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Rane (Madras) Limited

//Online submission//

RML/SE/02/2020-21

April 15, 2020

BSE Limited Listing Centre Scrip Code: **532661**	**National Stock Exchange of India Limited** NEAPS Scrip Code: **RML**

Dear Sir / Madam,

Sub: **Disclosure under regulation 30 of SEBI LODR - Credit Rating**

As per the provisions of regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR) this is to inform that, with regard to the Company's debt instruments/ total Bank Loan facilities of **Rs. 498 crores**, CRISIL Limited has:

a. downgraded - Long-Term Rating to **'CRISIL A-'** from 'CRISIL A' with outlook revised to '**Negative**' from 'Stable',

b. downgraded - Short-Term Rating to '**CRISIL A2+**' from 'CRISIL A1'

We enclose herewith the relevant credit rating letter(s) dated **April 15, 2020** received by the Company earlier today along with the rating rationale. The reasons for downgrade in ratings by CRISIL are provided in their rating rationale. The aforementioned letters are also available on their website. We request you to treat this intimation as compliance with the disclosure requirements under the relevant provisions of SEBI LODR.

Thanking You.

Yours Faithfully,

For **Rane (Madras) Limited**

S SUBHA SHREE
Digitally signed by S SUBHA SHREE
Date: 2020.04.15 18:44:27 +05'30'

S Subha Shree
Secretary

Encl.: a/a

CONFIDENTIAL

RANMADR/245279/BLR/042000524
April 15, 2020

Mr. B Gnanasambandham
Chief Financial Officer
Rane (Madras) Limited
Ganapathi Bulidings,
154 (Old No.61) Velachery Road,
Velachery,
Chennai - 600042

Dear Mr. B Gnanasambandham,

Re: Review of CRISIL Ratings on the bank facilities of Rane (Madras) Limited

All ratings assigned by CRISIL are kept under continuous surveillance and review.

Please find in the table below the ratings outstanding for the debt instruments/facilities of the company, and the rating actions by CRISIL on the ratings as on date.

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

(Bank-wise details as per Annexure 1)

As per our Rating Agreement, CRISIL would disseminate the ratings, along with the outlook, through its publications and other media, and keep the ratings, along with the outlook, under surveillance over the life of the instrument/facility. CRISIL reserves the right to withdraw, or revise the ratings, along with the outlook, at any time, on the basis of new information, or unavailability of information, or other circumstances which CRISIL believes may have an impact on the ratings.

In the event of the company not availing the proposed facilities within a period of 180 days from the date of this letter, a fresh letter of revalidation from CRISIL will be necessary.

Should you require any clarifications, please feel free to get in touch with us.

With warm regards,

Yours sincerely,

Sameer Charania
Director - CRISIL Ratings

Nivedita Shibu
Associate Director - CRISIL Ratings

A CRISIL rating reflects CRISIL's current opinion on the likelihood of timely payment of the obligations under the rated instrument and does not constitute an audit of the rated entity by CRISIL. CRISIL ratings are based on information provided by the issuer or obtained by CRISIL from sources it considers reliable. CRISIL does not guarantee the completeness or accuracy of the information on which the rating is based. A CRISIL rating is not a recommendation to buy, sell, or hold the rated instrument; it does not comment on the market price or suitability for a particular investor. All CRISIL ratings are under surveillance. CRISIL or its associates may have other commercial transactions with the company/entity. Ratings are revised as and when circumstances so warrant. CRISIL is not responsible for any errors and especially states that it has no financial liability whatsoever to the subscribers / users / transmitters / distributors of this product. CRISIL Ratings rating criteria are available without charge to the public on the CRISIL web site, www.crisil.com. For the latest rating information on any instrument of any company rated by CRISIL, please contact Customer Service Helpdesk at 1800-267-1301.

Annexure 1 - Bank-wise details of various facility classes (outstanding facilities)

S.No.	Bank Facility	Bank	Amount (Rs. in Crore)	Outstanding Rating
1	Proposed Working Capital Facility	Proposed	96.0	CRISIL A-/Negative
2	Short Term Bank Facility	YES Bank Limited	50.0	CRISIL A2+
3	Short Term Bank Facility	HDFC Bank Limited	35.0	CRISIL A2+
4	Short Term Bank Facility	DBS Bank Limited	40.0	CRISIL A2+
5	Short Term Bank Facility	Kotak Mahindra Bank Limited	30.0	CRISIL A2+
6	Short Term Bank Facility	Standard Chartered Bank Limited	50.0	CRISIL A2+
7	Short Term Bank Facility	Canara Bank	20.0	CRISIL A2+
8	Short Term Loan	Axis Bank Limited	50.0	CRISIL A2+
9	Term Loan	Standard Chartered Bank Limited	29.0	CRISIL A-/Negative
10	Term Loan	HDFC Bank Limited	68.0	CRISIL A-/Negative
11	Term Loan	ICICI Bank Limited	30.0	CRISIL A-/Negative
	Total		**498.0**	

Ratings

CRISIL
An S&P Global Company

Rating Rationale

April 15, 2020 | Mumbai

Rane (Madras) Limited

Ratings downgraded to 'CRISIL A-/Negative/CRISIL A2+'

Rating Action

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

Rs.40 Crore Commercial Paper	**CRISIL A2+ (Downgraded from 'CRISIL A1')**

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

Detailed Rationale

CRISIL has downgraded its ratings on the bank facilities and commercial paper of Rane (Madras) Limited (RML) to **'CRISIL A-/Negative/CRISIL A2+'** from' CRISIL A/Stable/CRISIL A1'.

The rating actions follows the sharp deterioration in RML's performance in fiscal 2020 following the demand slowdown in the domestic automobile industry coupled with higher than anticipated losses in the subsidiary, Rane Precision Die Casting Inc, USA (RPDC). The company's performance is expected to remain subdued over the near term as well considering the weak demand outlook for fiscal 2021, which is exacerbated by the COVID-19 outbreak.

RML's revenues is estimated to have declined by over 20% in fiscal 2020 and will remain under pressure in fiscal 2021 as well depending on the extent and intensity of the disruption in operations owing to COVID-19. While a gradual ramp up in RPDC's operations is expected in fiscal 2021, the same will not compensate for the subdued performance of RML. Also, operating profitability is estimated at ~5-6% in fiscals 2020 and 2021 (~8-9% in previous two years), despite cost reduction initiatives under implementation. Further, part debt funded capex plans in RPDC will lead to overall debt remaining elevated at over Rs 400 crore at least until March 31, 2021.

Despite equity infusion of Rs.50 crore in fiscals 2020-2021 from parent and group holding company' Rane Holdings Ltd (RHL), RML's gearing is expected to remain higher than earlier estimated, at over 1.8 times at March 31, 2020, while key credit metrics will also moderate; this trend will continue into fiscal 2021 as well, owing to continuing debt funded capex, and subdued operating performance.

The ratings continue to reflect RML's leading position in India's automotive (auto) 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 and slower than expected commensurate returns 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 has fully consolidated the business and financial risk profiles of RML and its subsidiaries, RPDC 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 group.

Please refer Annexure - Details of Consolidation, 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-/Negative/CRISIL A1+), Tractors and Farm Equipment Limited (TAFE; rated CRISIL AA+/Stable/CRISIL A1+), Mahindra and Mahindra Ltd

(M&M; rated CRISIL AAA/Stable/CRISIL A1+) etc. 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 ~65-70% of revenues. Within OEMs, RML caters to the passenger vehicles, commercial vehicle (CV), and tractor segments. Besides, the company also derives about 20-25% 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 RPDC. However, considering the recent slowdown in the domestic automotive industry across all vehicle categories, CRISIL expects RML's revenues to have fallen by at least 20% in fiscal 2020. The Covid-19 outbreak and continuing sluggish automotive demand, will further pressurise RML's revenues in fiscal 2021, while a modest growth is expected thereafter, as demand rebounds.

*** 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 the group's holding company infusing equity of Rs 65 crore in fiscal 2018, Rs 15 crore in fiscal 2019 and Rs 50 crore in fiscals 2020-21 to reduce debt levels in RML. 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 slower than expected commensurate returns**
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, RPDC, in fiscal 2016, also exerted some pressure on returns. The subsidiary was envisaged to have a turnaround time of 4-5 years.

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; owing to the expansion in domestic die casting division and RPDC acquisition. CRISIL expects RoCE to remain subdued at less than 10% over the medium term, due to increased losses and part-debt funded capex in RPDC and lower cash flows from the steering business.

*** Moderate financial risk profile**
RML's financial risk profile remains moderate marked by gearing of over 1.8 times estimated as of March 31, 2020. Equity infusion from the group's holding company (Rs 65 crore in fiscal 2018, Rs 15 crore in fiscal 2019 and Rs 50 crore in fiscal 2020) and prudent working capital management had led to steep improvement in gearing from a peak of 2.5 times in March 2016. However, going forward, with capex expected to be higher at around Rs 80-100 crore over the next two fiscals, which will be partly debt-funded and expected moderation in annual cash generation, gearing should increase to ~2 times over the medium term. Debt protection metrics such as net cash accruals to total debt (NCATD) and interest coverage ratios will also remain subdued in fiscal 2021, compared to 0.05 times and 1.5 times respectively, estimated for fiscal 2020.

*** 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% due to limited pricing power and losses from die-casting business. Operating profitability is expected to remain range bound at similar levels over the medium term, due to high competitive intensity, which will largely offset gains from higher business levels in the die-casting division and expected turnaround in operations in RPDC.

Liquidity Adequate

RML's liquidity is adequate and driven largely by expected timely funding support from the group in case of exigencies. On a standalone basis, RML's liquidity is stretched as cash accruals of Rs 20-30 crore in fiscal 2021 will be lower compared with debt obligations of around Rs 40 crore; this in turn will lead to part dependence on refinancing or freeing funds by reducing the working capital cycle. Also, the company has planned a capex of Rs 50-60 crore in fiscal 2021 which will be part funded through debt. Considering RML's strong franchise with lenders, availing funds for the capex is not expected to be a challenge. CRISIL also derives comfort from the past instance of equity infusion from the group to reduce leverage, thereby demonstrating support.

Outlook: Negative

CRISIL believes RML's business performance will continue to face headwinds due to weak demand in both domestic and export markets. Financial risk profile to remain moderate due to lower cash generation and part-debt funded capex in RPDC, constraining credit metrics.

Rating Sensitivity factors

Upward factors

* Improvement in credit quality of Rane Group
* Sustained improvement in business levels and operating margins
* Faster than expected correction in gearing to below 1.5 times, including due to equity infusion

Downward factors

* Further decline in revenues or operating profitability remaining less than 5-6% leading to lower than expected cash profits
* Further deterioration in gearing (over 2.5 times) and other credit metrics (for instance interest cover of less than 1.5 times).
* Deterioration in credit quality of Rane group or change in support philosophy towards RML

About the Company

RML is the flagship company of the Rane group, with group holding company, RHL having 60.4% stake (none of the shares are pledged). Other group companies include Rane Engine Valve Ltd, Rane Brake Lining Ltd, Rane TRW Steering Systems 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 auto 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 Precision Die Casting Inc, subsequently renamed as RPDC. This is RML's first overseas acquisition and marked its foray into the manufacturing in overseas markets.

The company reported a consolidated net loss of Rs.28 crores for the first nine months of fiscal 2020 (Rs.10 crores net profit for corresponding period of previous fiscal) on consolidated revenues of Rs.991 crores (Rs.1176 crores).

Key Financial Indicators

Particulars	Unit	2019	2018
Revenue	Rs crore	1555	1410
Profit after tax (PAT)	Rs crore	1	23
PAT margins	%	NA	1.6
Adjusted debt/Adjusted net worth	Times	1.88	1.62
Interest coverage	Times	3.56	3.99

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. 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)	Rating Assigned with Outlook
NA	Term Loan	NA	NA	Mar-24	68.0	CRISIL A-/Negative
NA	Term Loan	NA	NA	Jan-22	30.0	CRISIL A-/Negative
NA	Term Loan	NA	NA	Apr-22	29.0	CRISIL A-/Negative
NA	Short Term Bank Facility	NA	NA	NA	225.0	CRISIL A2+
NA	Short Term Loan	NA	NA	Mar-20	50.0	CRISIL A2+

NA	Proposed Working Capital Facility	NA	NA	NA	96	CRISIL A-/Negative
NA	Commercial Paper	NA	NA	7-365 days	40.0	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			2020 (History)		2019		2018		2017		Start of 2017
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	40.00	CRISIL A2+	08-01-20	CRISIL A1	05-12-19	CRISIL A1	26-12-18	CRISIL A1		--	--
						30-09-19	CRISIL A1					
						24-09-19	CRISIL A1					
Fund-based Bank Facilities	LT/ST	458.00	CRISIL A-/Negative/ CRISIL A2+	08-01-20	CRISIL A/Stable/ CRISIL A1	05-12-19	CRISIL A/Stable/ CRISIL A1	26-12-18	CRISIL A/Positive/ CRISIL A1		--	--
						30-09-19	CRISIL A/Stable/ CRISIL A1					
						24-09-19	CRISIL A/Stable/ CRISIL A1					

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Proposed Working Capital Facility	96	CRISIL A-/Negative	Proposed Working Capital Facility	96	CRISIL A/Stable
Short Term Bank Facility	225	CRISIL A2+	Short Term Bank Facility	225	CRISIL A1
Short Term Loan	50	CRISIL A2+	Short Term Loan	50	CRISIL A1
Term Loan	127	CRISIL A-/Negative	Term Loan	127	CRISIL A/Stable
Total	498	--	Total	498	--

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

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CRISIL is a leading agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 1,00,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

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About CRISIL Ratings
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