Rane Brake Lining Limited

April 06, 2018

Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based	43.00	38.00	[ICRA]AA- (Stable); rating revised from [ICRA]A+ (Positive)
Long-term unallocated	82.82	97.82	
Short-term fund based	10.00	10.00	[ICRA]A1+; reaffirmed
Short-term fund based - sublimit	(147.00)	(102.00)	
Short-term fund based – sublimit#	(USD 1.5 million)	(USD 1.5 million)	
Short-term non-fund based	29.50	19.50	
Short-term non-fund based - sublimit	(60.00)	(50.00)	
Short-term non-fund based – sublimit#	(USD 1.5 million)	(USD 1.5 million)	
Commercial paper	30.00	30.00	
Total	**195.32**	**195.32**	

*Instrument details in Annexure – I

- 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 revised the rating outstanding on the Rs. 38.00 crore long-term fund based facilities (revised from Rs. 43.00 crore) and the Rs. 97.82 crore long-term unallocated facilities (revised from Rs. 82.82 crore) of Rane Brake Lining Limited (RBLL/the company) to [ICRA]AA- (pronounced ICRA double A minus) from [ICRA]A+ (pronounced ICRA A plus). ICRA has also reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating to the Rs.10.00 crore short-term fund based facilities, the Rs.102.00 crore short-term fund based facilities (sublimit, revised from Rs. 147.00 crore), the USD 1.5 million short-term fund based facilities (sublimit), the Rs.19.50 crore short-term non-fund based facilities (revised from Rs. 29.50 crore), the Rs. 50.00 crore short-term non-fund based facilities (sublimit, revised from Rs.60.00 crore) and the USD 1.5 million short-term non-fund based facilities (sublimit) of the company. ICRA also reaffirmed the rating outstanding on the Rs.30.00 crore commercial paper programme of the company at [ICRA]A1+ (pronounced ICRA A one plus). The outlook on the long-term rating has been revised to 'stable' from 'positive'.

Rationale

The rating revision takes into account the improvement in RBLL's financial profile in the last few years; and the anticipated accrual, debt and liquidity position in the near to medium term. RBLL's operating profit margins (OPM) improved from 11.0% in FY2015 to 17.3% in 9M FY2018, while its net profit margins (NPM) improved from 3.9% in FY2015 to 8.9% in 9M FY2018, aided by cost savings in raw materials; power costs; employees and other fixed expenses; and interest expenses. The company's debt position also improved significantly with the healthy accruals, given that RBLL undertook modest capex in the recent years. The capital structure which was 0.4 times as on March 31, 2015 and interest coverage which was at 7.6 times for FY2015 strengthened further in 9M FY2018; RBLL had zero debt as on December 31, 2017 and its interest coverage stood at 204.4 times for the period. Further, the company's working capital utilization for the period October 2016 to December 2017 was negligible, indicating robust liquidity position.

RBLL witnessed healthy addition of new businesses in the last 12-18 months and has a reasonable pipeline going forward as well. While the revenue growth was muted in 9M FY2018, and is likely to remain so for FY2018, the healthy growth outlook for the auto component sector; execution of new businesses; and various strategic revenue improvement initiatives are likely to aid in pickup in revenues from FY2019. Although RBLL's profit margins are vulnerable to commodity and forex fluctuations, the company's cost saving initiatives and effective hedging are likely to cap impact of any unfavourable movements in the same. ICRA expects the company's capitalization, coverage metrics and liquidity to remain strong going forward as well, despite the significant capex plans.

The ratings also take into account RBLL's strong parentage; and the 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). ICRA also positively factors in the company's established position in the domestic friction material industry; its reputed clientele comprising of well-recognized Tier-I automobile suppliers; and healthy shares of business with tier-Is and auto OEMs. The company continues to have a widespread pan-India distribution network in the replacement market, with increased penetration in the north and west markets in the recent years.

RBLL witnesses competitive threat from other industry incumbents; nevertheless, the company's long-standing presence, market position and superior formulations mitigate the risk to an extent. Also, while the company has segment concentration with the PV and M&HCV segments and is exposed associated risks, the healthy growth outlook for these segments and proposed better penetration into the 2W segment in the over the medium term provide some comfort. ICRA notes that the company plans to shift entirely to asbestos-free products in the aftermarket segment over the medium term; however, implementing the migration without loss of market share would remain critical, given that there is substantial preference for asbestos products in aftermarkets.

Outlook: Stable

The stable outlook reflects that RBLL will continue to maintain its well-entrenched market position in the friction material space and that incremental revenues from existing/new businesses in the OEM segment and better aftermarket penetration with continue to drive revenues. Margins are likely to remain healthy aided by the various cost-saving initiatives. RBLL's debt metrics and liquidity position are also expected to remain comfortable in the medium term, despite the significant capex plans.

Key rating drivers

Credit strengths

Strong parentage – RBLL is a key company of the Chennai-based Rane Group, well-known in the domestic and international auto ancillary space, having revenues of over Rs. 4,000 crore in FY2017. RBLL also receives common services on general management, training, IT infrastructure and support from RHL regularly. The company also derives technology support from Nisshinbo Brakes Inc., Japan – which is a globally renowned player in friction materials, and TMD Friction S. A. – its group company. Nisshinbo Holdings Inc., Japan holds 20.2% stake in RBLL.

RBLL remains one of the leading friction material players in India – RBLL is a leading player in the domestic friction material industry, and continues to hold sizeable market share in the OEM and aftermarket segments for friction materials. 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.

Established customer profile in the domestic OEM segment; healthy addition of new businesses in the last 12-18 months – RBLL is a tier-II supplier. The company counts several domestic tier-I suppliers and auto original equipment manufacturers (auto OEMs) in its direct and indirect customer profile; and has healthy shares of business with its customers and the OEMs. The company has also secured about Rs. 30 crore of new businesses in FY2017 and 9M FY2018.

Pan India aftermarket distribution network; increased penetration in the north and west markets in the recent years – The company has eight distributors for its aftermarket sales, pan India; while seven of them have been in existence for several years, the eighth one was added recently. In terms of geographies, south India contributed to ~70% of replacement sales 4-5 years back. This has reduced to 50% currently, with better penetration in the north and west markets in the last few years.

Comfortable financial profile characterized by healthy profit margins, negligible debt and strong liquidity – The company's profit margins have improved gradually over the last few years, with improvement across cost heads. RBLL's OPM stood at 17.3% for 9M FY2018, while its NPM stood at 8.7% for the same period. By virtue of the healthy accruals, and modest capex undertaken in the last few years, the company debt levels have gradually improved. RBLL had zero debt as on December 31, 2017. Also, the company's working capital utilization was negligible for the period October 2016 to December 2017, at sub 5% of sanctioned limits and drawing power.

Healthy pipeline of new orders; financial profile to remain comfortable going forward – The company has over Rs. 20.0 crore of secured new businesses for FY2019 and FY2020. The healthy growth outlook for the auto component sector; execution of these new businesses; and various strategic market penetration and new product development initiatives undertaken by the company are likely to aid in revenue growth in the near to medium term. RBLL's profit margins are also likely to remain healthy going forward, aided by the company's cost saving initiatives. ICRA expects the company's debt profile and cash flow position to remain strong going forward as well, despite the significant capex plans.

Credit challenges

Muted revenue growth in 9M FY2018 – The company's revenues grew by only 1.1% in 9M FY2018. The growth was slowed down by lower aftermarket sales due to dealer destocking in H1 FY2018 because of GST implementation; lower orders from Indian Railways on account of the company's strategic focus on future programmes; and weak performance of the export segment. While the revenue growth for FY2018 is also likely to remain muted, ICRA expects RBLL to witness healthy volume uptick from FY2019.

Margins vulnerable to unfavourable forex movements and commodity price fluctuations – RBLL is a net importer and its margins are vulnerable to unfavourable USD/JPY/Euro movements; nevertheless, the company's effective hedging mechanism mitigates the risk to a large extent. Also, the company's margins are vulnerable to increase in commodity prices, given the limited ability to pass on incremental costs to customers. However, ICRA believes that the company's strategic costs saving initiatives and approach in passing on increase/decrease in raw material costs and forex would cap impact of unfavourable commodity movements on margins to a large extent, in the near to medium term.

Significant capex plans over the next three years – RBLL has capex plans to the tune of Rs. 130 crore for the three year period FY2019-FY2021 for R&D initiatives, capacity enhancement and upgradation/maintenance. Although the capex is significant for the scale of operations and part of it is likely to be debt-funded, the company's capital structure, coverage metrics and cash flows are likely to remain comfortable going forward.

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 competitive threat to a large extent. The company's proposed R&D investments are also likely to strengthen its competitive position going forward.

Relatively high concentration in M&HCV and PV segments – The company currently derives over 80% of its revenues from the PV and M&HCV segments, exposing it to sales volatility in these segments. However, the healthy growth outlook for the segments and anticipated better penetration in the 2W segment over the medium term provide some comfort.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating methodology for Auto Component Suppliers

About the company:

Rane Brake Lining Limited (RBLL / the company) 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 9M FY2018 were 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 located 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 (rated [ICRA]A (Stable) and [ICRA]A1), Rane Engine Valve Limited (rated [ICRA]BBB (Positive) and [ICRA]A2), Rane TRW Steering Systems Private Limited (RTSSPL, rated [ICRA]AA- (Stable) and [ICRA]A1+), Rane NSK Steering Systems Private 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 December 31, 2017).

Key Financial Indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	448.4	487.5
PAT (Rs. crore)	25.8	34.7
OPBDIT/ OI (%)	12.2%	15.0%
RoCE (%)	22.0%	25.0%
Total Debt/ TNW (times)	0.2	0.04
Total Debt/ OPBDIT (times)	0.5	0.1
Interest coverage (times)	16.8	97.0
NWC/ OI (%)	14.2%	11.8%

Source: Company, 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:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Apr 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2017 Jan 2017	Date & Rating in FY2016 Mar 2016	Date & Rating in FY2015 Feb 2015
1	Long-term fund based	Long Term	38.00		[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Long-term unallocated	Long Term	97.82					
3	Short-term fund based	Short Term	10.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Short-term fund based - sublimit	Short Term	(102.00)					
5	Short-term fund based – sublimit#	Short Term	(USD 1.5 million)					
6	Short-term non-fund based	Short Term	19.50					
7	Short-term non-fund based - sublimit	Short Term	(50.00)					
8	Short-term non-fund based – sublimit#	Short Term	(USD 1.5 million)					
9	Commercial paper	Short Term	30.00					

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
CC	NA			38.00	[ICRA]AA- (Stable)
Unallocated facilities	NA			97.82	[ICRA]AA- (Stable)
Short-term loan/Buyer's credit	NA			10.00	[ICRA]A1+
WCDL/PCFC/EPC/Buyer's credit - sublimit	NA			(102.00)	[ICRA]A1+
Buyer's credit - sublimit	NA			(USD 1.5 million)	[ICRA]A1+
LC/BG	NA			19.50	[ICRA]A1+
LC/BG - sublimit	NA			(50.00)	[ICRA]A1+
LC - sublimit	NA			(USD 1.5 million)	[ICRA]A1+
Commercial paper	NA			30.00	[ICRA]A1+

Source: Rane Brake Lining Limited

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