



“Rane Group Q3 FY18 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Rane Group Q3 FY18 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. Thank you and over to you, sir.

Diwakar Pingle: Thank you, Rim. Good afternoon friends. Welcome to the Q3 FY18 Earnings Call of the Rane Group. To take you through the results and answer your questions today, we have the management team from the Rane Group, Mr. L. Ganesh – Chairman & 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 and also 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 a website or even the BSE website where it has been uploaded.

Before we start, I would like to say that everything that is said in this call that reflects any outlook for the future or which can be constituted 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 the annual reports which you can find on our website. And with that said, I would now hand over the call to Mr. Ganesh. Over to you, sir.

L. Ganesh: Thank you, Diwakar. Good afternoon ladies and gentlemen, thank you for dialing in and welcome to this conference call. You would have seen the quarter 3 FY18 performance highlights of the group which have been posted on our website. Just like to add a few comments and then hand it over to Harish.

This quarter has been a good quarter for the group. All the companies have done better. This was enabled by a favorable demand environment. The Indian auto industry had a strong growth across all vehicle segments. Passenger vehicles group supported by the utility vehicle segment. Medium and heavy commercial vehicles had a good growth on the back of a pickup in infrastructure activity and mining activity.

Turning to the group performance, Rane Group sales registered a good healthy growth of 30% during this quarter. The EBITDA at the group level improved from 10.6% to 13%. This was mainly due to operational leverage and cost reduction initiatives across various companies. The aggregate PBT without exceptional items grew from the margin of 4.8% to 8.2%. Rane Madras sales grew by 32%. We had a strong demand from the Indian OE customers and higher offtake from the Indian aftermarket. Increased volume, favorable product mix and improved operational

performance helped for strong margin improvement in that regard. At Rane Engine Valve, we had a good demand from Indian OE customers and international customers; however, the plants are still struggling with some delivery issues and higher rejections, although we could see some improvement in capacity realization and operational performance, there is still a long way to go at Rane Engine Valve.

Rane Brake Lining, net sales grew by 12%. We saw a demand recovery in the aftermarket segment, favorable commodity, foreign exchange movement and higher cost savings helped improve the margins. Rane TRW and Rane NSK continue to have a very good quarter on their product segments, all their segments and served models to deliver a very strong revenue and profit growth. We expect a favorable demand environment to continue in quarter 4.

With these opening remarks, I now hand it over to Harish for his comments after which we will be happy to take any questions that you might have Thank you.

Harish Lakshman:

Thank you. Good afternoon everyone. Just a few comments from my side focusing on the sales performance of the industry and the group. The revenue growth for the group has been quite good this quarter. The revenue from Indian OE customers grew by almost 34%. This was achieved as we had a very favorable performance compared to the industry across major segments, especially passenger vehicle and commercial vehicle. In passenger vehicle, the growth was supported by supplies to new business and in M&HCV segment, we had increased share of business with certain select customers for steering products that helped post a better performance.

In farm sector, even though we had a positive growth, we did not grow in line with the market because we are actually affected by delivery bottlenecks on the engine valve side. In steering products for the tractor segment, the power steering segment of the farm tractor has been growing faster. Although we have improved our performance vis-à-vis last year, the market still outgrew us. In two wheeler, again favorable performance was supported by better growth for discpad products. From an international customers standpoint, again we had an 18% growth, mainly driven by the occupant safety products from Rane TRW. The aftermarket segment has also significantly picked up post GST impact. From October onwards, we have seen continuous improvement and actually on a quarter-to-quarter basis, we have had a 25% growth. So with these few words, I would like to open the floor for any questions. Thank you.

Moderator:

Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Viraj V from Securities Investment Management. Please go ahead.

Viraj V:

Sir, couple of questions. First is on the Rane TRW. Just wanted to get some idea on, which customers in steering are we seeing increased market share and what will be your current wallet share to these customers and if you can give the split between steering and occupant safety in Q3 and comparable figure last year?

- Harish Lakshman:** As far as steering, growth is across all customers. Basically there are only 5 or 6 commercial vehicle players in the country which is Tata, Ashok Leyland, Volvo Eicher, Mahindra Truck and Bus and Daimler being the major ones and then there are couple of smaller ones. We supply to all of them. So to answer your question, the growth has been across all customers. Basically the split in Q3 between steering and occupant safety - the steering was 55% of RTSS sale in Q3 and the occupant safety was 45%.
- Viraj V:** Okay. And comparable figure last year?
- Harish Lakshman:** 60:40.
- Viraj V:** Okay. Second question is in TRW again, you have taken some capacity increase and considering the growth profile we are seeing both on steering and occupant safety. So if you can just outline what are the CAPEX plans for FY19-FY20 for this business and how are we looking to fund it?
- Harish Lakshman:** We still don't have the clear plan as yet on CAPEX. We are still working out. As you know the new financial starts in April, but I can tell you this that definitely we will be enhancing capacity. As you know, the steering side, the fortunes of the business are driven by the commercial vehicle and clearly we are seeing a revival in the market and we believe this growth will continue into next year. So as a result, we will be enhancing capacities and occupant safety as mentioned in several earlier calls, the growth of our seatbelt and airbag business, the order book looks good for the next 2 years and I think we have also put it out in the investor presentation that we are in the process of building a second plant for the occupant safety systems business.
- Viraj V:** And would the current Q3 revenue would also include sales to Renault or that is yet to reflect in the coming quarters?
- Harish Lakshman:** Sales to Renault?
- Viraj V:** For airbag.
- Harish Lakshman:** Yes, that is not resumed.
- Viraj V:** Okay. Last question was on the margins, so if you look at the current margin profile which we have in TRW, typically what we understand is, the part of the occupant safety where we took primarily assembly operations, buybacks that typically earns between 8% to 10% EBITDA margin. Now if you look at the overall consol basis also, we have seen a significant margin expansion for TRW. So just want to understand where we are seeing that margin expansion?
- Harish Lakshman:** The steering M&HCV business growth is definitely helping the margin improvement, obviously there is better absorption of fixed cost. But of course, I must say that even on the occupant safety

systems side, the margin has improved vis-à-vis last year. It may not be as high as steering but there is improvement on that as well. So both are contributing.

Viraj V: So, isn't a sustainable margin one should be looking at in this business considering the kind of output we share right now?

Harish Lakshman: See, it is a function of the market, if you tell me the commercial vehicle market would have continued to grow at 15% every quarter, then the confidence in maintaining these margins is high.

Moderator: Thank you. The next question is from the line of Manish Goel from Enam Holdings. Please go ahead.

Manish Goel: Sir, continuing on Rane TRW, if you can give us a breakup of revenue between seatbelts and airbags and as well as domestic and exports for safety occupant please, in quarter 3?

J. Ananth: In OSD, the total turnover for Q3 is 130 crores, of which export is close to 38%.

Manish Goel: Okay. And would it be possible to give breakup, say seatbelt and airbags?

J. Ananth: Yes. Seatbelt will be 75%, airbag will be 25%. This is on the quantity, in terms of numbers value it is 60:40.

Harish Lakshman: Ignore the 75. That was based on quantity.

Manish Goel: Okay. 60% and 40% seatbelts and airbags, okay. And even the export number what you gave was the value, right?

J. Ananth: Yes.

Manish Goel: And sir on margin side, now like we have seen across the group companies, margins have seen a decent improvement on operating leverage and favorable product mix, so now with commodity prices going up, are we in a position to kind of pass on the cost increase with say lag of 1 or 2 quarters?

Harish Lakshman: So good question. Yes, clearly the prices are going up and it is a matter of concern and I think it is inevitable especially starting from the April quarter onwards. So the objective is to get these price increases from the customers because these are all genuine valid increases but as you know in our industry, it is never that straight forward. It is always a battle to get these increases from customers, but we intend to do it.

Manish Goel: Okay. And in particularly for Rane Madras, the margins what we see at roughly EBITDA margin of nearly 12%, so that is sustainable sir?

- Harish Lakshman:** I think same response, Manish, if this M&HCV, Farm tractor, all these continue to grow in the same strong manner, maintaining this margin is a possibility.
- L. Ganesh:** Product mix has been very favorable as we have mentioned. So that has helped the margin.
- Manish Goel:** Right sir. And on Precision Diecasting, how is it progressing sir, US subsidiary?
- Harish Lakshman:** So on the US subsidiary by and large as I mentioned earlier, we had given ourselves 3 years for breakeven. Till Q2 everything was going according to plan and there has been some, slight dip in demand in what I call Q3 for us but the October-November-December for the US market because of some product mix issues, etc. So that is impacting a little bit, but by and large there is nothing major to report.
- Manish Goel:** And last question was on Rane NSK sir. One is if you can give some insight on outlook, number one and number two, the presentation mentions that margins were better because of one-off price settlement. So was it significant or if you can please clarify that?
- L. Ganesh:** I think the price settlement, one-off price settlement was an old issue, some issues that were pending with the customers, so that effect has come in the quarter. I don't think it is so significant but it is over a period of time which has come in one quarter. That is the reason we mentioned. Now, is it sustainable? The demand seems to be sustainable as you know Maruti being our main customer and the model which we are also catering are doing very well and with their production increase in Gujarat also from the new plant. The call offs are good. Indications for 18-19 also are good. So I think this kind of performance is sustainable at least for the next 1 or 2 years.
- Manish Goel:** Okay. So we are part of the new programs which Maruti is probably launching, sir?
- L. Ganesh:** Yes. I mean, as you know we keep bringing some new programs but as of now we are in all the good selling models, so that has given us the benefit.
- Manish Goel:** Sure. Thank you. And last question on Rane Brake, the OE sales seems to be muted. So you did mention in Q2 that there are some reasons which we can't probably thought on it So any sense sir on why OE sales have been muted for Rane Brake and related question that 19 plus percent margin for Rane Brake, how do we see it going forward?
- L. Ganesh:** See, in terms of OE spares, the sales was muted. Now we try to understand whether it is also a GST effect, the customers were also trying to figure out the GST effect, but that seems to be now on a recovery path as Harish mentioned both aftermarket & OES, everything has recovered now, GST seems to be behind us. So that was the reason. In terms of margin, we see commodity prices hardening in Rane Brake Linings also. So there is a cause for concern and here it is not one to one passing on to customers always because there are some formulations, there are some

indirect materials which sometimes we are not able to pass on to the customers, so there is some cause for concern. We are watching the situation closely on commodity prices.

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

Sanjay Shah: Sir, I would like to help to figure out my understanding regarding our consolidated numbers. We are taking into account in Rane Holdings, we are taking Rane Madras and Rane TRW as a revenue total, am I right, sir?

J. Ananth: Rane Madras, Rane Engine and Rane Brakes.

Sanjay Shah: Yes. So while I was combining these three, I was not able to get the total of the figure what has been given in presentation.

J. Ananth: This includes our overseas subsidiary also. Rane Madras consolidated and the Rane Engine and Rane Brake and the Telematic subsidiary, it is a small number.

Sanjay Shah: Telematic subsidiary and Rane Madras US subsidiary?

J. Ananth: Yes.

Sanjay Shah: Sir I will come back to you later on offline to understand that math actually, and sir can you get me the, how do you see the future of this Rane Valves, since it is struggling and we have been working hard on that which I understood, but how do you see it, how do you plan going ahead, sir?

Harish Lakshman: So, obviously it has taken a lot longer than we had anticipated and I would say that there is improvement but we still have a long way to go, I think as Mr. Ganesh mentioned. So I mean the EBITDA continues to be profitable, but obviously we want to start generating profits at a PBT level. So there are action plans underway, their growth in the market is also helping us. But the operational issues that we are dealing with will take at least another 6 to 9 months for us to achieve full get back to at certain level of performance.

Moderator: Thank you. The next question is from the line of Karan Rathod from Akash Ganga Investment. Please go ahead.

Karan Rathod: Sir, my question is relating to Rane (Madras) Limited. In the Indian Die Casting division, any new orders which we have received?

Harish Lakshman: Nothing major to report at this stage. There are some small incremental businesses but no significant thing to report.

- Karan Rathod:** And sir my second question is related to the Nexteer two orders of which one got cancelled. Have we started delivering on the other order?
- Harish Lakshman:** No, so there were actually 3 orders. One, we have started delivering and regular supplies are going on, that is the smaller order. The second one that was a big one that obviously has got cancelled. The third one, we are waiting to hear from the customer. But, both those programs as we have said earlier got impacted because of that Peugeot-Opel transaction.
- Karan Rathod:** Okay. The order for which we are currently delivering the value of the order would be?
- Harish Lakshman:** We will have to get back, not able to recollect from the top of our head, it is not a very big number.
- Karan Rathod:** Sir by what time we should hear about the third order?
- Harish Lakshman:** We don't know as yet. We keep hearing from them that the transaction has been completed. There are lot of complexities between GM and Peugeot. I think it is still working through all the details. So we also keep anxiously following up with them, we don't get a clear timeline.
- Karan Rathod:** Sir, any other export orders we have currently in Rane Madras?
- L. Ganesh:** Continuously we work on export orders, we get some new orders off highway vehicles, some existing customers, linkages we are continuously working. So there is nothing significant to report as one big order. We continuously work on export orders and order books are quite healthy.
- Karan Rathod:** And sir last question will be on sir, Q3 has been pretty good for Rane Madras. So going forward can we expect the same performance?
- L. Ganesh:** Yes, as I said this market product mix has been favorable, medium and heavy commercial and tractor and passenger cars, all the three where we are strong and have done well. So with the same kind of market growth, Rane Madras 2018-19 also should look quite positive.
- Moderator:** Thank you. The next question is from the line of Payal M from WOW Investments. Please go ahead.
- Payal M:** Sir, my question to you is about the Rane Precision subsidiary thing and another question is how much is the die casting market in India and International. Whether the RML will be in the same position till we have to breakeven as earlier years on a standalone basis and is the topline and bottom-line sustainable?
- Harish Lakshman:** Can you repeat your first question on Rane Precision. It was not clear.

Payal M: I wanted to know that its operational status like, about the international order and the domestic order front?

Harish Lakshman: See, Rane precision is entirely for the US market, I mean, there is a very small export, but it is insignificant. More than 98% is for the domestic market. So it is driven by the fortunes of the North American passenger car market and as I said that business will take some more time for a turnaround as we had obviously purchased a distressed asset and we had given ourselves 3 years to turnaround the business. So that is by and large going according to plan. As per the Indian die casting business is concerned, almost 75% is exports. About 25% is domestic and on third question RML standalone is profitable, already it is profitable and this year, thanks to the steering division performance, the overall performance of the business should improve.

Payal M: Right. So major earnings are from the steering division, you say?

Harish Lakshman: Yes.

Payal M: Okay. Now, is it sustainable?

Harish Lakshman: I think the same question has been asked by 3-4 people. If medium and heavy commercial, farm tractor and passenger continue to grow at this rate, it is sustainable.

Moderator: Thank you. The next question is from the line of Gaurav Khanna from Stallion Asset. Please go ahead.

Gaurav Khanna: Sir, just wanted to understand about the debt reduction plan going forward for the group as a whole?

L. Ganesh: No, as I said group as a whole there is no debt reduction plan. As we mentioned last year, Rane Madras the debt to capital employed has become little high, almost reached to about 60%-62%. So we did that issue to Rane Holdings and the first tranche was 65 crores were invested and that was used to repay debt. So debt to capital employed has come down to about 50% now in Rane Madras and hopefully if the same performance continues, may be it will be sub 50% by March or so. So that makes it quite comfortable. Going forward, there is no significant debt reduction plan per se because all the other companies are well within 35%-40% debt to capital employed.

Moderator: Thank you. Next, we have Anurudh Agrawal from AAA Investment. Please go ahead.

Anurudh Agrawal: My first question was actually, can you give me the split between steering and die cast revenues in Rane Madras?

J. Ananth: For the current quarter, steering is roughly ₹270 crores and die cast is around ₹36 crores.

- Anurudh Agrawal:** Okay. So the question was actually because of the margin improvement. So because my understanding was that the steering EBITDA would be 11% or 11.5% best case and now our overall margin at 12.1. So is that lot of this contribution coming from the die cast division?
- J. Ananth:** Steering has improved at the EBITDA level around this quarter as mentioned earlier with the favorable product mix and good growth compared to the normal EBITDA level, slightly more this quarter it has performed.
- Anurudh Agrawal:** Okay. So let me ask the margin question in a different way. So with the similar kind of fixed cost structure, what kind of revenues you think we can reach?
- Harish Lakshman:** No, let me answer in a slightly different way. Going back to your earlier question, the inherent EBITDA margin of die casting business is higher than steering. But steering, because of a good market condition and a favorable mix, has also improved on the margin.
- Anurudh Agrawal:** So steering EBITDA would have improved now. But let us say the other expenses didn't really go up even though revenues grew by 30%. So let us say we had an internal target of 27% revenue CAGR as at FY16 end. So if you continue to grow at 20%-25%, what kind of cost movements will we see?
- Harish Lakshman:** See, Mr. Ganesh also mentioned, already there are some concerns on material cost, commodity price increases, etc. So, I mean, if the market conditions continue, maintaining these kinds of margins is a possibility.
- Anurudh Agrawal:** Right. And in the die casting division, what would be our current capacity utilizations?
- Harish Lakshman:** 60 odd percent.
- Anurudh Agrawal:** So how do we see this going forward over the next couple of years?
- Harish Lakshman:** Obviously the management is working very hard to fill up the capacity. We had invested based on certain assumption and certain order book. I think we have explained in the past we have some changes to that because of some market condition, etc. So the management team is working on securing new orders.
- Anurudh Agrawal:** Right. And one broad question sir. I mean we have a land parcel at Velachery. So why have we not sold that off and used that to repay the debt. I mean we could sell it at a slight discount to market and repay substantial portion of our debt.
- L. Ganesh:** Well, as you know a few years ago we are thinking of selling. But then we decided to pull it off the market. The reason is that we don't need that kind of a thing with the current performance and the equity infusion. The debt to capital employed in RML has come down as I said to below 50% and as the same performance continues, will probably be around at 50% or slightly lower.

So that is quite sustainable at that debt to capital employed. And therefore we thought we will use that surplus from land sale sometime in the future and not immediately. So we continue to have the head office and R&D of Rane Madras in that location. So we have no immediate plans to liquidate that land.

Anurudh Agrawal: And what would be the value of that land in your estimate?

L. Ganesh: We have not done a recent estimate.

Harish Lakshman: We have not done any estimation recently.

Anurudh Agrawal: Okay, because earlier I think we had said about 150-160 crores, so that is why I just wanted to ask about that.

L. Ganesh: That was about 2-3 years ago, Yes.

Anurudh Agrawal: Okay. And final question, what do you think are the sustainable asset turns in the steering business?

Harish Lakshman: 3.5 to 4, in that range depending on CAPEX cycles etc.

Anurudh Agrawal: And on the die casting side?

Harish Lakshman: Die casting would be only about 1.2-1.3.

Moderator: Thank you. The next question is from Sunil Kothari from Unique Investment Consultancy. Please go ahead.

Sunil Kothari: Sir, my question is related to die cast, I think what we just now informed is quarterly revenue run rate is what 35 crores-36 crores?

J. Ananth: Yes.

Sunil Kothari: Okay, so sir it seems that we have started supplying die cast products to two wheeler industry, domestic two wheeler. So will you say something on what is the scope and how you want to grow that business because our presence was very negligible?

Harish Lakshman: Right, I think it is a very negligible number. Sunil, in fact this presentation will be getting updated in the website also. There was a mix up in the things, so there is no major two wheeler order for die cast. There was one spot order that the business got and we did the spot order that is all.

Sunil Kothari: But it is not a very, I mean focus segment for us to grow the die casting division?

- Harish Lakshman:** No. So in fact we will be updating the presentation.
- Sunil Kothari:** Right. And sir just now on 29th January we inaugurated this new Rack and Pinion facility at Varanavasi. So what type of investment we made and this has to do with some exports potential or we feel there is domestic demand enough, that is why this new facility.
- L. Ganesh:** No. See the Varanavasi plant was the plant which we started when we started winding down Velachery as you know and shifted most of the production there. About year and a half ago, we decided to derisk our Rack and Pinion production since we are becoming bigger supply to Maruti. Just to derisk our Pondicherry plant, we decided to make Rack and Pinion steering in Varanavasi also. So we started adding Rack and Pinion capacity there. And there we have set up a few lines and that is the kind of thing that we inaugurated. We have set up one line for Maruti new model and we got it inaugurated. So already that plant is in operation for last few years. Rack and Pinion is growing very rapidly there because in Pondicherry we have reached a particular capacity and all the expansion of that product we are doing in Varanavasi.
- Sunil Kothari:** And sir looking at Maruti's expansion plan at Gujarat facility, will it require to prepone our investment plan at Gujarat because just now I think we are supplying from our other facility. Will it require investment for Rane Madras to make at Sanand or anywhere in Gujarat?
- L. Ganesh:** See, Rane Madras, we have a very small facility in Sanand already and we are making our Rack and Pinion gear in two plants both Pondicherry and Varanavasi. So our intention is to start using the small facility just for assembly testing and supply and that will go along because we need to see which models ultimately Suzuki will make in Gujarat, which models Maruti will make in Manesar and Gurgaon. So as we go along, it also depends on the model that Rane Madras wins. So we are watching. Currently for the next couple of years, we have enough infrastructure to do assembly, testing, storage, etc. So we are not thinking of expanding Rane Madras in any big way. Rane NSK, we would probably need a facility there. We are considering probably setting up a facility. Currently, we are having a warehouse. We are thinking of a facility in Gujarat.
- Sunil Kothari:** Sir last question is Rane Madras growing at 25%-30%. So do we suppose this market as you are also just trying to hope for and we are also wishing that, the market grows like this, do we have enough capacity for next two years or we will be requiring some major investment for Rane Madras?
- L. Ganesh:** Seeing the robust demand situation for some of our product lines and new applications and new products, this year's CAPEX is likely to be fully utilized. So some debottlenecking, some additional lines, the one you talked about 29th January, those things have been done during this year. Next year CAPEX, we are just in the process of working out the whole next year plan. So it will not be any major new investment, new location, etc. But it will be, may be adding a line here or there, some debottlenecking in some existing plants, so we will probably look at some CAPEX as you go for FY18-19.

- Sunil Kothari:** Thanks a lot. And just last one request is if possible if you can provide customer wise sales, I mean in terms of say percentage whenever I mean you feel comfortable by this presentation, please. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** Sir, just one clarification. Rane Madras sells manual steering components and Rane TRW sells manual steering. Is that the way or how does it differentiate between what is sold in Rane Madras and what is sold in Rane TRW?
- L. Ganesh:** Rane Madras sells manual or mechanical steering gear as a whole and some components a bit. Rane TRW makes the hydraulic Rack and Pinion steering and hydraulic Fully integral steering for medium and heavy commercial vehicle. And Rane NSK makes electric steering for passenger cars.
- Pritesh Chheda:** So Rane TRW makes it for CVs. And where does the application for the manual steering in case of Rane Madras going in?
- L. Ganesh:** To all the cars like Maruti, Renault, Tata Motors, all passenger car applications.
- Pritesh Chheda:** Manual steering?
- L. Ganesh:** The electric power steering in India is by and large is what we call an electric column driven power steering. So wherever there is an electric column steering, there is a mechanical rack and pinion. So the electric column is supplied by Rane NSK and the mechanical rack and pinion is supplied by Rane Madras.
- Moderator:** Thank you. The next question is from the line of Arvind Joshi from Bateleur Advisors. Please go ahead.
- Arvind Joshi:** Sir, our plans of hitting certain targets on return on capital employed, I am talking about Rane Madras, were adversely affected due to headwinds in the last 3-4 years. Now seeing the change scenario and very favorable product mix and good demand from our user industry, do you think next year we could be on target to it or 25% plus return ratios for Rane Madras or probably exceed them?
- Harish Lakshman:** I think we have explained in the past, definitely there is possibility of exceeding 20% and that is the target for the total business. Now, if all the stars align that can happen.
- Arvind Joshi:** Except the US business, I think we should be on a pretty good clip excepting the US business. I think we should be able to hit very nice figures.

- Harish Lakshman:** Yes. The die casting business is also undergoing capacity under utilization right now. So we have to fill that up. And on a sustainable basis, 20% plus is the target and we think is more realistic like last quarter we could have a very good performance and where the numbers go up even further, but on a sustainable basis.
- Moderator:** Thank you. The next question is from the line of Viraj V from Securities Investment Management. Please go ahead.
- Viraj V:** I just had two questions on Rane NSK. Now if we look at our passenger vehicle space in last 3-4 years, we have seen increased competition from new players, we have seen Mando Corporation which has primarily been a supplier to Hyundai, also catering now for other OE businesses. Similar is with the case on ZF. So how are we looking at this and how do we intend to maintain and grow profitably. So can you just provide us some color on that?
- L. Ganesh:** I think competition in a growing market like India is the reality. And as you rightly said, Mando is a serious player and competition. So we have to constantly improve our performance and try to maintain market share, try to win enough models to keep our growth and also look at international market. We also have to increase our presence in international market as you know that is one of our strategies. So we cannot entirely depend only on the existing domestic market. So both ways we have to make sure that despite competition we also have a healthy growth rate.
- Viraj V:** So coming to being on a new platforms, say for Maruti, would we be catering to the new Swift which has been launched and also the new upcoming Ertiga which they are planning to launch in FY19.
- L. Ganesh:** Yes. We will be getting into some of the new models. We keep getting new model businesses as we go along. So very specific models for obvious reasons we would not like to share, but definitely we are constantly working for refreshing and bringing the new model that is the way we can keep our growth growing.
- Viraj V:** And if you can just provide a bit more color on export side, where we are seeing the growth opportunity. Will it be primarily through NSK? Will it come primarily from NSK looking to use India's base for some of its business or how we are approaching the export opportunity?
- Harish Lakshman:** The answer is actually the main growth for exports is coming from Rane TRW. I mean this particular quarter or last couple of quarters is driven by Rane TRW. But overall the growth is coming from Rane TRW, Rane Madras and Rane Engine Valves. Those would be the primary businesses for the export business, Rane NSK and Rane Brake Lining is at a much lower level.
- Viraj V:** So my question was primarily on Rane NSK

- Harish Lakshman:** The joint venture of course time to time explores opportunities for export but the focus is on the domestic market.
- Moderator:** Thank you. The next question is from the line of Ravi Purohit from Securities Investment Private Limited. Please go ahead.
- Ravi Purohit:** Sir, I have two questions. One is we have this understanding JV with Nisshinbo on our Brake Lining business and Nisshinbo had acquired the TMD in Europe and couple of quarters back or may be about a year back, we had mentioned about some opportunities in the aftermarket in Europe. Any progress there if you could update us?
- L. Ganesh:** Actually it is moving very slowly. While some work is going on, say we have given some sample, some prototypes, etc., to be honest that is going very slow. We continue to work on it, not that we have stopped but it is not going at a pace at which we would like it to. So in the near horizon, we don't see much happening there but we continue to work through TMD to increase our exports to Europe.
- Ravi Purohit:** Okay. And sir we had also mentioned a couple of quarters back about our interest in creating or kind of getting a JV in the Aerospace, any progress that you can share with the shareholders?
- L. Ganesh:** Nothing much. We continue to work and we have seen few proposals coming our way, gone around and seen a few, but nothing so far to really share with you at this stage. We continue to look for some opportunities in that area.
- Ravi Purohit:** Okay. Sir last question is on the Telematics acquisition which we made a couple of quarters back again, any updates or any additional insight that you could share with us, having acquired that company for?
- Harish Lakshman:** There is nothing to update. It is a very small piece of the business, the revenue is small. But it is more from a long-term perspective, we believe there is potential. Of course, it is also a new area for us. So we are still trying to understand the business, assess the opportunities, etc. Of course, we still believe there is a good opportunity.
- Moderator:** Thank you. The next question is from the line of Ashutosh Garud from Reliance Portfolio Management. Please go ahead.
- Ashutosh Garud:** Sir, can you let us know the total capacity you have in Rane Madras?
- L. Ganesh:** It is very difficult because of different products, but all I can tell you is in the steering side we are operating at a very high capacity utilization now, close to 90%, and therefore as I said earlier, we have added some capacity, we debottlenecked and stretched our capacity here and there. So steering is working at almost full capacity now.

- Ashutosh Garud:** So this addition debottlenecking which has taken place, so what percentage growth in volumes can you see at least on the outlook and... how much more utilization can we pull out of this?
- L. Ganesh:** No, currently we are just about managing with about 90% utilization. Once our next year plans, sales plan, etc. is frozen which we normally do by March, then automatically the CAPEX required for 18-19 will work out. So at this stage that homework is going on now.
- Ashutosh Garud:** So the kind of topline which we saw of around 320 crores kind of a topline, that would be generally the run rate because the utilization levels are at peak basically.
- Harish Lakshman:** Again I am going back to the same answer. If M&HCV passenger car and farm tractor grow at the same rate, yes.
- Ashutosh Garud:** Even though there is incremental demand because of utilization levels are at peak, we may not be able to increase this kind of topline by let us say 20%-25% going ahead.
- Harish Lakshman:** Yes, so we will add capacities.
- L. Ganesh:** Yes, so as I said we are already in the process, This year's CAPEX, we are almost fully spending and wherever required we have added capacity, a lot of materials bought out also at Rane Madras. So we have upgraded our vendor capacity, added resources where required, so it's a whole ecosystem.
- Ashutosh Garud:** So let us say once you start spending an x amount, how much time does it take for the incremental capacity to get transferred into growth?
- Harish Lakshman:** It depends on the bottleneck in a particular product for a farm tractor or passenger car. It could be anywhere from one month to six months depending on the kind of bottleneck.
- Ashutosh Garud:** Okay. And in case of a brownfield expansion?
- Harish Lakshman:** Brownfield typically will take 6 months-7 months.
- Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique Investment Consultancy. Please go ahead.
- Sunil Kothari:** Sir, again on this aftermarket sales, which is really growing well in Rane Madras. We reached almost 50 crores per quarter. So how you see that segment because since long way we are trying to capture good share of aftermarket sales. Can you throw some light on the opportunity and scope?

- Harish Lakshman:** Actually aftermarket on a YTD basis, the growth has been only muted because the first two quarters were not good. So third quarter there has been some catching up and we are optimistic that the market is slowly settling down and growth should continue.
- Sunil Kothari:** The opportunity in this aftermarket sales, is it bigger than what we achieved or how you see those opportunity?
- Harish Lakshman:** No, honestly we feel that this quarter, there was a lot of pent up demand that we caught up on because of GST impact, etc. On a sustainable basis, this market grows at about 10%.
- Sunil Kothari:** And we have those network and ability to cater the market?
- Harish Lakshman:** Yes. So, I mean, RML is well positioned and we continue to add distributors, etc. So that is an ongoing process.
- Sunil Kothari:** And Harish, related to this previous person's question. If there is a demand, can we supply say worth 375 crores-400 crores in the next year, 2018-2019, any quarterly run rate? If there is a demand, we have enough ability to supply those much of products worth revenue?
- Harish Lakshman:** No, I mean it is not readily available, but we can also gradually ramp up.
- Sunil Kothari:** So we are yet to prepare ourselves for bigger demand?
- Harish Lakshman:** No, we are in the process. As Mr. Ganesh said, we had a CAPEX that we have budgeted assuming a certain growth rate and we said if that happens, we will spend the money, so that is happening. And for next year, the teams are working and wherever certain bottlenecks need to be addressed in advance, they are getting addressed.
- Moderator:** Next, we have a follow-up question from Anurudh Agrawal from AAA Investment. Please go ahead.
- Anurudh Agrawal:** So on Rane Madras, who are our key competitors on both steering and die casting?
- Harish Lakshman:** Steering for Rane Madras you are asking?
- Anurudh Agrawal:** Yes.
- Harish Lakshman:** So steering is what used to be Sona, now is JTEKT. They would be the main competitor, of course Mando is also there and QH for the linkages. As far as die casting is concerned, you know it is very difficult to name one competitor because the industry is so large and there are so many players. So there are lots of companies.
- Anurudh Agrawal:** Right. So what has the competitive intensity been like over the past few quarters?

- Harish Lakshman:** I mean nothing has changed, the competition intensity continues to be high. So what happens, the current quarters of businesses were once sourced 2-3 years ago and we are right now in this quarter bidding for businesses in 2019 etc., so the intensity continues to be the same as ever.
- Anurudh Agrawal:** So I mean bidding for businesses in 2019, then do we see this kind of performance going forward, I mean that would give us some indication, right?
- Harish Lakshman:** Yes, I mean assuming every customer gives a 2019, based on a certain growth rate, if that happens, yes.
- Anurudh Agrawal:** And so what is the key risk factor, the key challenge that we see in Rane Madras specifically?
- Harish Lakshman:** I mean it is mainly the market, if there is any sudden slowdown in the market, this commercial vehicle is always a difficult one to get because we know that commercial vehicle is a cyclical industry. So we know for a fact that after every few years, there are a few negative quarters and then flat quarters and again positive quarters, so the key question is when will this negative start. And the same with farm tractor. You know farm tractor has had two consecutive years of excellent growth. Now generally if you go back the last 20 years, it tends to be cyclical, but of course now the latest view is with all the budget that is being done for the agricultural sector, farm tractor growth will continue. But we never know these things are right or wrong, so if any of these things turnaround, either M&HCV or tractor, then that can impact. And of course the other risk factor, we are all working towards improving the capacity utilization of die casting, so that also needs to happen.
- Anurudh Agrawal:** And specifically then on US die casting, I think US passenger vehicle market seems to have sort of topped out and now gradually degrowing, so then in such a scenario how do we grow the business there?
- Harish Lakshman:** So, there the business is not so much about growth. That business we never can imagine, it will grow like in India, 15%-20%-22%, etc. That business plan had planned only for about a 4% growth year-on-year. So the challenge there is to make it profitable. So that is the main challenge.
- Anurudh Agrawal:** And also specifically on the India die casting business, I mean what would be our target ROCE in that division?
- Harish Lakshman:** I mean from a short-term perspective, it is about 18%.
- Anurudh Agrawal:** Okay, then the EBITDA would be very high, right? I mean otherwise if the asset turns only 1.2-1.3, EBITDA would have to be very high for ROCE of 18%. So is it 20% plus or how do we see it?
- Harish Lakshman:** In that range. 18%-19% is the target.

- Anurudh Agrawal:** And currently we are at?
- Harish Lakshman:** It is about 14%.
- Anurudh Agrawal:** So in how much time do we think we can get to 18-19?
- Harish Lakshman:** It depends on how much orders we secure in the coming quarters.
- Anurudh Agrawal:** Right. How does the pipeline look for those orders?
- Harish Lakshman:** I mean we still believe that a lot of opportunities, but we cannot comment on it till we actually secure a contract.
- L. Ganesh:** Also, the startup and ramp up in die casting is slightly longer, it takes a while, die making, proving and sampling, etc. So from the new orders to startup commercial takes slightly longer in die casting than let us say a typical steering product.
- Anurudh Agrawal:** And I also think we had mentioned that we were working on a couple of major export orders in Rane Madras, so like by when do you think like indicatively can we see some movement on those orders?
- Harish Lakshman:** There is nothing big. The orders, I think it is a part of regular business acquisition of orders happened. The one that happened like Nexteer, that was a very massive one and unfortunately we are also not clear on the future direction, but there is nothing else significant like that.
- Anurudh Agrawal:** Okay. And margins on those orders would be higher than our domestic margin, is that a correct way to understand?
- Harish Lakshman:** Yes, I mean again with the assumption on the current Forex rates.
- L. Ganesh:** The Forex is another risk which you are talking about. We are currently trying to grapple with what is going to happen to the rupee dollar that because of our export exposure that could be another risk that we are facing.
- Moderator:** Thank you. We will take the next question from the line of Umesh Gupta from Reliance Wealth. Please go ahead.
- Umesh Gupta:** For Rane Madras, could you quantify the GST benefit?
- L. Ganesh:** Very difficult to quantify, but in an auto industry, it is basically being B2B whatever is the benefit, that is being exactly passed on to the customer. So there is no question of really benefiting from the GST, a very complex question to answer.

Umesh Gupta: Also the margins which you have reported, you mean to say there has been no benefit and these are like normal operative margins?

L. Ganesh: That is right.

Umesh Gupta: Okay. So what has been the reason for improvement in margin both on Q-on-Q and Y-o-Y basis. The main factors?

L. Ganesh: Capacity utilization, volume, good product mix, aftermarket is more profitable, aftermarket has done very well. So, that plus, the capacity utilization and some interest reduction also due to equity infusion, a combination of these 3 or 4 factors I think.

Moderator: Thank you. That was the last question. I would now like to hand the conference back to the management for closing comments.

L. Ganesh: So, thank you very much for joining. I hope we have answered most of your questions to your satisfaction and look forward to a good year in 18-19. Thank you.

Moderator: Thank you very much. On behalf of the Rane Group that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect the lines.