



# “Rane Group Limited Q1 FY ‘18 Earnings Conference Call”

**September 1, 2017**



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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Rane Group Limited Q1 FY '18 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 the operator by pressing '\*' and 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. Thank you and over to you, Sir.

**Diwakar Pingle:** Thank you, Lizann, Good Afternoon friends, Welcome to the Q1 FY '18 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 Rane Group, Mr. L. Ganesh – Chairman and Managing Director, Rane Holdings Limited; Mr. Harish Lakshman – Vice Chairman, Rane Holdings Limited; Mr. Siva Chandrasekaran – Executive Vice President of Secretarial and Legal Services; and Mr. J. Ananth – CFO of Rane Holdings Limited.

Please note that we have sent you the press release yesterday and also we sent you the presentation link of the deck that Harish would go through today. In case any of you have not received the presentation, you could look at it on our website or even the BSE site of Rane, or you could also write to us and we will be happy to send the detailed earnings presentation over to you.

Before we start, I would like to say that everything that is said on 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 risk and uncertainties that we face. These uncertainties and risks are included, but not limited to what we mention in the prospectus and subsequently in annual reports which you can find on our website. With that said now, I hand over the call to Mr. Ganesh. Over to you, Sir.

**L. Ganesh:** Thank you, Diwakar. Good Afternoon, Ladies and Gentlemen, thank you for the dialing in. I would like to welcome you all to this teleconference. You would have by now seen the Q1 FY '18 performance highlights of the group companies posted on our website. I would like to provide just a few comments on the quarter as a whole. This quarter has been overall positive for the group though we had some pullback in the aftermarket especially in the month of June owing to the GST implementation and the only other negative effect in this quarter as an industry has been in the medium and heavy commercial vehicle segment post BS-III ban and BS-IV migration there has been some uncertainty and perhaps also due to GST, this segment has done rather poorly in the first quarter.

Turning to our group performance, Rane Group sales registered a growth of 12% in Q1 of this year. The EBITDA at the group level improved by about 1% from 10.2% to 11.2%. This was mainly due to some cost reduction initiatives across group companies and the aggregate PBT without exceptional item improved from 4.1% to 5.3%. RML experienced a growth of 11% as we commenced supply of some new programs especially in the passenger car segment and

additional volumes in existing program in the steering and linkages division. After significant ramp up in last year, the die-casting division continued to experience lower off-take from the international customers both in US and Europe. The profitability of RML was affected because of this and also an adverse product mix in the first quarter as I mentioned earlier, the aftermarket dropped significantly especially in the month of June.

Turning to REVL, the operational performance of REVL revival is taking longer than we anticipated. The order books are still very healthy, we were unfortunately not able to deliver on all the potential sales due to some delivery bottlenecks at mainly two of our plants, leading to some operational cost increase not meeting the minimum volume and capacity utilization. As we move forward, we are focusing on these two plants and trying to improve on the quality and the debottlenecking by focusing on maintenance and controlling the cost to deliver improved operational performance in the coming quarters.

Rane Brake Linings, the sales declined by 13.7% because as you may be aware significant part of this company's sales comes from the aftermarket and June there was a big drop in the aftermarket sales. However, favorable commodity and foreign exchange movement and higher cost saving realization supported in maintaining the EBITDA margins despite the volumes drop. Rane TRW and Rane NSK continue to enjoy a good position under product segments and did well in this quarter continuing to deliver a strong revenue performance and profitability performance. We expect OE demand to sustain and perhaps improve; we see some signs of improvement even in the M&HCV segment, and the aftermarket seems to be recovering in July and August, we see post GST, normalcy returning in this segment. Therefore, we think that as a whole, this year should be positive for Rane Group. With these introductory remarks, I now hand over to Harish for his comments. Thank you.

**Harish Lakshman:**

Good afternoon everyone, just a few more comments about the overall market and our group performance. The revenue from the domestic OE customers grew by 17%. This was achieved as we had favorable performance compared to the industry across the major segments, both passenger vehicle as well as the commercial vehicle, so we outdid the market in these two segments. In the passenger vehicle segment, the growth was supported by supplies to new businesses in some of the vehicle platforms that are doing well, and in commercial vehicle segment, we increased the share of business with a few of our customers both in the light commercial vehicle segment as well as in some medium and heavy commercial vehicle segment.

In farm tractor and two wheeler, the performance although we had a positive growth, but we did not grow in line with the market, this was because of some delivery bottlenecks, especially the two wheeler side for our valve trains components as well as little bit on the farm tractor side as well. The international customers, we grew by about 20% export supported by increased demand for occupant safety products as well as steering components. I think we had mentioned in one of the past teleconferences that our seatbelt and airbag business in addition to growing well domestically, we have also added some international export business which is aiding this growth.

As Mr. Ganesh mentioned, the aftermarket segment has been a drag for us for the quarter. The overall sales was actually 33% lower than last year, however, we believe that this is largely because of the GST issue and we are hopeful that we will recover in the coming quarters. The other new products that we started during this quarter is the manufacturing of side airbags, so in addition to driver airbag and passenger airbag, we have now started assembling side airbags as well in the Rane TRW joint venture. So with these few words, we are happy to take any questions.

**Moderator:** Thank you. Ladies and Gentlemen, we will now begin the question and answer session. We will take the first question from the line of Viraj Kacharia from Securities Investment. Please go ahead.

**Viraj Kacharia:** I just have couple of questions starting with Rane NSK, if you see the overall domestic passenger vehicle growth in Q1, we have significantly outperformed the overall growth of the passenger vehicle industry in Q1 for Rane NSK, so just want to understand what is the reason which drove this outperformance and similarly on the margin side, in Q1 we are operating around close to 15% operating margin, so if you can just provide what are the drivers for that?

**L. Ganesh:** Rane NSK, basically we were fortunate some of the models which are doing extremely well in Maruti Suzuki especially like Baleno, Brezza, and Swift, so these models are doing extremely well and we are very fortunate that we are supplying the electric power steering to these models and overall the margin improvement is because the electric power steering localization some effect of that, which we have been doing gradually and also the fact that we have started to decline manual steering columns in passenger cars and somewhat increase in the commercial vehicle, which is more profitable. So overall we did better in terms of PBT. There was of course an exceptional item also in Rane NSK in the first quarter. The exceptional item was, a land exchange which we did with a neighboring SEZ in the Chennai plant and that caused some capital gain also. These are the two reasons for the PBT increase.

**Viraj Kacharia:** When we talk about margin expansion, was there any new customer, basically what I want to get a sense that it is highlighted that there is a favorable product mix. Now if you see the trend globally and also in India, the market is gradually moving towards electric power steering whereas we are able to capture well in that segment, basically I wanted to get a sense why we are going ahead with the investment in manual steering columns when the utilization itself is relatively low for us in that segment?

**L. Ganesh:** We are not investing in manual steering columns, actually the capacity utilization there is much lower, what we are trying to do is the existing capacity, we are trying to convert to commercial vehicle which is still a manual steering column with better features than what was there in the earlier generation of commercial vehicles. There we are having some advantage and we are also trying to bring some export volumes through NSK, our partner. So manual steering column not

much of investment is going on, we are trying to utilize the capacity more that is already there on the ground.

**Viraj Kacharia:** What is your localization in electric power steering now?

**L. Ganesh:** Localization increases gradually. We have localized in the established models except the electronics, all the mechanical parts have been localized so you can say for most about 70% will be local, but when we start a new model, we start with slightly higher import content and then gradually over a year or so, we localize more and more.

**Viraj Kacharia:** Has there been any new customer addition in Rane NSK?

**L. Ganesh:** No new customers, but Maruti and Honda so far for the electric power steering.

**Viraj Kacharia:** I just had few more questions on the TRW, you talked about us having an increased wallet share of existing customers because even there we have seen a significant out performance, so if you can just probably quantify what are the wallet share of those customers and what is it now, and you talked about us getting an export opportunity for seat belts and airbags both, so if you can just provide more color on that?

**Harish Lakshman:** I would not be able to give you specific numbers on share,, Basically, in the medium and commercial vehicle it is 100% hydraulic steering systems, all medium and heavy vehicle across Leyland, Tata, Daimler, Eicher, etc. Whereas in the light commercial vehicle, there is manual steering as well as hydraulic steering and in this hydraulic, there are two things happening. The hydraulic steering penetration level is increasing so also the overall market share of hydraulic steering is increasing. Also recently in two particular customers, we have increased our market share. So that is the reason why they have had the growth.

**Viraj Kacharia:** You talked about getting an export traction in seat belts and airbags?

**Harish Lakshman:** There is a major export order that I think that we have publicly also mentioned out in the media, we have started supplying seat belts to a customer in Korea. So that program was launched sometime in October-November of last year and full production was ramped up by March-April. So we are seeing the sales impact of that.

**Viraj Kacharia:** On airbags, Sir, so far has been purely domestic?

**Harish Lakshman:** By and large, it is all domestic.

**Viraj Kacharia:** But you talked about us also getting an opportunity on the airbag side for exports?

**Harish Lakshman:** Yes, we will be doing some amount of exports for airbags as well.

- Moderator:** Thank you. The next question is from the line of Mahesh Bendre from Way2Wealth Securities. Please go ahead.
- Mahesh Bendre:** Sir, in initial remarks you mentioned that for Rane Madras, we have started a new program of supplying to the international player, so can you elaborate more on this?
- L. Ganesh:** No new program during this quarter. I do not think there is any major program. We might have started some minor export, but there is no major program which has started during this quarter as far as export is concerned.
- Mahesh Bendre:** Sir, you mentioned that the aftermarket did not do well for Rane Madras, I think the contributions from that part of business for the quarter is around 8% compared to 15% to 16% previously. So is it fair to assume that we lost around 20 to 25 crores of revenue because of the aftermarket transition?
- L. Ganesh:** The aftermarket dropped if I am recollecting by something like 30% in the quarter, mainly in the month of June. June was complete washout because dealers stopped buying because they did not know what will be the set of rules and what will be the risk, so dealer just stopped buying in June, so June sales was badly affected in Rane Madras and the other companies.
- Mahesh Bendre:** Sir, what we have been witnessing is that Rane Madras last six quarters we are growing in double digits, given the context growth has been very impressive, however, the operating margin performance remains to be disappointed, we are maintaining same margins more or less similar, so when do you think the operating leverage or any benefit that will get reflected in terms of margin improvement?
- Harish Lakshman:** You are right, clearly the bottom line has not grown in line with the way the top line has grown and this is largely because of the die-casting division, where we have said in some earlier calls as well, that we have made a large investment in the second plant - over Rs.75 crores was invested and we have launched several new programs with different customers, overseas customers as well as some domestic customers. When we launched these programs being the new plant, new people, multiple programs, we ran into a lot of operational issues that led to air freight and things like that. So, that really hurt the operational performance of the business. In addition, to that since then in Q1 there has also been a volume drop in some of these customers. So, by the time we got out of the operational issues, there has been a volume impact, on top of it as you can see from the balance sheet, the debt levels are little higher than we would like to. Which is why the operating margin level at a PBT level and also the margins are low because there is a high interest cost and I think towards that we recently took a decision to reduce the debt in the company by getting in some preferential equity capital from Rane Holdings. So, that will also help reduce the interest cost of the company. As far as operational performances are concerned, the quality and delivery has become stable now, so now it is a question of getting more volume into the business.

**Mahesh Bendre:** Sir, we have a debt of around Rs.270 crores at the beginning of the year, I mean interest outflow has been very significant for us and which is actually impacting our profitability. So apart from the preferential share that we probably used to pay the debt, are there any plans to reduce the debt, any plans by this current year?

**L. Ganesh:** One is the CAPEX itself of course we are being very cautious. There are two things, one is the die cast already being invested and capacity utilization not being up to the full level, we do not anticipate any CAPEX in the die cast for the next couple of years at least. Any minor tooling etc. maybe there, but no major CAPEX in die cast. In the steering division, we are being very cautious and trying to do exactly only what is absolutely required, so that is one way. The other is of course the issue of shares to Rane Holdings through a preferential offer that was approved in fact today by the shareholders in the morning. So that will come into play during this month and that money will be used to repay the debt and bring down the interest cost by about roughly on an annual basis Rs.4 to Rs.5 crores per year.

**Mahesh Bendre:** Sir, last question from my end, during this quarter, you witnessed there is a 17% decline in other expenses, so we have grown 11%, but other expenses have declined by 17%, is there anything one-off item in that?

**L. Ganesh:** We will check on that may be there were some expenses in the last quarter which was one off

**Moderator:** Thank you. The next question is from the line of H. R. Gala from Finvest Advisors. Please go ahead.

**H. R. Gala:** Sir, in automotive sector, lot of disruptions are going to happen, now if you see the Rane Group's past history, we have been tracking Rane Group for last several years, so we make considerable investments, we invest in the platforms R&D and then what happens that after certain number of years, those things start beginning to wane, so now what kind of major disruptions do you think are likely to come and how are we preparing for that?

**Harish Lakshman:** For sure, I think there are going to be major disruptions in the industry, I think the only debate that is going around I guess not only in the country all over the world is the timing of this disruption, is this going to happen in 5 years, 7 years, 15 years, or 20 years and there are differing views. Obviously, at a board level, senior management level we are continuously monitoring this. We do not have a clear view as well, but obviously the two major disruptions are, one is electrification of vehicles and the other is autonomous or the shared mobility and things like that. We did an internal assessment of all our businesses and of course clearly Rane Engine Valve is a business that will get impacted because of more and more electrification. Fortunately, all of our other product lines in the group, each and every product line there is the risk impact is minimal, in fact all the products will continue in a car whether it is an electric car or an autonomously driven car, so to that extent other than the Rane Engine Valve which contributes about 9% to 10% of our group sales, there is no major risk. Of course, this whole

disruption is also presenting an opportunity. We see Rane trying to capitalize in some of these opportunities, so that is why we are also trying to look at making investments in some of the newer things including this recent the acquisition that was announced yesterday as well as we are also engaging in a deeper way in US with the Silicon valley in terms of trying to understand what are some of the emerging trends etc.

**H. R. Gala:** Sir, as far as the precision die cast is concerned, when do you think it will be positive at PBT level?

**Harish Lakshman:** When we announced the acquisition last February, we said it will take us about three years and so far I would say that if things are going according to plan. So the business is improving. These are compared to when we acquired the business last year and till now, the overall financial health of the business is better, and hopefully, we will start making profits even before 36 months from the date of acquisition. We had said three years from the date of acquisition we will start making profits; we are hopeful to do that even slightly ahead of plan.

**H. R. Gala:** What was the date of acquisition?

**Harish Lakshman:** Last February 2016.

**Moderator:** Thank you. The next question is from the line of Sanjay Shah from KSA Shares and Securities. Please go ahead.

**Sanjay Shah:** Sir, in your opening comments you said that we have done remarkably well in our Rane TRW and NSK, can you elaborate on that because, I could not compare it QOQ because the figures I do not have right now, but when I see our group turnover vis-a-vis the non-listed space that is TRW and NSK, the percentages is bit lesser and we have not done well in that what I think, because revenue is only 37% which used to be around 47%?

**Harish Lakshman:** I do know what numbers you are looking at whether it is from our earnings release document or some other, but one big shift compared to last year to this year is from this year we have started adopting Ind-AS accounting standard, so till last year both the joint ventures, TRW as well as NSK was a line by line consolidation, the 50% of top line of both the joint-ventures, but starting this quarter because both the joint-ventures are jointly controlled by the shareholders, we are not consolidating the numbers, so I do not know whether it is because the numbers that you are looking at, because otherwise we have actually grown significantly in both the businesses, double-digit growth in both.

**Sanjay Shah:** Double-digit growth, top line and even better bottom line in margin side?

**Harish Lakshman:** Yes.

- Moderator:** Thank you. The next question is from the line of Mulesh Savla from MM Savla Consultancy Services. Please go ahead.
- Mulesh Savla:** Sir, as I look at the product profile of all our sister concerns, I see that steering-related parts are being made by Rane Madras, by Rane TRW as well as Rane NSK, can you throw some light on how do you specify which part or which program related to steering is done in one company, another company, third company?
- Harish Lakshman:** It is very clear, see Rane TRW, this joint venture is for hydraulic steering, so any power steering that is hydraulic will be made in Rane TRW. All the commercial vehicle market is completely hydraulic and for the foreseeable future, it will continue to be hydraulic, so that will remain in Rane TRW. In the Indian market maybe till about 10 years ago, most of the cars also had hydraulic steering which was being made in Rane TRW, but now the market has moved to electric steering completely mainly in the passenger car segment, so all the electric steering is being made in Rane NSK, so as far as Rane Madras is concerned, there are different types of parts that Rane Madras makes. They make some subsystems for the hydraulic steering that they supply to Rane TRW as well as for all the electric steering that are made in cars, so you take Baleno or Swift for example, the electric steering is near the steering column and that should come from Rane NSK, whereas the actual steering is a mechanical steering, so that comes from Rane Madras, so all the mechanical parts are made in Rane Madras.
- Mulesh Savla:** How about steering gears, I suppose they are also critical part of steering system?
- Harish Lakshman:** When I say mechanical steering, what I mean is the steering gear only.
- Mulesh Savla:** That is made in Rane Madras for all your group companies?
- Harish Lakshman:** It is made for any car that has an electric steering or a regular manual steering that is made in Rane Madras.
- Mulesh Savla:** Going forward also, you will continue to have this understanding.
- Harish Lakshman:** Correct.
- L. Ganesh:** Just one clarification, it is supplied mostly directly to the OE customers, so it is not as though it is through Rane NSK, Rane NSK supplies Maruti electric power steering column and Rane Madras directly supplies mechanical steering gears, some customers buy it as a system also together.
- Mulesh Savla:** Then in such case, it will be supplied to group companies and then system will be sold to OE?
- L. Ganesh:** It is possible, today in India most of them are buying separately, but going forward, some customers might buy the system also.

- Mulesh Savla:** Any plan to start some manufacturing activities somewhere in Gujarat or West side, because I believe our concentration more is on South side and now recently many automobile companies have started their plants in Gujarat?
- L. Ganesh:** In Gujarat, for Rane Madras we have a very small plant already, when Tata motors started their plant in Sanand, we also started in that industrial estate, we have a very small plant because Tata motors activity there has been very low key, but now from there, we have started supplying some finished steering gear to Maruti Suzuki also. The other company possible in the future is Rane NSK which supplies electric power steering. Currently it is going from Bawal to a warehouse in Gujarat and then to Suzuki, but going forward that is one company where we may have to start a plant in Gujarat also.
- Mulesh Savla:** We were also expecting some sale of non-core assets for reducing debt in Rane Madras, can we know some status on that front, please?
- L. Ganesh:** There is only one non-core asset if you like to call it that is the Velachery land where the head office and R&D is situated, some 3-4 years ago we did think of selling it, but then we decided to defer the timing because at that time Chennai market was not good, then we thought that, may be this asset can be monetized at a later time when we need some big investment opportunity or something like that, so currently we have taken it off the market, the last couple of years we have not been trying to sell that and with the equity infusion and all, the debt to capital employed will come down to a very manageable 48% to 49%, and hopefully, better performance that should be managed around 40% to 45%, so this land we will probably use in the future when it is required to monetize and not in immediate future.
- Moderator:** Thank you. The next question is from the line of Janani Rajshekhar from Securities Investment Management. Please go ahead.
- Janani Rajshekhar:** I had a couple of questions, one is, can you give us an idea of the breakup of TRW sales, in terms of how much comes from occupant safety, airbags, and seat belts and how much is coming from hydraulics PV?
- J. Ananth :** It is 50% out of 238 crores for this quarter, 50% roughly from steering gear and balance 50 from occupant safety, i.e., Rs.120 crores.
- Janani Rajshekhar:** How much comes from hydraulic PV?
- L. Ganesh:** Another 50% from hydraulic steering, 50 from occupant safety division.
- Janani Rajshekhar:** I meant hydraulic steering to passenger vehicles, you earlier said that was a declining segment, I just wanted to understand how much you are getting from that?

- Harish Lakshman:** Negligible.
- Janani Rajshekhar:** The other question was regarding the PDC RML investment, how much investment do you have left to make in that or is all the CAPEX there been done?
- Harish Lakshman:** There is still some investment left, I think we had indicated when we acquired the business that around 22 to 24 months, we are planning to invest USD 6 million and against that we have invested about USD 4.5 million.
- Moderator:** Thank you. The next question is from the line of Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.
- Srinath Krishnan:** Sir, with regard to TRW, your growth rates have been pretty strong despite weak M&HCV production, that is M&HCV contribution is nearly 22% rather for TRW, that production has declined by more than 30% for the industry, so where does this growth come from, like if you could give us a break up of how, export and domestic has performed during the quarter?
- Harish Lakshman:** The entire growth, Srinath, has come from the occupant safety side which is the seat belt and airbags, you are right that obviously because of the poor performance of M&HCV market in the first quarter, on the steering side the performance, not from a profitability, from a growth standpoint, it has been very, very muted. I think in fact we are flat, slightly negative growth, but the seat belt and airbags business is growing at very high, as I said earlier also we are foreseeing next one or two years growth upwards of 25% to 30% and this particular quarter, we have grown almost 80% to 90%.
- Srinath Krishnan:** Sorry Sir, I missed that number, how much was seatbelt and how much was airbags, contribution during the quarter?
- Harish Lakshman:** Majority is seatbelt going back to the earlier question, we said about Rs.120 crores is the overall seat belt and airbags sales, in those almost Rs.80+ crores is seat belts.
- Srinath Krishnan:** You had last year told sale of exports of about Rs.170 crores in TRW, I mean how much would the contribution for this quarter be, export contribution?
- Harish Lakshman:** It will be even higher this year.
- Srinath Krishnan:** This quarter because last year it was around 20% growth grew by something like 40%, so can we expect similar growth rate, 50% to 60% growth rate in export this year?
- Harish Lakshman:** Yeah, you are asking growth to our last year, is it?
- Srinath Krishnan:** Last year exports for TRW had grown by something like 42% to be exact, so it was Rs.170 crores of the total Rs.850 crores of revenue FY '17 I am talking about?

- Harish Lakshman:** The growth will continue Srinath, we do not have the exact number. In fact this financial full year, the exports will be much higher than even last year.
- Srinath Krishnan:** Is the seat belt largely for exports or is it domestic?
- L. Ganesh:** Exports.
- Srinath Krishnan:** This Rs.120 crores that you had this quarter versus last year of how much, Sir?
- J. Ananth::** It will be around Rs.60 crores.
- Srinath Krishnan:** NSK, during last call, you had guided that the growth rates cannot remain at these levels, it would taper down but this quarter too, it is at 27% which is very strong, I mean do you see this continuing or has the performance been better than what you would have expected or how is this?
- L. Ganesh:** I think as I said earlier the model in which we are present with the Maruti Suzuki have done extremely well, so fortunately that continued so as long as that continues, we are in a very favorable position, but really going forward having reached significant share in Maruti Suzuki, we cannot now grow at the same rate going forward, so that is what I mentioned and that is still true, so this quarter might have been very good, but overall I think the growth cannot continue at that rate as we have done in the last 3 to 4 years.
- Srinath Krishnan:** Sir, for the Gujarat plant would you be for now at least, would you be the sole supplier?
- L. Ganesh:** Well, we do not know about what our competitor is going to do, but as I said we have started supplies through a warehouse in Gujarat already, the assembly is going from Bawal plant, but we are discussing with Maruti that I am sure going forward we have to have a plan, it may start off with just final assembly and subjoint parts may go from Bawal, but that configuration details we have not yet worked out, we are still discussing with NSK and with Maruti Suzuki on this.
- Srinath Krishnan:** You are 100% supplier for Baleno, right?
- L. Ganesh:** Yes.
- Srinath Krishnan:** Since they are manufacturing that initially all the initial suppliers from Gujarat will be of Baleno, so you will have the entire?
- L. Ganesh:** Initially, yes.
- Srinath Krishnan:** For Brezza, Sir, what is your share of business there?
- L. Ganesh:** Brezza also we fully supply.

**Srinath Krishnan:** Generally, with increasing volumes, there is an alternate supplier that was adopted, like we saw it in Swift and Dzire too, so now the volumes have crossed more than in fact more than 35,000 for both put together, so do you think alternate supply also coming in or how is the arrangement, Sir?

**L. Ganesh:** It was always possible, but generally Maruti Suzuki adopts two suppliers when the volumes are much higher, say in the order of 200,000 like that. Normally some 100,000, they manage, but it all depends, I think it is entirely their discretion on this.

**Srinath Krishnan:** If you look at both Brezza and Baleno, annually they are more than 350,000 at this point of time, so that is what I was wondering. In terms of other subsidiaries like brake lining, Sir, there the performance during the quarter was slightly muted, in fact declined compared to last year, in your press release you had mentioned destocking of GST played a big role there, if you could highlight how much was the impact because GST that will be pretty helpful?

**L. Ganesh:** Our aftermarket sales were significantly affected by about 40% decline in the aftermarket sales in the quarter and that almost 40% of our total sales are aftermarket, so the impact was fairly significant and this was, our reading was this was mainly because of destocking. The secondary market consumption still continued, so that is not a major concern, but clearly we could see our wholesale and retail dealers did not want to buy, they did not want to carry any stock on June 30, so they just stopped ordering and we also decided not push beyond a point because we were sure it will come back in Q2, so that is the reason it stopped.

**Srinath Krishnan:** Because across industries we have not seeing the restocking also happening much during the first two months, are you seeing similar scenario?

**L. Ganesh:** We are seeing a recovery, definitely we saw some recovery in July and so far what I heard, I have not seen the numbers but August also I am told by our company that the aftermarket is coming back to almost normal levels; I have not seen the numbers, but this is just what I heard in this morning.

**Moderator:** Thank you. We will take the next question from the line of Ravi Purohit from Securities Investments Private Limited. Please go ahead.

**Ravi Purohit:** Sir, couple of things one is in the last few calls you had mentioned that you are close to like full capacity utilization at NSK, so have we kind of hit 100% utilization at NSK, and therefore, any CAPEX number that you can share that you are looking for in NSK this year?

**L. Ganesh:** Rane NSK, mainly in the electric power steering, the capacity utilization is high. Manual steering column of course as I mentioned is still low, so NSK we are planning about Rs.60 crores of CAPEX this year. It will be some capacity addition, adding some assembly lines, and also some more localization in Bawal plant.

**Ravi Purohit:** Sir, second question is on TRW, this airbags regulation which is coming into force from October 1, that is on right and you are seeing all the OEMs actually putting out airbags in all the cars?

**Harish Lakshman:** Yes, what is your question?

**Ravi Purohit:** Airbag regulation from October 1, 2017, that the implementation is on right as in there are no doubts about it?

**Harish Lakshman:** Correct, it is very much on, but what has happened actually if we observe the market trend, even prior to the legislation most of them have started selling vehicles with airbags, so compared to 2 years ago where only 30% of the Indian car market were selling cars with airbag, now it is upwards of 72% now.

**Ravi Purohit:** This side airbag market, you said you started supplying this quarter onwards, how big that can and what kind of potential you see there in the sense of what are OEMs, there are not too many companies which are actually marketing like more than one airbag, Ford is probably the only one which says you probably have?

**Harish Lakshman:** Correct, as you can see recently Ford has started this, so they are the first customer, but we expect that the same trend will continue, the global trend in all over world, Europe, US is to have side airbags also as standard fitment, so we expect the same will happen. Currently, there is no legislation for that, but post 2020, there will be some sort of legislation which will force the side airbags.

**Ravi Purohit:** This airbags, just to get my understanding right in Europe and North America these are mandatory in all vehicles?

**Harish Lakshman:** Everywhere in the world including India, it is not mandatory in the sense there is no law that says you must fit an airbag, but what the government does is they have a certain crash criteria, if the vehicle is going at an X speed and hits a wall at Y speed and therefore there is a certain technical requirements that the car needs to meet when it crashes, but to meet that without an airbag will be impossible or close to impossible.

**Ravi Purohit:** Therefore in most developed markets by default you will have airbags in pretty much all the cars?

**Harish Lakshman:** That is correct.

**Ravi Purohit:** Sir, last question on this Telematics acquisition and also you have mentioned quite a few times in the last couple of years about our eye on the defense/aerospace, so if you could just throw some light and share some updated thoughts on both these Telematics acquisition as well as for the defense/aerospace foray?

**Harish Lakshman:** As we have indicated in the past, we have said that M&A will continue to be one of our strategies for growth and we continue to look at opportunities in automotive and some of the new automotives stuff which is Telematics as well as aerospace and defense, so we are continuously looking at opportunities under these three heads. So, Telematics is something we have been working on for the last two years trying to understand the market, what opportunities exist etc., so obviously this opportunity came up and we have been working on it for the last four months and we believe there is a tremendous growth opportunity there. As far as aerospace is concerned, as you are aware we exited an investment not too long ago and that exit was more because the promoters shareholders and us trying to get an alignment on the future vision. So, we felt that it was in the best interest to exit and we continue to look at opportunities, so aerospace and defense is still an area of interest for us and we are continuing to look at companies.

**Ravi Purohit:** If it is an area of interest, what is it that we bring to the table?

**Harish Lakshman:** The thought process was we wanted to have a non automotive portfolio, again this is not a large portfolio, just to take a name we are not doing what like Bharat Forge is doing. We set ourselves a goal that 5 to 7 years from now about 10% to 12% of our total group revenue needs to be non automotive. So, in that we said what are the sectors we should look at - wherever there is high precision manufacturing, we said let us look at areas as our core competence is manufacturing. So, where there is manufacturing synergies, let us start looking at businesses that have that, and in that what are the high potential industry. That is how we arrived at aerospace. We are not going to do something on our own from scratch because we do not have the necessary capability, certification, industry domain knowledge etc., But what we bring to the table is capital, we bring management practices, and we are finding in aerospace, there are many small companies, medium-sized Rs.50 crores, Rs.100 crores company, and for many of them to scale up and even meet the size criteria for some larger opportunities etc., they need to have a bigger balance sheet. So, that is where a company like Rane comes in. We can help some of the smaller companies by bringing in capital, management practices, as well as with the bigger balance sheet, obviously we can open doors with more customers, etc.

**Ravi Purohit:** If you could just share some thoughts on this Telematics thing and what exactly does this company is all about and you have said we will spend a few 20 odd crores over the next two years on this, so what kind of role do you think that company is going to play for us in terms of where does it fit into our overall scheme of things?

**Harish Lakshman:** Again, this is a new opportunity, the general view is that Telematics is going to grow significantly at multiple levels. One is with what is happening with shared mobility especially customers like Ola, Zoom car, and all of these guys where they are starting to fit more and more vehicles with track and trace system, vehicle performance management systems, collecting engine data and things like that for maintenance purposes, to prevent stealing of vehicles, so they are trying to fit more and more tracking systems and as well as for data analytics, so this is one sector. The other is of course logistics, very clearly the 3PL guys are fitting more and more

Telematics solution into the trucks, not only big trucks but even like Amazon type of service retailers, so again this is another opportunity that we are planning to capitalize on. The third is this company already has a first mover advantage in mining industry. Many mines across the country where, for example, sand mines in the country where sand is mined and moved in thousands of trucks, the sand needs to be measured when it is crossing, which truck is coming in and going into the mines, so they already have some systems developed for that, so these are the broadly the three major verticals for growth that we are looking at.

**Moderator:** Thank you. The next question is from the line of Viraj Kacharia from Securities Investment. Please go ahead.

**Viraj Kacharia:** Just had one or two questions on Rane Madras, can you share how is the performance of PDC been in this last quarter, Q1?

**Harish Lakshman:** As I mentioned, obviously we had planned for a loss, you are asking about precision die-casting, right?

**Viraj Kacharia:** Yes, even at the operation level at the EBITDA level, is it positive or?

**Harish Lakshman:** We are not publishing the consolidated, it is only standalone, so the PDC numbers are not there in the results that we have published.

**Viraj Kacharia:** Right, under the quarterly performance are we operationally positive in terms of EBITDA or?

**Harish Lakshman:** Yeah, EBITDA is positive.

**Viraj Kacharia:** In terms of CAPEX you said the CAPEX requirement going forward will be relatively low for Rane Madras, so annual CAPEX how much we are looking for next couple of years?

**L. Ganesh:** What I meant was for the die cast division in Hyderabad, Rane die cast where we already invested, capacity utilization is not full, so therefore CAPEX will be lower. In the steering business, we continue to invest, even this year I think our plan to invest about Rs.25 crores in the steering business, so that will continue depending on the new programs we win and the new businesses, that continues. The die cast for the next two years, we do not expect any significant CAPEX at the Hyderabad division.

**Viraj Kacharia:** There again in the die cast business, historically we have said that ideally we would like to see an EBITDA margin of somewhere around 18%, directionally are we in that?

**Harish Lakshman:** First quarter our EBITDA margins were in line with that 18% you mentioned.

**Viraj Kacharia:** In the die cast business?

**Harish Lakshman:** The die casting EBITDA for first quarter was 15%, not 18%, so we are still behind but we are hopeful of achieving 18% towards this year end.

**Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique Investment. Please go ahead.

**Sunil Kothari:** Sir, what is your outlook on this die-cast division, basically it may be temporary we are seeing some lower volumes, but what is your outlook for the current year, because you said margin we are expecting 17% to 18%, but in terms of volume what type of growth should we expect this year and your outlook on farm tractor segment, we were not doing well last year where we are supplying, so how you see both these segments?

**Harish Lakshman:** To answer your first question, see the die-casting business we have indicated in the past, this is a business that is helping us becoming more global, we have now got footprint both in India and US, we are supplying parts all over the world, India, Europe and US, and obviously the trend at a macro level is very positive. The amount of aluminum content in a vehicle is increasing year by year, so clearly that is also a positive and generally we are finding in the kind of pressure die-casting that we make, we make very critical high-end casting, so the margins are also reasonably good at about 18% margins. Of course, the downside it is capital intensive, so we are foreseeing a ROCE of about 18% in this business, so that is why we are continuing to grow this area. To answer your second question on farm tractor, actually Rane Madras has done well; we have grown quite well in the farm tractor segment over last year. The reason we said overall farm tractor, our growth is not in line in with market is because of Rane engine valves where we grew very little vis-a-vis the market that is mainly because of internal issues on supplies.

**Sunil Kothari:** Sir, during last year we are mentioning about the farm tractor segment was not doing well for Rane Madras because where we were supplying, it was a different segment so is it annually has been rectified or what, that is what I wanted to understand?

**Harish Lakshman:** What we have always been saying, if you see in the last year what happened was the farm tractor with the power steering was growing faster than the manual steering and we had also indicated to you that we have developed our own product and now we are slowly launching it with each and every customer. So, in fact the main driver for growth in this quarter for Rane Madras is all the power steering that we are making for farm tractor segment, I would not like to use the word well as yet, but we are on the right track, so hopefully, we will see more and more growth coming in that business.

**Sunil Kothari:** Sir, what is the die-casting division, this Rane die cast division utilization currently, below some considerable percentage?

**Harish Lakshman:** Only about 65% now.

- Sunil Kothari:** My last question is Sir related to our effort during last 2 to 3 years to gain good exports business from Rane Madras related to ball joints and rack and pinion, any development you would like to say, some orders we received and then it was postponed, any further progress now would you like to say something on that?
- Harish Lakshman:** There is nothing immediate to report now, I mean it is unfortunate that program that we had secured went away because of GM selling Opel to PSA. So, as a result they cancelled that program. But Nexteer, who is the customer, they are committed to grow with us and we are looking at other businesses for the future. So, while there is a short-term loss in revenue as a result of this decision that was taken, I think from a long-term even from a 3 to 4-year perspective, we expect to be winning some orders.
- Moderator:** Thank you. The next question is from the line of H. R. Gala from Finvest Advisors. Please go ahead.
- H. R. Gala:** Sir, I just wanted to know what will be total CAPEX for the group as such, if you can tell us company wise for this year FY '18?
- Harish Lakshman:** The total CAPEX at a group level we are looking at is about 220 crores and in that Rane Madras including the overseas precision die-casting also it will be around 45, then Rane Brake Lining will be about 30 crores, Engine Valve will be around 18 crores, TRW will be about 55 crores, and Rane NSK around 65 crores.
- Moderator:** Thank you. The next question is from the line of Janani Rajshekhar from Securities Investment Management. Please go ahead.
- Janani Rajshekhar:** Sir, just had two quick questions, one was this CAPEX that you talked about in TRW Rs.55 crores, what is that towards?
- Harish Lakshman:** Both on the steering side as well as the occupant safety side.
- Janani Rajshekhar:** That would be in airbag or?
- Harish Lakshman:** Both seat belts and airbags.
- Janani Rajshekhar:** The other question was in Rane Madras, can you give us an idea of how much the die-casting has contributed to revenue this time?
- Harish Lakshman:** 14%.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.



*Rane Group Limited  
September 1, 2017*

- L. Ganesh:** Thank you very much. I hope that was useful to all of you and thank you very much.
- Moderator:** Thank you. Ladies and Gentlemen, on behalf of Rane Group, that concludes today's conference. Thank you for joining us and you may now disconnect your lines.