CRISIL
Ratings

Rating Rationale

May 24, 2023 | Mumbai

Rane (Madras) Limited

Ratings upgraded to 'CRISIL A/Stable/CRISIL A1'; rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.601.62 Crore (Enhanced from Rs.498 Crore)**
Long Term Rating	**CRISIL A/Stable (Upgraded from 'CRISIL A-/Stable')**
Short Term Rating	**CRISIL A1 (Upgraded from 'CRISIL A2+')**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its ratings on the bank facilities of Rane (Madras) Limited (RML) to **'CRISIL A/Stable/CRISIL A1'** from 'CRISIL A-/Stable/CRISIL A2+'.

The revision in ratings of RML reflects the healthy performance in fiscal 2023 and expected sustained performance over the medium term supported by steady demand scenario for the automobile sector, and improved operating performance. Strong cash generation also enabled improvement in key debt metrics, which is expected to continue over the medium term, despite moderately debt funded capital spending. Debt levels are unlikely to rise materially, as sizeable annual repayments relating to debt outstanding will offset impact of new capex related debt.

The rating upgrade is also driven by the improvement in credit quality of the Rane group, which has ben efitted from the strong demand from the automotive sector in the last couple of years. The performance of the group is also expected to remain steady over the medium term, due to strong order booking from existing and new customers, and stabilising operating profitability.

RML's revenues grew by 35% on year in fiscal 2023 driven by healthy offtake from automobile Original Equipment Manufacturers (OEMs), steady export and aftermarket demand, and the company also registered strong improvement in its operating profitability. The overseas subsidiary, Rane Light Metal Casting Inc, USA (RLMC) (renamed from Rane Precision Die Castings Inc) continued to make operating losses albeit lower than in fiscal 2022, due to sub-optimal capacity utilisation, which limited improvement in overall operating profitability to 7.8% in fiscal 2023 (4.5% in fiscal 2022).

RML remains well positioned to capitalise on the steady demand scenario in Passenger vehicles (PV) and Commercial Vehicles (CV) in fiscal 2024. Besides, there has been strong order inflows for existing and new products especially in the Light metal castings division (Die casting). Diversity with respect to segments within the automotive sector and presence in aftermarket segment also augur well for the business performance.

Breakeven at EBITDA level for RLMC is expected to be delayed against previous expectation of break even in fiscal 2024 due to sluggish demand scenario in USA. Therefore, RML has taken an impairment of Rs.223 crores in fiscal 2023, albeit impact on the consolidated net worth is not sizeable. Further, RML's board has approved the divestment of RLMC, post which RML's credit profile is expected to improve.

RML's gearing was elevated at >2 times as on March 31,2023 as improvement in net worth was constrained due to losses in RLMC. However, key debt protection metrics such as Debt/EBITDA and interest cover has improved to 3.6x from 7.6x and 5.96x from 3.77x respectively. While improving, gearing will still remain elevated due to capex being planned in RML's India operations to cater to new orders wo n, and for routine maintenance.

The ratings reflect RML's leading position in India's automotive steering components segment, diversified revenue profile, and benefits derived from being part of the Rane group, and moderate though improving financial risk profile. These rating strengths are partially offset by sizeable investments in domestic and overseas die casting business and modest operating profitability. . 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.

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 hydrost atic 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/CRISIL A1+), Mahindra & 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 acquisition has provided RML with access to other major OEM as well and has enhanced the 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 by 37% and it has sustained in fiscal 2023 as the revenues registered a growth of 35% due to improved offtake from OEMs, steady export demand and healthy aftermarket demand. CRISIL expec ts RML to post healthy high single digit revenues growth over the medium term, supported by steady demand scenario in PVs and CVs.

- **Moderate though improving financial risk profile**
  RML's financial risk profile remains moderate marked by gearing of over 2 .8 times as on March 31, 2023, though other debt metrics have improved over time. Gearing would have improved in fiscal 2023, but for continuing losses at RLMC. Despite continuing losses at RLMC, deterioration in net worth was limited by e quity 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),

  Prudent working capital management, and healthy improvement in cash generation in fiscal 2023 led to improvement in other debt protection metrics, despite sizeable on going partly debt funded capex . The interest cover and ratio of debt/EBITDA improved to 5.96 times and 3.77 times in fiscal 2023 from 3.6 times and 7.6 times in fiscal 2022. Going forward, with capex expected at ~Rs 100-120 crore per annum over the medium term, which will be mostly debt-funded , gearing is expected to remain elevated albeit moderate from fiscal 2023 levels. Other debt protection metrics too will stabilise at above average levels,

- **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 cons olidated turnover of almost Rs.5,000 crore and is into diverse product segments within the automotive compo nent 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 ; modest operating profitability**
  RML had made sizeable investments towards expansion in its domestic die casting division in fi scals 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 in the past. The company has undertaken measures to tie-up businesses to enhance utilisation le vel and there has been substantial improvement in die casting division over the past 2 fiscals.

  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 2017-202 2, 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. In fiscal 2023 also, the subsidiary has recorded EBITDA losses of over Rs.40 crores and the breakeven is expected to be delayed further beyond fiscal 2024, due to sluggish market conditions in US.

  Weak performance of RLMC continues to impact RML's consolidated operating margins and return metrics. The consolidated operating margins declined to less than 3-5% in fiscals 2020 and 2021, compared to 7-9% between fiscals 2015 and 2019. Operating margins recovered to 4.5% in fiscal 2022 and further to 7.8% in fiscal 2023, driven by healthy improvement in profitability at standalone level, CRISIL Ratings expects the company's operating margins to stabilise at 7-8% over the medium term, due to steady performance at standalone level, and with losses continuing at RLMC. Operating margins, while improving on standalone level, still continue to be lower on consolidated basis, compared to established peers in the automotive component sector.

  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 ROCE then improved to over10% in fiscal 2023, due to healthy standalone performance and it is expected to sustain at these levels 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 the accruals of over Rs.120 crores per annum will be sufficient to meet repaym ent obligations of Rs. 80-90 crores per annum over the medium term.

There will be part dependence on debt for funding proposed capex. That said, con sidering 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 202 3 provides CRISIL Ratings also derives comfort from the past instance of equity infusion from the group to support loss making operations of RLMC, thereby demonstrating support.

Outlook: Stable

CRISIL Ratings believes RML's business performance will continue to benefit from steady OEM demand, and the addition of new orders from existing and new customers. The financial risk profile is expected to improve gradually, with sizeable repayments mitigating impact of additional debt for capex, also benefitting debt metrics.

Rating Sensitivity factors

Upward factors

- Higher than expected revenue growth and improvement in consolidated operating margins to 9-10%, leading to better cash generation
- Faster than expected correction in capital structure including due to equity infusion; with gearing correcting to less than 1.3-1.5 time
- Improvement in credit profile of Rane group

Downward factors

- Lower than expected cash generation due to delays in off-take from new orders or steep decline in margins to less than 5% on sustained basis due to higher losses in RMLC or moderation in domestic performance
- Higher than expected debt funded capex leading to furth er deterioration in capital structure; with gearing sustaining over 2.5 times.
- Delayed distress support from RHL or deterioration in credit profile o f Rane group

About the Company

RML is the flagship company of the Rane group, with the 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 Februar y 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.

Key Financial Indicators

Particulars	Unit	2023	2022
Revenue	Rs crore	2354	1748
Profit after tax (PAT)	Rs crore	30	11
PAT margins	%	1.3	0.6
Adjusted debt / Adjusted net worth	Times	2.81	2.63
Interest coverage	Times	5.96	4.05

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

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	Feb-28	71.2	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	Mar-24	35.42	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	Jun-27	90.00	NA	CRISIL A/Stable
NA	Short Term Bank Facility	NA	NA	NA	405.0	NA	CRISIL A1

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 Light Metal Castings , USA Inc	Full	Step down subsidiary; business linkages

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	601.62	CRISIL A1 / CRISIL A/Stable		--	31-05-22	CRISIL A2+ / CRISIL A-/Stable	23-06-21	CRISIL A2+ / CRISIL A-/Negative	23-04-20	CRISIL A2+ / CRISIL A-/Negative	CRISIL A1 / CRISIL A/Stable
			--		--	27-05-22	CRISIL A2+ / CRISIL A-/Stable	04-05-21	CRISIL A2+ / CRISIL A-/Negative	15-04-20	CRISIL A2+ / CRISIL A-/Negative	--
			--		--		--		--	08-01-20	CRISIL A1 / CRISIL A/Stable	--
Commercial Paper	ST		--		--		--		--	23-04-20	Withdrawn	CRISIL A1
			--		--		--		--	15-04-20	CRISIL A2+	--
			--		--		--		--	08-01-20	CRISIL A1	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Short Term Bank Facility	**25**	**DBS Bank India Limited**	**CRISIL A1**
Short Term Bank Facility	**25**	**Kotak Mahindra Bank Limited**	**CRISIL A1**
Short Term Bank Facility	**25**	**ICICI Bank Limited**	**CRISIL A1**
Short Term Bank Facility	**100**	**State Bank of India**	**CRISIL A1**
Short Term Bank Facility	**35**	**Standard Chartered Bank Limited**	**CRISIL A1**
Short Term Bank Facility	**50**	**Axis Bank Limited**	**CRISIL A1**
Short Term Bank Facility	**65**	**HDFC Bank Limited**	**CRISIL A1**
Short Term Bank Facility	**80**	**RBL Bank Limited**	**CRISIL A1**
Term Loan	**90**	**Exim Bank**	**CRISIL A/Stable**
Term Loan	**71.2**	**HDFC Bank Limited**	**CRISIL A/Stable**
Term Loan	**35.42**	**The Federal Bank Limited**	**CRISIL A/Stable**

This Annexure has been updated on 24-May-23 in line with the lender-wise facility details as on 02-Feb-23 received from the rated entity.

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
Understanding CRISILs Ratings and Rating Scales

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