"Rane Group of Companies Q2 FY-22 Earnings Conference Call"

November 03, 2021

MANAGEMENT: **MR. L. GANESH – CHAIRMAN & MANAGING DIRECTOR, RANE HOLDINGS LIMITED**
MR. HARISH LAKSHMAN – VICE CHAIRMAN, RANE HOLDINGS LIMITED
MR. P.A. PADMANABHAN – PRESIDENT (FINANCE) & GROUP CFO
MR. SIVA CHANDRASEKARAN – EXECUTIVE VICE PRESIDENT SECRETARIAL & LEGAL SERVICES
MR. J. ANANTH – CFO, RANE HOLDINGS LIMITED

Moderator: Ladies and gentlemen good day and welcome to Rane Holdings Limited Q2 FY22 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle from Christensen IR. Thank you and over to you sir.

Diwakar Pingle: Thank you Stanford. Good morning, friends. Welcome to the Q2 FY22 earnings call of the Rane Group. To take you through the results and answer your questions today as usual we have the management team from the Rane Group Mr. L. Ganesh – Chairman and Managing Director Rane Holdings Limited Mr. Harish Lakshman – Vice Chairman Rane Holdings Limited Mr. P. A. Padmanabhan – President Finance and Group CFO Mr. Siva Chandrasekaran –Executive Vice President Secretarial & Legal Services and Mr. J. Ananth – CFO of Rane Holdings Limited.

Please note that we have sent you the press release and also have sent the presentation link of the deck. In case any of you have not received it you could look at it on our website or even the BSE site of Rane or you could write to us at Christensen and we'll be happy to send the detailed earnings presentation over to you. Before we start like to say that everything that is said in this call that reflects any outlook for the future or which can be construed as a forward-looking statement must be viewed in conjunction with the risks and uncertainties that we face. These uncertainties and risks are included but not limited to what we mentioned in the prospectus and subsequently in the annual reports you can find on the website. With that said I'll handover the call to Mr. Ganesh. Over to you sir.

L. Ganesh: Thank you Diwakar. Good morning to all of you. At the outset let me take this opportunity to wish you all a very happy safe and joyous Diwali. I would like to welcome you all to this teleconference. Hope you're all staying safe and healthy. With increased vaccination and the COVID appropriate behavior by and large, India has been keeping away from the further waves of COVID. We hope and pray that this will continue.

You would have seen the Q2 FY22 performance highlights in the group companies posted on our website. I would just like to provide a few comments on the industry. Q2 was a good quarter from the demand point of view, ramping up volumes post impact of second wave in Q1 which the industry did quite rapidly because the lockdown was not as severe as in the year before. Some of the positives were, India's GDP seems to still be on a good track and clock a healthy 9.5% growth, monsoon seems to be very close to normal. Therefore, we expect that the rural sentiments will remain favorable. The pace of infrastructure announcements by the government and activities seem to continue to improve day by day.

We do see some challenges. The semiconductor chip shortage as you are all aware is one severe challenge. Our customers faced availability challenges and it continues to remain a concern, not only the shortage but also the kind of uncertainty almost on a week-to-week basis on the availability by customer is causing a big challenge for us. In Q2 FY22 the crisis deepened with as you know the largest passenger vehicle manufacturer in India dropping volumes significantly. There are multiple reasons, they're talking about some fire in Japan which impeded the capacity, the Covid effect in Malaysia, some problems in Taiwan, diversion of capacity to other infotainment and homeworking computers etc. However, the net effect seems to affect the auto industry severely. Based on the various feedbacks we get and the views that are prevailing in industry we see that probably some improvement month on month from 2022 will start on this front and probably by sometime mid-2023, this problem will be behind us. Lead time to add capacity, geopolitical situations of various countries like China and high demand of electronics of other nature seems to be the key factors.

In addition, we faced a lot of supply chain challenges. This is not only in the price of commodities like steel, aluminum, petro products have been significantly going up, availability itself is becoming a challenge. This has driven the uncertainty again in terms of inventory management while we have been by and large successful in passing on to the customers, there is some lag as usual in the quarter.

In terms of inflation with multiple price increases on all commodities, this is something which we need to watch closely. We hope this will not dampen the demand which seems to be quite strong for vehicle industry. We hope with the easier financing scenario, this demand will sustain but at the same time inflation will not dampen this. We are working with our customers and Tier II suppliers to handle the dynamic environment. We hope there'll be no severe third wave as I mentioned earlier, thanks to the vaccination coverage and better preparation by the state governments. With these few remarks I will hand it over to Harish for his comments on the performance in Q2. Thank you.

Harish Lakshman: Thank you Mr. Ganesh. Good morning, everyone. I think as you would have seen in the results, the Q2 was a slightly better quarter with gradual recovery happening after a challenging Q1. At a group aggregate level, the total revenue increased by 30% over last year same quarter. But unfortunately, the material cost increases resulted in a drop in the EBITDA margin by 176 bps.

I'd like to provide some details around each of our businesses. In Rane Madras, there was some good order booking that happened this quarter. We secured a Rs.125 crores per annum order for a rack and pinion business with an export customer. We also secured a Rs. 26 crores per annum business for our light metal casting products also for exports. The other good development that happened was we acquired the steering components business of Hical Group. This business has one plant in Chennai and they manufacture steering and suspension components for inner ball joints and outer ball joints. The major customers are Mando India, who in turn serves OEM such as Hyundai, Kia, Mahindra etc. This is a good strategic acquisition for Rane Madras because so far, we have not had Hyundai and Kia as one of our end customers. The US subsidiary sustained the improved operational performance on quality, productivity and customer delivery. Sales of the US subsidiary grew significantly in this quarter compared to last year because of the strong demand and ramp up in volumes of new programs. However, we are seeing the sales getting impacted due to the semiconductor shortages and especially based on what we saw in the month of October after the end of Q2.

In REVL the plant operations improved their output to support strong demand growth in Quarter 2. However, increases in material costs as well as employee costs compared to last year quarter because last year many of the employees had taken salary cuts etc. and we had to reinstate them and other costs resulted in a drop in profitability.

In Rane Brake Linings, the demand recovery helped the business post the 17% growth. The aftermarket segment saw recovery across India but however the state transport corporations as well as the bus segment continue to underperform because of COVID and lack of use of STU buses. Again, here the increase in material costs and unfavorable product mix resulted in a drop in the profits and also when you compare to last year, there was a one-off selling price increase recovery from a customer that we had last year quarter in Q2 which is why we are seeing a steep EBITDA drop of 21% last year Q2 to about 11.2% this Q2.

In our joint venture Rane TRW Steering System, the steering system benefited from the recovery from the CV segment and the gradual increase in demand from the M&HCV customers. The occupant safety business got impacted due to the semiconductor shortages, especially with customers like Mahindra as well as with our exports. Despite that the exports accounted for 65% of the occupant safety sales in this quarter.

Rane NSK (RNSS) the better offtake in served model with Maruti helped post the 28% growth. From a profit standpoint there is a lag in RNSS in recovery of material costs which impacted the profitability for this quarter. However, we are working with our customers to recover the same. Regarding warranty, the discussions are under progress to determine and conclude on certain aspects pertaining to warranty return. The conversations are happening with customers and within NSK and based on our assessment and pending final outcome of the discussions no incremental provision has been made during this quarter.

A few comments on the PLI scheme. I think obviously there's been a lot of media discussions on the scheme. The auto PLI scheme was announced. We are still waiting further details on the list of components that are eligible for the scheme. Based on this we will be able to evaluate the benefits for our existing product portfolio and any new potential opportunities. The demand environment in India continues to be favorable and the export demand remains robust. We are hoping that there won't be any spurt in COVID cases in which situation the demand will continue to sustain. However, the semiconductor shortage and recent logistics shortage on containers etc., they continue to be a major challenge impacting both our domestic and international OEMs. The commodity price increase has been relentless and there's a matter of another concern. In fact, largely our margins for Q2 of this quarter has been impacted mainly because of this. Our teams are working with customer on price recovery which will be the key to protecting our margins in the short term. With these remarks we will now open for any questions that you may have. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of V Rangan.

V. Rangan: I am a shareholder from a long time. I've got full faith in the management and that's why I just don't care because it's really creating value. Now there are two things which I heard from the outside. See you've got some warranty out of the claim for the NSK steering, can you tell me how much you've made a provision? I'm told that it is about more than 160 or 170 crores. There's a technical problem that the steering wheel not coming to its place when it is turned on the right or something like that, I heard. Can you just throw some light on that because the working all this, I don't want to go into that because I got full faith in that? Only these two aspects I would like to know what is that? What about the casting company that also made a huge loss something like that? Of course now we have got some export orders. Can you briefly explain?

Harish Lakshman: Mr. Rangan, the warranty subject has been discussed almost every quarter and during our investor calls. The provisions that have been made is actually in excess of 300 crores. This has happened over the last 2.5 years. Yes, it is a very unfortunate development that has impacted the financials of the joint venture and therefore Rane Holdings as well. The problem has been some sort of a sticky steering that has been complained by the customers. As I mentioned in this quarter, there has been no incremental provision that has been provided. So, but the matter is still being discussed between Maruti as well as our joint venture partner to reach some conclusion but lot of actions have been taken and we are confident that over time this warranty will come down. Your second question regarding castings, again both the India business and the U.S. business suffered last year heavily due to capacity underutilization and the COVID situation. Both the businesses have started improving on the capacity utilization and the capacity. In fact, the new order booking of the India business is also looking quite robust in the last 9 months. We are confident that in the coming quarters the performance of both the casting businesses will improve.

V. Rangan: Could you tell me that warranty whatever that is going on to be debited or it is a permanent affair or you have stopped supplying all these things to Maruti now or you're still continuing that where we are placed now because it's going to be a never-ending affair and undeterminable that will become a problem sir? Can you throw some light on that?

Hairsh Lakshman We are continuing to supply to Maruti and that will not change for these particular vehicle models. Even if you see the warranty return, of course it is a big number but as a percentage if you see the returns have been around 4% to 5% of whatever we are selling is coming back. That is what is impacting the financial performance. But even this 4% to 5%, we are confident that in the future it will come down because reasons have been identified and corrective actions have been taken.

V. Rangan: Like those parts per million no effect will be there, which would go on coming on each product differs actually. Now where we are facing the global standards can you throw some light because never-ending process that 4%, of course it's by number it is huge but whatever that you should strive to improve the quality so that entry barrier will be there for somebody?

Harish Lakshman: As I mentioned actions have already been taken and you will see that in the future because whatever is in the past supply that is what is coming back but we have taken corrective actions. So, in the future this 4% to 5% will automatically come down.

Moderator: We take the next question from the line of Abhishek Getam from Alpha Invesco.

Abhishek Getam: My question was regarding Rane Brake Lining, I understand that currently we are at 70%-75% utilization levels. What will if this go towards 90%-95% or higher percentage, will there be rebound in M&HCV or exports growing very fast?

L. Ganesh: In terms of RBL capacity utilization, currently the two-wheeler as you know is not growing at the kind of rate it was growing until last year. There is a bit of a softening in two-wheelers that has impacted the capacity utilization. Once the two-wheeler growth comes back, especially the high-end two-wheelers is what we supply to and they've also been affected by the semiconductor chip availability. Once that comes back capacity utilization will improve. In terms of passenger car again, our major customers like Maruti are affected because of the same reason. So, it is not that the demand has not gone away but it is because of this shortage of semiconductor chips. Exports, as we've been telling the investors a lot of efforts are going on, very intense export efforts in the last about year, year and a half that is paying some dividends. We've got some new orders now, in Africa, in US we've started getting some orders. So, it'll take maybe a couple of years but we want to take our exports which is currently less than 5% to at least 10% of our sales in the next 2 years.

Abhishek Getam: Another question was on valves, so I understand that the current product does not apply to EVs. Even the penetration in North America and Europe, so all these global players shutting down the capacities because I assume that it's a smaller share for them, revenue share to the parent company. So, are those plants when capacity's going off, shutting down, what's happening on that side?

Harish Lakshman: With all the move to electric, obviously all the OEMs are making investments only in the electric but nobody's shutting down their IC engine plants. I mean if you see, even now there is some marginal growth in the IC engine globally. But of course, the electric market share is slowly increasing from 2% of the global market to 5%-7% etc. So, there will be a problem eventually, it could be 10 years, 15 years from now where the future of this product line would dramatically reduce. Obviously, we are aware of the impact it has on the group, obviously over time we will address this problem. But right now, we are still seeing opportunities for increasing the business for engine valves in the short to medium term.

Abhishek Getam: Medium term would be 5 years?

Harish Lakshman: Yes, and we are also focusing a lot on non-automotive segment, like stationary engines, diesel, the diesel-powered engines globally, not just Indian market. In fact, for Rane engine valves already 30% of our sales is non-automotive and there are initiatives underway to increase that also further.

Abhishek Getam: And how much is the export for us in valves?

Harish Lakshman: Again about 28% to 30%, I think.

Abhishek Getam: In the non-auto business, is this India oriented or export oriented?

Harish Lakshman: Both. India is also there but the export percentage is higher.

Abhishek Getam: Last question on die-casting, what sort of asset turns we look for this in India subsidiary and US subsidiary and compared to 2016 when our revenues were around 200 crores, have we tweaked our product portfolio in the US subsidiary?

Harish Lakshman: Yes. This business is asset intensive, so the sales to asset ratio tends to be about 2:1. I don't know exactly the asset turn definition but sales to asset tends to be about 2:1. With regards to obviously after hitting 200 when we had much higher sales came down because of various reasons including one customer shutting down their one of their product lines etc. and then COVID happening. We see strong sales coming back in the India casting business. The other significant thing that is different from 3-4 years ago was, 3-4 years ago almost 70% of our business was dependent on one customer whereas now we have seven or eight customers, both domestic as well as export. The portfolio has also become more diversified. Therefore, the risk of something going down at customer end and impacting our business has reduced compared to what it was 3-4 years ago.

Abhishek Getam: Would it be fair to assume that most of our US subsidiaries businesses going towards EV applications in auto PV?

Harish Lakshman: For the casting business?

Abhishek Getam: Yes.

Harish Lakshman: Not all of it is EV related but yes, we have started supplying some products, in entire Rane Madras, both I'm talking steering side as well as casting side. We are already supplying to some EV vehicles in India as well as in the US market. We have also won some new businesses for EV vehicles in the export market that we will be supplying in the next year or two.

Moderator: The next question is from the line of Surabhi Saraogi from Smith Capital Markets.

Surabhi Saraogi: My question is that now since your past problem of claims have been resolved, how is the outlook looking?

Harish Lakshman: As I said in the last conference call as well as in my opening comments, whatever provisions have been made for the past we have provided. Whether there will be future provisions etc. is still under discussion with the various parties involved and then whenever there is enough clarity we will share. But as I said for this quarter there is no incremental provision.

Moderator: The next question is from the line of Chetan Phalke from Alpha Invesco.

Chetan Phalke: On a broader level that now since globally the future for IC vehicles looks, I mean the growth will be muted going forward. So, is there a case wherein the auto ancillary companies globally, they have stopped investing in their capacity expansion and that demand is moving towards countries like India because of our cost structure advantages and everything and there is a scope for exports. The OEM as a category may not grow but exports from India might end up growing as we end up in gaining more market share because of our cost structure and everything do. So, is that happening, do you see that happening at your level and we see that in our own numbers over the last 3-4-5 years?

Harish Lakshman: So, I will address a couple of points in this. First of all, while EV is definitely going to increase significantly. It's not that IC engine is going to go away overnight. We are talking of EV, even if EV is doubling every year, we are talking of EV going from 2% of the total global sales to 5%-8%-10% but it will be an accelerated growth. The threat to IC engine business will happen over the next 5-10-15 years. It's not going to happen overnight. The second point is the impact of this will vary from company to company in the auto component industry. If you take Rane Group for example, for us the impact is only on our engine valve business which contributes to about 9% of our group sales. The remaining 91% is intact even in an EV vehicle. So, whether you take a steering system, whether you take a seat belt, an airbag, whether you take a brake pad, all of these will continue in an electric vehicle. Therefore, the relative impact for Rane Group is lower than another auto component company which is predominantly supplying to the powertrain business, so it also depends on that. Third of course from our group perspective for us both domestic and export, we are seeing a lot of opportunities for growth and we will continue to capitalize on them. There is a special focus on trying to win new businesses on electric platforms. We are succeeding in getting businesses, both in domestic market as well as in the international market.

Chetan Phalke: But do we see increase, let's say for the next 3 to 5 years most of our incremental growth do you see that coming from exports, from OEMs or our global partners increasing their presence in India? I mean just trying to understand from where the growth will come from because if you look at last 4-5 years data across all the companies, the volume numbers are quite flattish. That way we are just trying to understand from where the growth will come, whether it is OEM, whether it is exports or whether it is partners scaling up your….?

Harish Lakshman: So, for us it will be both. But if you ask me to guess, I think exports will outgrow the domestic, exports will grow the most followed by domestic. Domestic is hard to predict if the Indian GDP and the economy takes off in the next 3-4 years, we can start seeing some solid growth in the domestic market also. So, our group will kind of mirror what's happening with the auto industry in India. But our expectation is our export will be slightly more than the domestic growth.

Moderator: The next question is from the line of Rajkumar V, an Individual Investor.

Rajukumar V: The first question is on the margin of Rane Brake, if you see that the EBITDA margins have dropped from 15 which used to be kind of a standard margin for Rane Brake for a long period. I just want to know, when do you think the margins will stabilize both for the Rane Brake as well as Rane Madras standalone?

Harish Lakshman: It's very difficult to give any prediction because the kind of commodity increase, we have seen in the last 9 months has been unprecedented. The most of the commodities are at a record high and the way it all increased in the last 9 months, so we are also clueless as to what's going to happen. Whether the prices are going to go up further, whether it is stabilized at this level or whether there is hope of it coming down because we are already seeing some precious metals, the commodity prices are slightly dropping. Therefore, it's very difficult to give a clear picture.

Rajukumar V: But if you see your competitors, although the margins have come down, but they have not seen that kind of erosion. I mean I'm just taking an example of people like Mahindra CIE. They are still able to show EBITDA somewhere between 12% to 13% and they still have aspirations to 15%. Just want to know is it because of the scale we are not able to do this or what is really pulling down the margins?

Harish Lakshman: You're asking which business? Brake Lining business or…, because the margin varies depending on the nature of the business and what the issues are and I'm not able to comment on Mahindra CIE.

Rajukumar V: On the warranty provision for NSK, just want to know what are the numbers outstanding as of 30th September the unutilized provision?

Harish Lakshman: Rs.55 crores.

Rajukumar V: And any update on the insurance claim for this loss, are we working with the insurance company?

Harish Lakshman: Yes, we are working with the insurance company but there's no clear picture as yet.

Rajukumar V: Lastly, I think there was a comment in the presentation which said that there is a lag in price recovery in Q2 for NSK. Is it possible to quantify what would be the amount?

Harish Lakshman: Unfortunately, we don't have that data available readily.

Rajukumar V: The one more thing I noticed in the shareholding pattern I see most of the institutional guys have kind of exited the Rane group which is really disheartening to look at, so is there a way you kind of increase your engagement with the institution guys because that kind of helps in the proper price discovery for your stocks?

Harish Lakshman: Your point is noted and we will discuss this internally.

Rajukumar V: The last comment on the Rane Madras the US subsidiary, it would better if you give those numbers separately instead of giving RML consolidated because it kind of dilutes the picture because anyway you're giving each individual entity numbers, so it would be easier if you give RML, US performance separately with your comments and as an investor we'll be able to appreciate the better.

Harish Lakshman: Yes, noted your comments.

Moderator: The next question is from the line of Manish Goyal from ENAM Holdings.

Manish Goyal: First on Rane Madras, it has been very heartening to see that for last 3-4 quarters we are seeing a regular order inflow for both rack & pinion and casting business especially from exports market. So, based on like all the orders what we have received probably over a period of next 2 years how do you see the revenue mix for Rane Madras on a standalone basis? Like how do you see those exports contributing both from Steering and Castings business, what could be the revenue contribution, because that will provide lot of stability to our revenues and earnings?

Harish Lakshman: I don't have the exact number but I would get that combined on a normal standalone basis. The exports will be close to all we must be close to about 28% and we expect this to go to about 33%-34%.

Manish Goyal: These are typically ideally long-term contracts with at least a 3 to 5 year visibility?

Harish Lakshman: Yes. Very much, these are all be typically 5-year contract and if you see even this 28% last year was about 23% so we are steadily increasing it.

Manish Goyal: On US subsidiary you did mention that we saw strong demand recovery and the programs and the new programs have started ramping up. Yes, there is a shortage of semiconductor but how do you see this new program ramping up and then how do you see profitability improving? When do you see the breakeven now?

Harish Lakshman: As I said definitely the sales compared to last year there will be a significant jump and Q2 to Q2 there was a solid growth, almost 35% growth. We will continue to see double digit growth, but when I compare the Q2 that just got over to the upcoming Q3 clearly, we are seeing semiconductor shortage impacting the business. So there is some concern about our Q3 performance because of the semiconductor shortage. Even for the new program that we launched which started off well there is some impact but of course this impact is of 5%-7% of sales on a month-on-month basis and depends on chip availability, very difficult to predict. Now there is another new program also that will be starting in Q4 and that will also hopefully add to the growth of the business. We are seeing slow and steady growth for the US division. As far as profitability is concerned of course I think this year we have benefited from the stimulus package of the U S government and I think we had indicated in our last call also, next year we are trying to be EBITDA break-even during the next financial year and also that will depend on how much the sales growth. This is because we have booked enough business to achieve an EBITDA break-even. Now as the volumes materialized, I think there will be confidence, so that's what we are hoping for in the next 12 to 15 months.

Manish Goyal: And is there any more incentives pending or we have received a large part of it?

Harish Lakshman: A large part of it has come. There is some remaining for Q3 after that it will be over.

Manish Goyal: And what kind of fund infusion it will require from Rane Madras going forward?

Harish Lakshman: No, I don't have that number as yet.

Manish Goyal: But do you see that it will probably require some significant?

Harish Lakshman: Yes, I think again in the last call as I indicated there will be some investments but the good thing is that all that investment unlike in the last 2 years where a significant portion of the money went to fund the losses that has changed. Going forward whatever investment that will be required from Rane Madras that investment will go towards funding CAPEX and growth and repayment of some loans. There will be no more loss. We are not seeing any more loss funding. I mean unless there's another wave three that kind of, as long as there are no more black swan events we don't see funding of losses happening anymore. Everything will go towards the growth of the business or repaying some part loans.

Manish Goyal: And on Rane NSK, you did mention that it's only that 4% to 5% vehicles are coming back at the moment. Basically, now in terms of the correction what we have taken is that after correction we are seeing only 4% to 5% is a fair assessment?

Harish Lakshman: This was before. So, but then it will take some time because usually these warranty returns happen after 1 year, 2 year, 3 year etc. But we took actions let's say about 18 months ago, so for us to feel that it will take another 10 months 12 months. Eventually we'll see this 5% come down.

L. Ganesh: Post countermeasures as we see it the numbers are much less, less than 0.5% so far. So, all are pre-countermeasures what is still coming back.

Manish Goyal: And last question on overall as a group like we have been taking price corrections on the cost increase. So do we think that going forward in Q3 we will probably have seen most of the price corrections of the cost increase whichever happened in recent past and we should be able to see some normalized margins?

Harish Lakshman: I mean for sure in more than 95% of the cost increases we recover within a quarter within 3 months. Now it could be end of quarter, but within 3 months we usually get whatever we have passed on to our suppliers we are able to recover from the customers. So there will be the lead lag affect which will be a maximum of 3 months. Now the only concern is we don't know whether there'll be some more increases in the month of November and December. There is already some talk that steel prices are going to go up a little bit more in the month of November. So if prices stabilize at this level I think by December more than 95% of the cost would have been recovered from our customers. But if there is some further increase in November-December then again that lag effect will continue.

Moderator: The next question is from the line of Krishna Kumar from Lion Hill Capital.

Krishna Kumar: First question on the steering warranty issue at NSK, is it possible to give some color in terms of the return rates on supply scenario in FY21 will it be like 2%-3% now based on FY21 supplies, is there something that you can share or is it too confidential?

L. Ganesh: See the additional countermeasures that we have taken sometime in September-October 2018 beyond that the claim ratio is very low. Whatever is coming back is less than 0.5%. All the claims so far are coming back before that date. So we are hoping that once that period is over then it should come down. That is our expectation.

Krishna Kumar: In addition to the previous question on price increase and pass through, so when you say that you get a price increase, you're covered on price increases basically from now. Is there any retrospective benefit that the OEM we serving to give us because it's been long unprecedented moving steel prices etc. so are we able to kind of get some retrospective benefits also?

Harish Lakshman: It depends on the contracts that we have with customers; there are many customers there is a clear contract that every 3 months upward movement or downward moment will get corrected for the next quarter. So whatever adjustments that take place during the quarter we may not be able to recover but the next quarter we will recover it, that is as far as customers where there are clear contracts. Where with customers we don't have contracts, obviously we put best of effort basis to get it retrospectively from the day we incurred the cost increase. I would say that in I mean I'm guessing but (+80%) most of the time we get it with retrospective effect, sometimes we are not able to recover fully. So that depends case to case, there may be some other negotiation point with the customer, some other a quality issue or a delivery issue, so it gets clubbed with those and then that some settlement is reached. But most of the cases we do get it.

Krishna Kumar: The acquisition of the steering component business, so what kind of revenue that we can expect over a couple of years from the business acquired incremental affect any guidance broadly if you can give?

Harish Lakshman: The business that we acquired currently has a top line of about 40-45 crores. So it will grow, see the future of that business is closely married to the success of Hyundai and KIA. Because they were a competitor of ours but we never had access to Hyundai and KIA business, now we have access. So that business will grow in line with how Hyundai and KIA will perform in India.

Krishna Kumar: Is there an export opportunity there?

Harish Lakshman: Long-term yes, definitely.

Moderator: The next question is from the line of Jigar Shah from Financial Research.

Jigar Shah: Couple of quarters you have been mentioning about consolidation of various group companies and that you were thinking about it and whether if you have thought of an appropriate time - any further inputs on that?

Harish Lakshman: No. I mean right know there's no further development. We still continuing to discuss and evaluate. Obviously, it's a complex decision. It's so many listed companies so but it's still under discussion.

Jigar Shah: Should we hear more about it over the next 12 months or so?

Harish Lakshman: Difficult to give a clear timeline, definitely once we are ready we will for sure communicate with the investors first.

Moderator: The next question is from the line of Samarth from TCS Capital.

Samarth: It's a question on RBL. Could I get the breakdown between the revenue growth broken down between volume and price?

Harish Lakshman: Unfortunately, we don't have that data with us.

Samarth: Can you give a rough estimate?

Harish Lakshman: We grew 16% overall growth over 16%. No, I can’t be able to give a clear picture I don't want to guess

Samarth: There's the 12% differential between the OE growth and the aftermarket is that because they're able to pass on cost increases in the aftermarket more quickly than we are to the OEM's?

Harish Lakshman: Yes, we got price increases from both the segments but yes after market we are more in control on deciding the price increases and the timing of it.

Samarth: I guess my question is the differential between the two is largely are reflected by price increases?

Harish Lakshman: I mean there's been growth as well. I mean you take our aftermarket business last year. See when you compare with last year quarter the COVID impact was far more significant. We had total lockdown in the month of May-June last year, whereas this time the lockdown is not as intense so therefore the Q2 performance there is a significant volume growth as well.

Samarth: In terms of I guess you mentioned in terms of pricing for the whole group but for RBL particular is that would that pass on 95% of the cost increase would that apply to RBL as well with the next quarter?

L. Ganesh: Yes, by large yes. There are some formulation issues and complexities in RBL compared to other where we can straightaway link correlate the commodity based on component. But yes by and large we try to recover everything in RBL also.

Moderator: The next question is from the line of Manish Goyal from ENAM Holdings.

Manish Goyal: Just on coming back to the acquisition of component business from Hical, so you mentioned we have Inner Ball Joints and which is the other product we have?

Harish Lakshman: Inner Ball Joints and Outer Ball Joints those are the only two products.

Manish Goyal: And you mentioned it is Rs.45 crores revenue base, so ideally how much of the current demand does it meets for Hyundai and KIA?

Harish Lakshman: It's about 40%.

Manish Goyal: Ideally like this is one customer base which somehow our group was missing out. How do you like intend to leverage this with the Hyundai and KIA going forward just want to get a perspective?

Harish Lakshman: Just to clarify Rane Engine Valve has always enjoyed a very good relationship with Hyundai and KIA and we continued to do that. But so far, we on the steering side we were not being able to penetrate Hyundai KIA account obviously because Mando who is also a customer now but it's also a competitor when it comes to some of the other steering products. So the good thing is now we have made it through this acquisition, we have made an entry and clearly we have support from our customers with Rane making this acquisition. We are going to use this to enhance the relationship and we are seeing opportunity. It is too early to quantify anything but we are optimistic about leveraging this acquisition for more business.

Manish Goyal: Is this a profitable like the revenues of Rs.45 crores what is the profitability of this business?

Harish Lakshman: The margins are similar to our Rane Madras ball joint business. The contribution margins are very similar.

Manish Goyal: Will it require any further CAPEX in near term?

Harish Lakshman: No, nothing significant.

Manish Goyal: On Rane TRW if you can provide the breakup of revenue between a steering system and occupant safety for the current quarter?

Harish Lakshman: Steering is Rs.145 crores and occupant safety for the quarter was Rs.183 crores.

Manish Goyal: Can you please provide the breakup of occupant safety between domestic and exports?

Harish Lakshman: This time export was 65% off that Rs.183 crores, so Rs.118 crores and Rs.65 crores.

Moderator: The next question is from the line of Mohan Krishna Swami an Individual Investor.

K. Mohan: My question relates to the warranty, I'm very glad to know that you will still have unutilized the provision of Rs.55 crores. If I remember right at the beginning of the year it was around Rs.80 or Rs.90 crores. That means that we have only consumed about Rs.25 crores in the first half of this year. Is that the right statement is that the right figure conclusion on control?

Harish Lakshman: We will come back. We just need to check the number, your Rs.55 crores is correct. I don't remember the quarter movement.

K. Mohan: As a follow-up question would it be too optimistic to expect that there could be a write back at the end of the year of the provision no longer required?

Harish Lakshman: Very unlikely.

K. Mohan: If you could come back, I'll wait for the figure at the beginning of the year what is the warranty provision?

Harish Lakshman: For the quarter movement was around Rs.25 crores.

Moderator: The next question is from the line of Rajukumar V, an Individual Investor.

Rajukumar V: Just one small query. What is the RoDTEP benefit have you booked anything in the current quarter?

Harish Lakshman: Your question is regarding to any specific company in the group?

Rajukumar V: If you can give by company its fine or if you can I just want a relevant significant number if it's a Rs.1 or Rs.2 crores.

Harish Lakshman: Rane TRW about Rs.2.5 crores RoDTEP, but all the others it's not a significant number.

Rajukumar V: Does it include the benefit for the prior quarter as well the old scheme?

Harish Lakshman: Yes, it includes benefits for the prior quarter.

Moderator: Thank you. Ladies and gentlemen that was the last question, I now hand the conference over to the management for closing comments.

L. Ganesh: Thank you very much for your questions. Just one announcement we'd like to inform all of you that we'll be shifting to a bi-annual earnings calls starting from FY 22. We will do one after the H1 results and one after the whole year. However, we will definitely keep investors updated should there be any material disclosures and the same will be intimated as per requirements and we'll definitely keep you posted. Thank you very much, wish you all and your families very Happy Diwali. Thank you

Moderator: Thank you very much. Ladies and gentlemen on behalf of Rane Holdings Limited that concludes this conference. We thank you all for joining us and you may now disconnect your lines.