November 27, 2020

Rane Holdings Limited: [ICRA]AA- (Stable) reaffirmed for the Rs. 50.00 crore bank lines and [ICRA]AA- (Stable)/[ICRA]A1+ ratings assigned for the enhanced Rs. 50.00 crore bank lines

Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	23.75	29.86	[ICRA]AA- (Stable) reaffirmed
Long-term fund based	5.00	5.00	[ICRA]AA- (Stable) reaffirmed
Long-term unallocated	21.25	-	-
Long-term/short-term unallocated	-	65.14	[ICRA]AA- (Stable)/[ICRA]A1+ assigned
Total	**50.00**	**100.00**	

*Instrument details in Annexure – I

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 cyclicality 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); automotive segments (passenger vehicle, commercial vehicles, tractors, multi-utility vehicles, and two-wheelers); 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 limiting its role to that of a strategy provider – however, the company is open to creeping acquisitions and stake increases in the group companies. A one-off instance has been the investment to the tune of Rs. 105 crore in Rane (Madras) Limited (RML) during FY2018 – FY2020 and a committed investment of Rs. 25.0 crore to be infused in FY2021. RHL has also invested Rs. 27.2 crore in Auto Tech I, L.P, USA, an auto venture capital fund in the United States of America (USA) and has commitments to invest Rs. 6.7 crore over the next one year.

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. 97.3 crore in FY2020 and Rs. 30.8 crore in H1 FY2021. Also, although RHL enjoys healthy margins, the company has moderate debt levels, repayment obligations and letter of comfort-related potential liabilities for its scale of operations. RHL's debt profile comprises of term loans of Rs. 26.1 crore (as of September 30, 2020), with total repayments of Rs. 37.5 crore over H2 FY2021 – FY2023 (including that of proposed loans for the current investment commitments), in addition to which the company has given letter of comfort of Rs. 15.0 crore for a subsidiary, Rane T4U Private Limited's (Rane T4U) borrowings. Nevertheless, RHL's market value of unencumbered listed investments is over ten times the standalone debt and letter of comfort given, for the last six 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 with relatively low debt levels. These three entities account for 80% of the dividend income earned by RHL, the hold co.

RHL's policy of largely limiting support to group concerns – RHL 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. Instances like the fund infusion in RML (Rs. 130.0 crore during FY2018-FY2021 including committed investment) have been one-offs.

Relatively low debt levels compared to market value of unencumbered 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 six years, resulting in strong financial flexibility. In addition, RHL also has high-return offering unlisted investments namely RTSSPL and RNSSPL. However, while ICRA expects RHL's peak debt to be lower than Rs. 60.0 crore at any given point in time over the medium term, vulnerability of investment buffer to industry-related systemic risks exists, because of the concentration of investments in a single industry.

Credit challenges

Modest scale on standalone basis with moderate financial risk – 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 operating income was Rs. 97.3 crore in FY2020 and Rs. 30.8 crore in H1 FY2021, the latter impacted by the pandemic. RHL's standalone debt profile comprises of term loans to the tune of Rs. 26.1 crore (as of September 30, 2020), with total repayments of Rs. 37.5 crore over H2 FY2021 – FY2023. In addition, RHL has given letter of comfort to the tune of Rs. 15.0 crore for Rane T4U's borrowings. Also, while RHL has invested Rs. 27.2 crore in Auto Tech I, L.P, USA, the company has an additional investment commitment of Rs. 6.7 crore over the next one year. Further, the company has committed investment of Rs. 25.0 crore in RML in FY2021 and plans to infuse minimal amounts in Rane T4U. The repayment obligations, letter of comfort-related potential liability and investment commitments are moderate as a proportion of anticipated accruals.

Concentration of investments in the automobile space; vulnerable to cyclicality inherent in the auto industry/commodity price movements – The Rane Group entities are entirely focused in the auto component space. As a result, the performance of RHL's investee companies is strongly correlated to the automobile industry. 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. Segment wise also, the group's revenues are spread across passenger vehicles, commercial vehicles, two wheelers and tractors. The focus on the automotive industry and lack of diversification exposes the company's revenues to the cyclicality inherent in the auto industry and commodity price movements.

Liquidity Position: Strong

The company's standalone liquidity position continues to be strong, with positive free cash flows in the last four 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. The company has an expected capex outlay of ~Rs. 5 crore in total for H2 FY2021 – FY2023, a total investment commitment of Rs. 32 crore over FY2021 and FY2022 and cumulative repayment obligations of Rs. 37.5 crore for H2 FY2021 – FY2023 (on existing and proposed loans for current investment commitments). These are likely to be met through a combination of internal accruals and incremental debt.

Rating sensitivities

Positive triggers – 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 triggers – 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	Standalone

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. 4,300 crore in FY2020. The promoters hold 46.4% stake (as on September 30, 2020) 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	FY2019	FY2020
Operating Income (Rs. crore)	116.0	97.3
PAT (Rs. crore)	76.4	50.8
OPBDIT/ OI (%)	68.8%	64.9%
PAT/OI (%)	65.9%	52.2%
Total Outside Liabilities/ TNW (times)	0.1	0.1
Total Debt/ OPBDIT (times)	0.2	0.6
Interest coverage (times)	33.9	29.1

Source: Company, BSE, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; TOL: Total Outside Liabilities; TNW: Tangible Net Worth

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 FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Nov 27, 2020	Nov 29, 2019	Oct 09, 2018	Sep 18, 2017
1	Term loans	Long Term	29.86	26.1				
2	Long-term fund based	Long Term	5.00		[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
3	Long-term unallocated	Long Term	-					
4	Commercial Paper	Short Term	-		-	-	[ICRA]A1+	[ICRA]A1+
5	Long-term/short-term unallocated	Long Term/Short Term	65.14		[ICRA]AA-(Stable)/ [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	8.0%	FY2024	29.86	[ICRA]AA- (Stable)
Long- term fund based	NA			5.00	
Long- term/short-term unallocated				65.14	[ICRA]AA- (Stable)/[ICRA]A1+

Source: Rane Holdings Limited

Annexure-2: List of entities considered for consolidation

Company Name	Ownership	Consolidation Approach
Not applicable		

Source: Rane Holdings Limited

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