December 04, 2023(Revised)

Rane Holdings Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	69.96	46.50	[ICRA]AA- (Stable); reaffirmed
Long-term Fund-based	5.00	5.00	[ICRA]AA- (Stable); reaffirmed
Long-term/ Short-term unallocated	25.04	48.50	[ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed
Total	**100.00**	**100.00**	

**Instrument details are provided 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 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); as well as across domestic original equipment manufacturers (OEMs), domestic replacement and exports.

RHL encourages its group companies to fund their capital requirements on their own merits while usually limiting its role to that of a strategy provider. However, the company is open to creeping acquisitions and stake increases in the group companies. Going forward, the company does not envisage significant investments in its investee entities, although it is open to the acquisition of companies in similar product lines.

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 modestly scaled, with revenues of Rs. 117.7 crore in FY2023 and Rs. 94.5 crore in H1 FY2024. Further, the company has moderate debt levels (Rs. 48.8 crore as on September 30, 2023) and repayment obligations for its scale of operations. Nevertheless, RHL's standalone debt and letter of comfort compared to the market value of its unencumbered listed investments have been low for the last several 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 reputed Rane Group – RHL's ratings draw comfort from its position as the holding company of the Rane Group. The promoters hold a 46.6% stake in RHL, and RHL, in turn, holds a stake in all Group companies with no cross-holdings among entities. The promoters, Mr. L. Lakshman (Chairman Emeritus), his brother, Mr. L. Ganesh (Chairman and Managing Director), and his son, Mr. Harish Lakshman (Vice Chairman), have been involved in the auto component industry for decades. At present, Mr. L. Ganesh and Mr. Harish Lakshman are involved in the daily operations of the company.

Relatively healthy credit profile of majority of the large investee companies – Rane Brake Lining Limited (RBLL, rated [ICRA]AA- (Stable)/[ICRA]A1+) and ZF Rane Automotive India Private Limited (ZFRAIPL, rated [ICRA]AA- (Stable)/[ICRA]A1+) have strong financial profiles. While warranty issues in Rane NSK Steering Systems Private Limited (RNSSPL) have led to an increase in debt levels in the company, it continues to have a relatively healthy financial profile. These three entities have been driving a sizeable share of the Group's cash flows and they hold the company's dividends in the last several years. The credit profile of the other two key entities of the group, Rane (Madras) Limited (RML) and Rane Engine Valve Limited (REVL), have also improved since the last rating exercise. In FY2023, RBLL and ZFRAIPL accounted for 100% of the dividend income earned by RHL.

Relatively lower debt levels than the market value of unencumbered listed investments – RHL's standalone debt and letter of comfort, compared to the market value of its unencumbered listed investments, have been low for the last several years, lending strong financial flexibility to the company. This is despite the increase in RHL's debt levels in the last three to four years compared to past levels owing to debt-funded investments. In addition, RHL also has high returns offering unlisted investments in ZFRAIPL and RNSSPL. Further, the vulnerability of the investment buffer (market value of unencumbered listed investments minus book value of investments) to industry-related systemic risks exists because of the concentration of investments in a single industry. Nevertheless, debt as a proportion of the market value of its unencumbered listed investments is expected to remain low, going forward.

Credit challenges

Modest scale on standalone basis with moderate financial risk – With no operations of its own, the standalone entity remains modestly scaled, with revenues of Rs. 117.7 crore in FY2023 and Rs. 94.5 crore in H1 FY2024. Further, the company's debt levels have increased over the past three to four years owing to planned debt-funded investments. Consequently, the company's repayment obligations are likely to be moderate in proportion to its anticipated accruals over the medium term. Nevertheless, relatively stable revenue streams in the form of service income and trademark fees and RHL's healthy financial flexibility by virtue of the market value of its unencumbered listed investments remaining sizeable over its standalone debt, provide comfort to an extent.

Concentration of investments in automobile space; vulnerable to cyclicality inherent in the auto industry, and any other headwinds – The Rane Group entities are entirely focused on the auto component space. The performance of RHL's investee companies, therefore, is strongly correlated to the automobile industry. Further, the Group derived over 60% of its revenues from the passenger vehicle segment in FY2023. However, within the automotive industry, the product portfolio of investee companies is diversified across steering, valve train, friction material, light metal castings, seat belts and airbags. The focus on the automotive industry and lack of diversification exposes the company's revenues and earnings to the cyclicality inherent in the auto industry, regulatory changes and any other industry-specific headwinds. The Group's established presence and diversified customer base of several large Indian and global auto/auto component players, as well as its ability to acquire repeat orders, provide comfort.

Environmental and Social Risks

Environmental considerations - RHL's investee companies, as auto component suppliers, remain indirectly exposed to climate-transition risks by virtue of their automotive manufacturing customers making products that are used across different fuel powertrains. Accordingly, the prospects of RHL's investee entities are linked to the ability of their customers to meet tightening emission requirements. Further, its investee entities catering to certain product segments such as engine and transmission parts specifically face climate transition risks. This is evident as customer demand progressively shifts away from fossil fuel-based powertrains, and the emission standards continue to tighten. RHL's investee entities also remain exposed to tightening environmental regulations with regard to waste and pollution norms, which can lead to increased operating costs and new capacity installation expenditure. This can also require capital investments to upgrade its infrastructure to reduce the carbon footprint and waste generation. One of the investee entities also has asbestos products, although the contribution of the same to the group's topline is relatively low. The Group has been taking steps to minimise the impact of environmental risks on its operations and carbon footprint, by enhancing its reliance on renewable sources and other energy-saving efforts such as the adoption of energy-efficient fixtures/equipment and extensive water recycling. Currently, about one-third of the power used is from renewable energy sources and this is expected to increase further going forward. Also, on the product side, the company manufactures environment-friendly products like asbestos-free and copper-free friction productions and is engaged in light-weighting measures, among others. Moreover, it has invested in capabilities to migrate entirely to asbestos-free friction materials.

Social considerations - Social considerations for RHL relate primarily to maintaining healthy industrial relations and product safety in its investee entities. Attracting and nurturing skilled manpower is critical, as it seeks to keep pace with innovation and technological changes. On the product front, vehicle recalls by original equipment manufacturers (OEMs) because of defective auto parts could create additional cost burden and liabilities on the investee entities. The Rane Group also has exposure to changing consumer preferences, including but not restricted to increasing awareness of the potential environmental damage from emissions, shift towards electric vehicles (EVs), usage of sustainable materials and societal trends such as preference for ride-sharing. The company is also vulnerable to data security and data privacy risks. However, its ability to mitigate risks arising from human capital issues in the past provides comfort.

Liquidity position: Adequate

The company's standalone liquidity position is adequate, with anticipated positive free cash flows going forward and negligible utilisation of working capital limits. 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. RHL has capex commitments of Rs. 10-15 crore during H2 FY2024 to FY2026, which are likely to be funded primarily through internal accruals. The company has repayment obligations of Rs. 5.0 crore for H2 FY2024, Rs. 13.8 crore for FY2025 and Rs. 15.0 crore for FY2026 for its existing and sanctioned loans. Overall, ICRA expects RHL to be able to meet its medium-term commitments through internal sources of cash and undrawn term loans, and yet be left with a cash surplus.

Rating sensitivities

Positive factors – 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 factors – 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, 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	The ratings are based on the standalone financial profile of the company.

About the company

RHL is the holding company of the larger Rane Group, involved in auto-component manufacturing, with aggregate revenues of over Rs. 6,800 crore in FY2023. The promoters hold a 46.6% stake (as on September 30, 2023) 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 seven investee companies manufacturing/ trading/ servicing different products. Out of RHL's subsidiaries, Rane (Madras) Limited, Rane Brake Lining Limited (rated [ICRA]AA- (Stable)/[ICRA]A1+) and Rane Engine Valve Limited manufacture automotive components. Rane Holdings America Inc. and Rane Holdings Europe GmbH provide business development support for Group products in their respective geographies. The joint ventures, ZF Rane Automotive India Private Limited (rated [ICRA]AA-(Stable)/[ICRA]A1+) and Rane NSK Steering Systems Private Limited, also manufacture automotive components. RHL sold its entire stake of 99.47% in its subsidiary, Rane t4u Private Limited (Rt4u), in H1 FY2024 - it was involved in transport analytics and vehicle tracking software services.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	88.8	117.7
PAT	33.9	48.3
OPBDIT/OI	60.8%	60.7%
PAT/OI	38.2%	41.1%
Total outside liabilities/Tangible net worth (times)	0.2	0.1
Total debt/OPBDIT (times)	1.3	0.8
Interest coverage (times)	9.2	12.7

Source: Company, ICRA Research; Note: Amount in Rs. crore; PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)			Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					Dec 04, 2023	Dec 14, 2022	Dec 01, 2021	Jan 04, 2021	Nov 27, 2020
1	**Term loans**	Long Term	46.50	46.50	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	**Long-term fund based**	Long Term	5.00	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
3	**Long-term/short-term unallocated**	Long Term/Short Term	48.50	-	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Long-term fund based	Simple
Long-term/short-term unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan**	FY2021	9.30%	FY2028	46.50	[ICRA]AA- (Stable)
NA	**Long-term fund based**	FY2021	NA	NA	5.00	[ICRA]AA- (Stable)
NA	**Long- term/short-term unallocated**	NA	NA	NA	48.50	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis - Not applicable.

Corrigendum

The complexity indicator for Long-term/short-term unallocated has been revised to 'NA', correcting a typographical error.

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Srikumar K
+91 44 4596 4318
ksrikumar@icraindia.com

Vinutaa S
+91 44 4596 4305
vinutaa.s@icraindia.com

Bikram Keshari Swar
+91 44 4596 4311
bikram.swar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches