CRISIL Ratings

Rating Rationale

May 27, 2022 | Mumbai

Rane (Madras) Limited

Rating outlook revised to 'Stable'; Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.498 Crore**
Long Term Rating	**CRISIL A-/Stable (Outlook revised from 'Negative'; Rating Reaffirmed)**
Short Term Rating	**CRISIL A2+ (Reaffirmed)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised the outlook on long term bank facilities of Rane (Madras) Limited (RML) to **'Stable'** from 'Negative' and reaffirmed the rating at 'CRISIL A-'. The ratings on short term bank facilities are also reaffirmed at 'CRISIL A2+'.

The revision in outlook of RML reflects the recovery in performance in fiscal 2022 and expected sustained improvement from fiscal 2023 onwards supported by improving demand scenario for the automobile sector. Revenues in fiscal 2022 grew by 38% driven by better offtake from automobile Original Equipment Manufacturers (OEMs), healthy export and aftermarket demand. The overseas subsidiary, Rane Light Metal Casting Inc, USA (RLMC) (renamed from Rane Precision Die Castings Inc) continued to make operating losses due to sub-optimal capacity utilisation which has constrained the growth in consolidated operating profitability. Consolidated operating profitability grew by 120 bps to 4.2% driven by improvement in standalone operating profitability which improved from 2.7% in fiscal 2021 to 8.6% in fiscal 2022.

RML remains well positioned to capitalise on the favourable demand scenario in Passenger vehicles (PV) and Commercial Vehicles (CV) in fiscal 2023. Besides, there has been strong order inflows for existing and new products especially in the Die Casting Division. Diversity with respect to segments within the automotive sector and presence in aftermarket segment also augur well for the business performance.

Rane Holdings Ltd (RHL), the holding company of Rane group has infused Rs.30 crores in fiscal 2022 to fund the losses in US subsidiary. Besides, receipt of grants of Rs.47 crores from the US government has eased the pressure on RML to support the subsidiary in fiscal 2022. RLMC is expected to make losses in fiscal 2023 as well and breakeven in fiscal 2024. RML's gearing is elevated at >2 times as on March 31,2022, while key debt metrics have also moderated due to debt funded capex and weak operating performance in RLMC. Gearing is expected to remain elevated, though moderate, due to capex being planned in RML's India operations to cater to new orders won recently.

The rating reflects the RML's leading position in India's automotive steering components segment, diversified revenue profile, and benefits derived from being part of the Rane group. These rating strengths are partially offset by sizeable investments in domestic and overseas die casting business leading to below average profitability and moderate financial risk profile. RML also remains exposed to demand cyclicality and pricing pressure on account of large exposure to automobile original equipment manufacturers (OEMs).

Analytical Approach

For arriving at its ratings, CRISIL Ratings has fully consolidated the business and financial risk profiles of RML and its subsidiaries, RLMC and Rane (Madras) International Holdings B V, Netherlands (RMIH), as these entities have operational linkages. CRISIL has also factored in support from the Rane group, since RML is the flagship entity and is an integral part of the group, and also derives synergies from the group.

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Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Leading position in India's auto steering market**
  RML is a leading player in the domestic steering market with strong presence in mechanical steering gears and hydrostatic gear systems. Further, RML has long standing relationship with marque clients across vehicle segments, namely Maruti Suzuki India Ltd (MSIL; rated CRISIL AAA/Stable/CRISIL A1+), Tata Motors Ltd (TML; rated CRISIL AA-/Stable/CRISIL A1+), Tractors and Farm Equipment Limited (TAFE; rated CRISIL AA+/Stable/CR ISIL A1+), Mahindra and Mahindra Ltd (M&M; rated CRISIL AAA/Stable/CRISIL A1+) etc. Further RML has acquired Steering component business of Yagachi technologies in November 2021 for a consideration of Rs.23.19 crores. The acquired business manufactures steer ing and suspension components such as inner ball joints and outer ball joints. The acquisition provides RML with access to major OEMS and will enhance RML's leadership position in the domestic passenger vehicle market. Supported by its established presence, RML has managed to make significant in-roads in terms of share of business with its customers by bagging new significant orders. Besides, in-house capabilities have enabled the company to make product improvements in line with the requirement of its key customers and sustain its healthy market position despite competition from established peers like Z.F. Steering Gear (India) Ltd and JTEKT India Ltd.

- **Diversified revenue profile**
  RML has healthy revenue diversity, marked by presence across all segments of the automotive component sector—domestic OEM, aftermarket, and exports, with domestic OEMs accounting for ~60-65% of revenues. Within OEMs, RML caters to the passenger vehicles, commercial vehicle (CV), and tractor segments. Besides, the company also derives about 15-20% of revenues from die-casting components sold to domestic and export customers. RML's revenues have registered a healthy compound annual growth rate of 20% between fiscals 2016 and fiscals 2019 to ~Rs.1555 crore, supported by healthy demand from end-customer segments and acquisition of RLMC. However, the revenues in fiscal 2020 and 2021 moderated in line with double digit revenue decline registered by automotive OEMSs. In fiscal 2022, the revenues recovered due to improved offtake from OEMs, better export demand and healthy aftermarket demand. CRISIL expects RML to post healthy double digit revenues growth over the medium term, supported by better demand scenario in PVs and CVs.

- **Benefits derived from being part of the Rane group**
  RML is the flagship entity of the Chennai based Rane group of companies. The Rane group has a consolidated turnover of ~Rs. 4,500 Cr and is into diverse product segments within the automotive component industry, namely steering components, engine valves, brake components etc. Further, the group also has a vintage of more than 80 years as a result of which it has forged strong ties with leading OEMs in India and abroad.

  RML also benefits from the business synergies it derives from other group entities, which augment the product offerings to OEMs. Being part of the Rane group, RML leverages on the 'Rane' brand name. Financial assistance has also been demonstrated with RHL infusing equity of Rs 65 crore in fiscal 2018, Rs 15 crore in fiscal 2019, Rs 55 crore in fiscals 2021 and another Rs 30 crore in fiscal 2022 to support operations at RML, including part funding capex. Supplies of components along with those of other group companies to common customers, also helps RML rationalise on freight costs.

Weaknesses:

- **Sizeable investments in domestic and overseas die casting business and moderate profitability**
  RML had made sizeable investments towards expansion in its domestic die casting division in fiscals 2016 and 2017. However, ramping up of facilities has been slower than expected due to volatile end-user demand resulting in the division making net losses over the last 2 years. While the company is taking measures to tie-up businesses to enhance utilisation levels, improvement is likely to be only gradual.

  Besides the strategic acquisition of continually loss-making, RLMC, in fiscal 2016, also exerted some pressure on returns. The subsidiary was envisaged to have a turnaround time of 4-5 years. Between fiscals 2017-2021, RLMC registered net losses of over Rs. 175 crores. While initial losses were due to restructuring initiatives taken by RML's management, weak off-take from a leading customer, have resulted in low revenue levels at RLMC resulting in continuing losses. The company is expected to break-even only in fiscal 2024 with recovery in revenues.

  This has led to below average profitability and return metrics.RML's operating margins has declined to less than 3-5% in fiscals 2020 & 2021 compared to 7-9% between fiscals 2015 and 2019. In fiscal 2022, the operating margins have gradually recovered to 4.5% and is expected to improve further over the medium term. RML's return on capital employed (RoCE) declined to less than 8-10% between fiscals 2015 and 2017 as compared to over 17% prior to fiscal 2013; RoCE gradually recovered to 13% in fiscal 2018, however moderated in fiscal 2020 &2021 owing to the expansion in domestic die casting division and RLMC acquisition. CRISIL expects RoCE to remain subdued at less than 5% over the medium term, due to losses in RLMC and part-debt funded capex in RML.

- **Moderate financial risk profile**
  RML's financial risk profile remains moderate marked by gearing of over 2 times estimated as of March 31, 2022. Equity infusion from the group's holding company (Rs 65 crore in fiscal 2018, Rs 15 crore in fiscal 2019, Rs 55 crore in fiscal 2021 and Rs.30 crore in fiscal 2022) and prudent working capital management had led to improvement in debt protection metrics. However, going forward, with capex expected to be higher at ~Rs 100-120 crore per annum ov er the medium term, which will be mostly debt-funded and expected modest annual cash generation, gearing is expected to remain elevated over 2 times over the medium term, though moderate. Debt protection metrics such as net cash accruals to total debt (NCATD) and interest coverage ratios has recovered in fiscal 2022 and is expected to further improve over the medium term.

- **Exposure to demand cyclicality and pricing pressures from OEMs in automobile industry** RML's high dependence on the OEM segment, renders its performance partly vulnerable to the inherent cyclicality in the automobile industry and any prolonged slowdown, particularly in the CV segment. However, revenue from aftermarket and exports provide some respite; besides presence across OEM sub segments is also expected to lend certain level of stability to business.

  Raw material costs account for a substantial portion of revenue, while about two-thirds of revenue is derived from auto OEMs. Operating profitability is moderate at less than 10% historically due to limited pricing power and losses from die-casting business.

Liquidity: Adequate

RML's liquidity is adequate and driven largely by expected timely funding support from RHL in case of exigencies. On a consolidated basis, RML's liquidity is moderate as cash accruals of Rs. 90-100 crore in fiscal 2023 will be adequate to service repayments of around Rs 67 crores; this in turn will lead to part dependence on debt for funding proposed capex. That said, considering RML's strong franchise with lenders, availing funds for the capex is not expected to be a challenge. Further bank limits of Rs.350 crores have been utilised at ~75%(average) over the 12 months ended March 2022 provides CRISIL also derives comfort from the past instance of equity infusion from the group to reduce leverage, thereby demonstrating support.

Outlook: Stable

CRISIL Ratings believes RML's business performance will improve over the medium term, supported by better demand from OEMs, but continue to be constrained by the moderate financial risk profile due to continued losses in RLMC and debt funded capex in RML.

Rating Sensitivity factors

Upward factors

- Higher than expected revenue growth and improvement in consolidated margins to 6-8% leading to better cash generation
- Faster than expected correction in capital structure including due to equity infusion or better cash generation

Downward factors

- Weak continuing operating profitability of 3-4% due to delays in off-take from new orders or higher losses at R LMC, impacting cash generation
- Higher than expected debt funded capex or elongation of working capital cycle leading to further deterioration in debt metrics
- Delayed distress support from RHL or further deterioration in credit profile of Rane group

About the Company

RML is the flagship company of the Rane group, with group holding company, RHL having 71.77% stake (none of the shares are pledged). Other group companies include Rane Engine Valve Ltd, Rane Brake Lining Ltd, ZF Rane Automotive India Pvt Ltd (joint venture), Rane NSK Steering Systems Ltd (joint venture) and Rane t4u Pvt Ltd.

RML started manufacturing operations in 1960 and today is a leading tier 1 automotive component supplier. It is engaged in the manufacturing of manual steering gears, hydrostatic steering systems, and steering and suspension linkages which together account for about 80% of overall revenues. The balance comes from its high-pressure aluminum die casting division.

RML has manufacturing units at Kanchipuram, Mysore, Puducherry, Pantnagar and Hyderabad (2 units). In February 2016, RML, through its wholly owned subsidiary RMIH, acquired 100% stake in US based Light Metal Casting Inc, subsequently renamed as RLMC. This is RML's first overseas acquisition and marked its foray into the manufacturing in overseas markets.

The company reported a consolidated net profit of Rs 11 crore for the fiscal 2022 on consolidated revenues of Rs 1750 crore compared to a net loss of Rs. 61 crores for corresponding period of previous fiscal on consolidated revenues of Rs. 1274 crores.

Key Financial Indicators

Particulars	Unit	2022	2021
Revenue	Rs crore	1748	1274
Profit after tax (PAT)	Rs crore	11	-61
PAT margins	%	0.6	-5.0
Adjusted debt/Adjusted net worth	Times	2.63	2.59
Interest coverage	Times	4.05	1.40

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Cr)	Complexity level	Rating Assigned with Outlook
NA	Term Loan	NA	NA	Mar-24	63.75	NA	CRISIL A-/Stable
NA	Term Loan	NA	NA	Mar-24	84.25	NA	CRISIL A-/Stable
NA	Short Term Bank Facility	NA	NA	NA	350.0	NA	CRISIL A2+

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Rane (Madras) International Holdings B V, Netherlands	Full	Step down subsidiary; business linkages
Rane Precision Die Casting Inc, USA	Full	Step down subsidiary; business linkages

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Fund Based Facilities	ST/LT	498.0	CRISIL A2+ / CRISIL A-/Stable		--	23-06-21	CRISIL A2+ / CRISIL A-/Negative	23-04-20	CRISIL A2+ / CRISIL A-/Negative	05-12-19	CRISIL A1 / CRISIL A/Stable	CRISIL A/Positive / CRISIL A1
			--		--	04-05-21	CRISIL A2+ / CRISIL A-/Negative	15-04-20	CRISIL A2+ / CRISIL A-/Negative	30-09-19	CRISIL A1 / CRISIL A/Stable	--
			--		--		--	08-01-20	CRISIL A1 / CRISIL A/Stable	24-09-19	CRISIL A1 / CRISIL A/Stable	--
Commercial Paper	ST		--		--		--	23-04-20	Withdrawn	05-12-19	CRISIL A1	CRISIL A1
			--		--		--	15-04-20	CRISIL A2+	30-09-19	CRISIL A1	--
			--		--		--	08-01-20	CRISIL A1	24-09-19	CRISIL A1	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Short Term Bank Facility	**55**	**CRISIL A2+**
Short Term Bank Facility	**50**	**CRISIL A2+**
Short Term Bank Facility	**50**	**CRISIL A2+**
Short Term Bank Facility	**50**	**CRISIL A2+**
Short Term Bank Facility	**65**	**CRISIL A2+**
Short Term Bank Facility	**80**	**CRISIL A2+**
Term Loan	**84.25**	**CRISIL A-/Stable**
Term Loan	**63.75**	**CRISIL A-/Stable**

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Auto Component Suppliers
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation
Criteria for Notching up Stand Alone Ratings of Companies based on Group Support
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