January 11, 2017

Rane Brake Lining Limited

Instruments*	Amount rated (Rs. crore)	Rating Action
Long term fund based facilities ##	43.00	Reaffirmed at [ICRA]A+; outlook revised to positive from stable
Long term facilities - proposed	82.82	Reaffirmed at [ICRA]A+; outlook revised to positive from stable
Short term fund based facilities	10.00	Reaffirmed at [ICRA]A1+
Short term fund based facilities – sub limit	(147.00)	Reaffirmed at [ICRA]A1+
Short term fund based facilities – sub limit #	(USD 1.5 million)	Reaffirmed at [ICRA]A1+
Short term non fund based facilities	29.50	Reaffirmed at [ICRA]A1+
Short term non fund based facilities – sub limit	(60.00)	Reaffirmed at [ICRA]A1+
Short term non fund based facilities– sub limit #	(USD 1.5 million)	Reaffirmed at [ICRA]A1+
Commercial paper programme	30.00	Reaffirmed at [ICRA]A1+
Term loan facilities	4.60	[ICRA]A+ withdrawn

- Of this, Rs.10.00 crore can be utilized as either long-term or short term facilities. In case these are utilized as short term facilities, the short term rating shall apply accordingly.
 # - Although the facility is denominated in foreign currency, ICRA's rating for the same is on national scale as distinct from international rating scale.

Rating action

ICRA has reaffirmed the [ICRA]A+ (pronounced ICRA A plus)[1] rating outstanding on the Rs.43.00 crore long term fund based facilities and the Rs.82.82 crore proposed long term facilities of Rane Brake Lining Limited ("RBLL"/ "the Company"). The outlook on the long term rating has been revised to positive from stable. ICRA has also reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating outstanding on the Rs.10.00 crore short term fund based facilities, the Rs.147.00 crore short term fund based facilities (sublimit), the USD 1.50 million short term fund based facilities (sublimit), the Rs.29.50 crore short term non-fund based facilities, the Rs.60.00 crore short term non-fund based facilities (sublimit) and the USD 1.50 million short term non-fund based facilities (sublimit) of the Company. ICRA has also reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating outstanding on the Rs.30.00 crore commercial paper programme of the company.

ICRA has also withdrawn the [ICRA]A+ (pronounced ICRA A plus)[2] rating outstanding on the Rs. 4.60 crore term loan facility of the company, as there is no amount outstanding against the rated instrument.

Rationale

The revision in outlook takes into account the improvement in RBLL's financial profile in FY2016 and H1 FY2017; and the anticipated improvement in the near to medium term. The company's revenues witnessed healthy growths of 7.7% and 10.1% respectively in FY2016 and H1 2017, aided primarily by improvement in volumes from the passenger car and two wheeler segments in the domestic OEM category; and, better penetration and product range enhancement in the domestic aftermarket segment. The company also effected price increases in both the aforementioned categories in H1 FY2017. Cost saving initiatives undertaken by RBLL across cost heads, and softening of commodity prices resulted in substantial improvement in operating margins in FY2016 and H1 FY2017; the operating margins improved from 11.0% in FY2015 to 12.2% in FY2016 and 14.1% in H1 FY2017. The net margins during the said period also improved substantially, aided by cascading effect of the operating margin improvement and lower interest costs. RBLL's healthy accruals,

[1]For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications
[2]For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

modest working capital intensity, relatively low capex undertaken in the last few years, and consequently comfortable liquidity position have aided in gradual reduction in the company's debt levels; as on 30 September 2016, the company's debt level stood at Rs.2.0 crore, comprising only of working capital borrowings. As a result, RBLL's already conservative capital structure and coverage metrics have strengthened further in H1 FY2017. The company's working capital utilization has also remained negligible in the last few months.

RBLL has a healthy pipeline of new domestic OEM businesses for the next six months to one year. The company is also looking at increasing penetration and improving product range further in the domestic replacement segment, and plans to explore new overseas markets. RBLL's revenues are likely to grow at a healthy pace in the next one year. The ongoing cost reduction initiatives are also likely to improve profit margins and accruals further, although the company remains exposed to the volatility in raw material prices/forex fluctuations beyond the hedge. Despite debt funded capex plans in the pipeline, ICRA expects RBLL's capitalization, coverage metrics and liquidity position to remain strong in FY2017 and FY2018.

The ratings also take into account RBLL's strong parentage; and the company's established position as the market leader in the domestic friction material industry, its reputed clientele comprising of well-recognized Tier I automobile suppliers and healthy share of business with these customers. The company has widespread distribution network in the replacement market and has increased its market share in the aftermarket segment in FY2016 and H1 FY2017. ICRA also positively factors in RBLL's technology support from M/s. Nisshinbo Brakes Inc., Japan (the global leader in friction materials, which is also part of the promoter group in RBLL).

RBLL continues to witness competitive threat from multinational companies and strong domestic incumbents; nevertheless, the long standing presence, market position and formulations mitigate the risk to an extent. ICRA also notes that the company has a significant portion of its revenues derived from the domestic aftermarket segment, and there could be some impact on the same because of the recent currency demonetization. Also, migration to 100% asbestos free products in the domestic aftermarket segment over the medium term, without loss of market remains a challenge.

Key rating drivers
Credit Strengths

- Strong parentage by virtue of the company belonging to the larger Rane Group of companies - a leading player in the domestic auto ancillary industry
- Market leadership in the friction materials space in India
- Technology support from Nisshinbo Brakes Inc., Japan, a globally renowned player in friction materials
- Established customer profile in OEM segment comprising of renowned Tier I suppliers; healthy, intact market share; new business pipeline strong
- Pan India distribution network in the replacement segment; expansion in north and west India, improved disc pad sales aids in improvement of market share in the replacement segment
- Strong financial profile characterized by healthy growth in revenues and profit margins in FY2016 and H1 FY2017; improvement in the already comfortable capitalization and coverage indicators, and liquidity position; negligible working capital utilization
- Healthy growth in revenues anticipated in the near to medium term; ongoing cost reduction initiatives and improved volumes to result in higher accruals going forward, and financial position to remain strong over the next 12-18 months

Credit Weaknesses

- Currency demonetization could dampen domestic aftermarket revenues for FY2017
- Maintaining market share during migration to asbestos free products in the domestic aftermarket segment
- Competition from multinational companies (MNCs) and domestic players trying to increase presence; however, RBLL's long standing experience, strong market position and superior formulations mitigate the threat to an extent
- Margins susceptible to volatility in raw material price movements; profits also vulnerable to unfavourable forex movements although the effective hedging mechanism mitigates the risk to an extent

Description of key rating drivers highlighted above:
RBLL remains the market leader in the Indian friction material industry with a healthy market share of over 50% amongst friction material supplies to tier I vendors of automobile OEMs and over 20% within the organized

segment in the replacement market for the company's products. While the company has maintained its market share in the domestic OEM segment, higher penetration in the north and west regions and enhanced product range aided in improvement in market share in the domestic replacement segment in the last few months.

RBLL's customers in the OEM segment comprise of well-recognized tier I suppliers and the company continues to enjoy a healthy market share for its products with most of its existing customers/OEMs. The company also continues to add new businesses periodically. In the replacement segment, the company's products are distributed through reputed dealers pan India. While RBLL's revenues were concentrated in South India earlier, the company has gradually expanded to north and west markets from FY2014. The revenues are likely to get more evenly distributed going forward, with better penetration in the new zones. The company is also trying to diversify its product range and has commenced sale of disc pads since FY2014.

RBLL witnesses significant competition in both its major revenue generating segments from incumbents like Sundaram Brake Linings Limited (rated [ICRA]BBB+ (Stable)/[ICRA]A2), Allied Nippon Limited and Masu Brakes Private Limited ([ICRA]BBB- (Stable)/[ICRA]A3) and from MNCs trying to expand presence in India. The company also witnesses competition from economical imports and from the unorganized segment in replacement markets. Nevertheless, the risk is mitigated to an extent by a) the company's established position in the industry, b) RBLL's superior formulations, c) technology collaboration with M/s. Nisshinbo Brake Inc., Japan – the market leader in the global friction material industry and c) barriers such as stringent quality requirements inherent to the friction materials industry, that mitigate risks of customers shifting to other vendors to a large extent. Also, while asbestos-free products account for close to three-fourths of revenues currently, the company plans to switch completely to asbestos-free products over the medium term to position itself better in the industry; migration without loss of market share could remain a challenge.

The company derives over 45% revenues from the domestic OEM segment, and over 35% from the domestic aftermarket segment; segment wise M&HCV and passenger cars constitute majority of revenues and RBLL is trying to expand presence in two wheelers. Aided by improvement in off take from existing customers, healthy addition of new businesses in the domestic OEM segment, and increased penetration in the aftermarket segment, the company's revenues grew at healthy paces in FY2016 and H1 FY2017; the company also effected some marginal price increases across both the segments in the latter period. Substantial reduction across cost heads, with a large part of it on the raw material front, aided in operating margin improvement for the company. At the net level, in addition to this, lower debt levels; and prudent mix of cost effective debt instruments lowering the average interest rate aided in margin expansion.

RBLL has low working capital intensity and has had relatively low capex in the last few years. In addition to this, the company has been generating healthy accruals. All these have resulted in improvement in liquidity position and substantial reduction in debt levels strengthening the capital structure and coverage metrics.

Going forward, the company's revenues and margins are likely to witness healthy growth; this is beyond the anticipated dampening impact of currency demonetization, and potential volatility from raw material/forex movements. Despite debt funded capex plans in the pipeline, RBLL's debt metrics and liquidity position are likely to remain strong.

Analytical approach:

Links to applicable Criteria
Corporate Credit Rating - A Note on Methodology
Rating Methodology for Auto Component Manufacturers

About the Company:
Rane Brake Lining Limited (RBLL / "the Company") is engaged in the manufacturing of friction material such as brake linings, disc pads, clutch facings, clutch buttons and brake pads for the automobile industry and brake blocks for the Indian Railways. The company has technology collaboration with M/s. Nisshinbo Brake Inc., Japan. RBLL 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 SAARC, Middle East and Europe. Majority of the company's revenues during H1 FY2017 were derived from brake linings and disc pads. In terms of composition, asbestos-free products, constitute significant part of RBLL's portfolio. The company has four manufacturing capacities located in Chennai, Hyderabad,

Puducherry and Trichy and having an aggregate installed capacity to manufacture 7.2 crore numbers of various friction materials as on 30 September 2016.

The company 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 (rated [ICRA]A (Stable) and [ICRA]A1), Rane Engine Valve Limited (rated [ICRA]BBB (Stable) and [ICRA]A2), Rane TRW Steering Systems Limited (RTSSL, rated [ICRA]AA- (Stable) and [ICRA]A1+), Rane NSK Steering Systems Limited and JMA Rane Marketing Limited. RHL and M/s. Nisshinbo Holdings Inc., Japan hold 46.1% and 20.2% stakes in RBLL respectively (as on 30 September 2016).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Month - year & rating	Month - year & Rating in FY2016	Month - year & Rating in FY2015	Month - year & Rating in FY2014
1	Long term fund based facilities ##	Long term	43.00	Jan 2017	Mar 2016	Feb/Mar 2015	Feb 2014
				[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
2	Long term facilities - proposed	Long term	82.82	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
3	Short term fund based facilities	Short term	10.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
4	Short term fund based facilities – sub limit	Short term	(147.00)	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
5	Short term fund based facilities – sub limit #	Short term	(USD 1.5 million)	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
6	Short term non fund based facilities	Short term	29.50	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
7	Short term non fund based facilities – sub limit	Short term	(60.00)	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
8	Short term non fund based facilities– sub limit #	Short term	(USD 1.5 million)	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
9	Commercial paper programme	Short term	30.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

- Of this, Rs.10.00 crore can be utilized as either long-term or short term facilities. In case these are utilised as short-term facilities, the short-term rating shall apply accordingly.
 # - Although the facility is denominated in foreign currency, ICRA’s rating for the same is on national scale as distinct from international rating scale

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

Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Long term fund based facilities – Cash credit ##	-	-	-	43.00	[ICRA]A+ (Positive)
Long term facilities - proposed	-	-	-	82.82	[ICRA]A+ (Positive)
Short term fund based facilities -- STL/Buyer's credit	-	-	-	10.00	[ICRA]A1+
Short term fund based facilities – sub limit	-	-	-	(147.00)	[ICRA]A1+
Short term fund based facilities – sub limit #	-	-	-	(USD 1.5 million)	[ICRA]A1+
Short term non fund based facilities - LC/BG	-	-	-	29.50	[ICRA]A1+
Short term non fund based facilities – sub limit	-	-	-	(60.00)	[ICRA]A1+
Short term non fund based facilities– sub limit #	-	-	-	(USD 1.5 million)	[ICRA]A1+
Commercial paper programme				30.00	[ICRA]A1+

- Of this, Rs.10.00 crore can be utilized as either long-term or short term facilities. In case these are utilised as short-term facilities, the short-term rating shall apply accordingly.
 # - Although the facility is denominated in foreign currency, ICRA's rating for the same is on national scale as distinct from international rating scale
Source: Company

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