acquisitions in related verticals; these would be evaluated on case-by-case basis.

## Key rating drivers

### 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 have 46.4% stake in RHL, and RHL in turn holds the entire promoter stake in all group companies. 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 and are involved in day-to-day operations of the company.

**Relatively healthy financial profile of majority of the investee companies; healthy financial profile of group on an aggregate basis** – Three group companies: Rane Brake Lining Limited (RBLL), Rane TRW Steering Systems Private Limited

(RTSSPL) and Rane NSK Steering Systems Private Limited (RNSSPL) have strong financial profiles with relatively low debt levels and healthy profit margins. Despite relatively low profit margins/high debt levels in RML and net losses in REVL in FY2018, the Group's aggregate financial profile continues to remain strong and is expected to remain so going forward.

**RHL's policy of largely not extending financial support to group entities for their capex or repayments except in cases of need** – RHL usually does not extend financial support to its group entities except in case of need. At the group level, although the aggregate capex plan is about Rs. 800 crore over the next three years, the accruals are expected to be healthy to support repayments and the capex by each company independently. However, the company is open to creeping acquisitions and stake increases. The company increased its stake in RML in FY2018 through a preferential allotment of equity shares/warrants issue to the tune of Rs. 80 crore (Rs. 15.0 crore of committed amount yet to be invested in FY2019) and in REVL by 3.75% through a recent secondary market transaction.

## Credit weaknesses

**Modest scale on standalone basis** – RHL's standalone revenues are confined to dividends, service fee and trademark fees from group companies. The standalone entity does not have its own operations, thus limiting scale. RHL's standalone income was Rs. 95.6 crore in FY2018.

**Concentration of investments in the automobile space** – The Rane Group entities are predominantly in the auto component space. As a result, the performances of RHL's investee companies are strongly correlated to the automobile industry. However, within the automotive industry, the group's product portfolio is diversified across steering, valve train, friction material, die-casting, seat belts and other automobile components. Segment wise also, the group's revenues are spread across passenger vehicles, commercial vehicles, two/three wheelers and tractors. While the strong presence in the auto ancillary space exposes RHL's consolidated revenues to the cyclical nature inherent in the auto industry and commodity price movements, the lack of industry diversification also restricts associated benefits.

**Reduction in investment buffer of RHL's listed portfolio** – The market value of RHL's listed portfolio reduced to Rs. 724.6 crore (as on Oct 03, 2018) from over Rs. 900 crore (as on Sep 08, 2017). The investment buffer which was on an increasing trend over the last few years and was over 500% in September 2017, dipped to 216% in October 2018. Further, significant vulnerability of investment buffer to industry-related systemic risks also exists, because of the concentration of investments in a single industry.

**Moderate financial risk on standalone basis** – RHL's standalone debt profile comprises of term loans to the tune of Rs. 28.4 crore (as of March 30, 2018), with total repayments of Rs. 20.9 crore over FY2019 – FY2021. Also, while RHL has invested USD 1.6 million/Rs. 10.3 crore in Auto Tech I, L.P, USA, the company has an additional investment commitment of USD 3.4 million/Rs. 22.2 crore over the next five years. Further, the company has an investment commitment of Rs. 15.0 crore in FY2019 in RML. The repayment obligations and investment commitments are moderate as a proportion of anticipated accruals.

**Relatively weak performance of Rane Engine Valve Limited; low margins and high debt levels in Rane (Madras) Limited** – REVL's performance remains weak due to various factors including high internal rejections (primarily in the recent product launches), relatively high employee costs and inefficiencies. REVL clocked net losses in FY2018 and is expected to turnaround at the net level only in FY2020 – a delay by a few quarters from earlier estimates. RML's consolidated net margins remained low at 1.7% for FY2018, because of losses at RPDC, despite healthy improvement in standalone performance. Also, RML's consolidated debt was relatively high at Rs. 356.8 crore and its total debt/OPBDITA was 2.8 times as on March 31, 2018, despite the equity infusion of Rs. 65.0 crore in FY2018.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below. ICRA has taken a consolidated view of RHL and its subsidiaries.

**Links to applicable criteria:**

[Corporate credit rating methodology](#)

**About the company:**

RHL is the holding company of the larger Rane group (the Group), an auto component manufacturing house with aggregate revenues of Rs. 4,688 crore in FY2018. The promoters hold 46.4% stake (as on June 30, 2018) 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 and IT support.

RHL has nine investee companies manufacturing/trading/servicing different products. Of RHL's subsidiaries, Rane (Madras) Limited (RML, [ICRA]A (Stable)/A1), Rane Brake Lining Limited (RBLL, [ICRA]AA- (Stable)/A1+) and Rane Engine Valve Limited (REVL, [ICRA]BBB (Stable)/ [ICRA]A2) manufacture automotive components. Rane Holdings America Inc. and Rane Holdings Europe GmbH are engaged in marketing of Group products in the respective geographies, while Rane t4U Private Limited provides services for connected mobility solutions. Among the three joint ventures, two manufacture automotive components – Rane TRW Steering Systems Private Limited (RTSSPL, [ICRA]AA-(Stable)/[ICRA]A1+) and Rane NSK Steering Systems Private Limited (RNSSPL), while JMA Rane Marketing Limited is engaged in aftermarket distributorship.

**Key Financial Indicators (audited)**

Consolidated	FY2017	FY2018
Operating Income (Rs. crore)	2,036.1	2,293.0
PAT (Rs. crore)	182.3	148.5
OPBDIT/ OI (%)	10.6%	10.6%
RoCE (%)	22.1%	19.4%
Total Debt/ TNW (times)	0.5	0.5
Total Debt/ OPBDIT (times)	2.1	2.1
Interest coverage (times)	4.9	5.4

Source: Company, BSE, 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:

		Current Rating (FY2019)		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
				Oct 2018	Sep 2017	Aug 2016	Sep 2015
1	Term loans	25.06	25.06				
2	Long-term fund based	5.00		[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
3	Long-term unallocated	19.94					
4	Commercial Paper	10.00		[ICRA]A1+	[ICRA]A1+	[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](http://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	FY2016	10.4%	FY2023	25.06	
Long- term fund based				5.00	[ICRA]AA- (Stable)
Long- term unallocated	NA			19.94	
Commercial Paper				10.00	[ICRA]A1+

Source: Rane Holdings Limited

## ANALYST CONTACTS

### Subrata Ray

+91 22 6114 3408

[subrata@icraindia.com](mailto:subrata@icraindia.com)

### Pavethra Ponniah

+91 44 4596 4314

[pavethrap@icraindia.com](mailto:pavethrap@icraindia.com)

### Vinutaa S

+91 44 4596 4305

[vinutaa.s@icraindia.com](mailto:vinutaa.s@icraindia.com)

## RELATIONSHIP CONTACT

### Jayanta Chatterjee

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

### Ms. Naznin Prodhani

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto: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](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 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](http://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