



## “Rane Holdings Limited Q2 FY 2018 Earnings Conference Call”

**December 06, 2017**



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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Rane Holdings Limited Q2 FY 2018 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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.

I now hand the conference over to Mr. Diwakar Pingle from Christensen IR. Thank you and over to you, sir!

**Diwakar Pingle:** Thanks a lot, Ali. Good Afternoon, Friends. Welcome to Q2 FY 2018 Earnings Call of Rane Group. To take you through the results and answer your questions today, we have the management team from the Rane Group, led by Mr. L. Ganesh -- Chairman and Managing Director, Rane Holdings Limited; Mr. Harish Lakshman -- Vice Chairman, Rane Holdings Limited; Mr. Siva Chandrasekaran -- Executive Vice President - Secretarial and Legal Services; and Mr. J. Ananth -- the CFO of Rane Holdings Limited.

Please note that we have sent you the Press Release yesterday and also the Presentation link of the deck that Harish would go through today has been mailed to you. In case any of you have not received the presentation from our mail trail, you could look at it on our website or even the BSE site has the same.

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 filled 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. Welcome to this Teleconference on the Q2 results of the Rane Group.

As you would have seen we have already posted the presentation on the website. Just a few remarks to add to what you might have seen; this quarter has been overall very positive for the auto industry in India. The growth across various segments has been extremely good. Two Wheelers has been very good. Passenger Car and SUVs have been good although this growth numbers show almost a flat growth. But that is partly because after the season ended there was a little bit of softening. But for the half year it was quite good.

Medium and Heavy Commercial Vehicles seem to revive after a lull and post BS-IV migration. Farm Tractors has done extremely well with a very healthy growth rate. So overall, our group performance also registered a good growth of about 18% in this quarter.

The EBITDA at the group level improved to about 12.6% compared to 11.3% and this was mainly on account of the growth and some of the cost reduction initiatives taken by the group.

The PBT without exceptional items grew by very healthy 57% and the margin was about 7.4% compared to 5.6%.

Rane Madras experienced 17% growth. It had a very strong demand from the Indian OE customers for the Steering products and good off take from the international customers. The improved operational performance, the top-line growth, of course, and cost control measures helped significant improvement in the profitability.

In terms of the Die Cast division, we have stabilized our operations as indicated last quarter. We will talk a little bit more about it as we go along. However, the capacity utilization still remained dull. But as we told you, this year is a year of consolidation and we try to bring down premium freight, stabilize on quality yield and all that has happened. And once, we get the capacity utilization up, hopefully this division also should become quite profitable.

In REVL, several measures have been taken. There is some improvement but still it is taking a little longer than we expected. Delivery and quality (internal rejections) in one or two locations continues to be a challenge, but we are taking some systemic actions now and we hope in the next few months things should improve in REVL.

Rane Brake Linings had a modest growth of 3%. We saw a gradual revival in the aftermarket post GST, although the first quarter GST did affect severely

In the second quarter, we do see the GST effect kind of waning. And again, the commodity and foreign exchange were relatively favorable to us. And therefore, the profitability has been quite satisfactory.

Rane TRW and Rane NSK continue to have a good quarter. Their growth was very good, and their served markets did extremely well and delivering some strong numbers. We expect the OE demand to sustain for the rest of the year and aftermarket had the GST effect behind us. We expect this healthy trend will continue in the second-half. So overall, we are quite optimistic about the second-half of this year.

With these brief remarks, I will hand over to Harish and after he finishes his comments. We will take your questions. Thank you.

**Harish Lakshman:**

Thank You. Good Afternoon, Everyone. Just a few more comments, I think Mr. Ganesh covered most of the points relating to the market.

Overall as a group, the revenue from the Indian OE segment grew by 19%. This was achieved as we had a favorable performance compare to industry across almost all the segment especially

Passenger Vehicle and Commercial Vehicle. In Passenger Car, the growth was supported by supplies to some of the new business especially Maruti. and in Commercial Vehicle with increase in share of business in some of the Light Commercial Vehicle segment and select customers in M&HCV segment in our Steering product helped boost the performance.

In Farm Tractor, while we had a positive growth, we did not grow in line with the market, I think we have explained in the last call as well and as mentioned in the Presentation that the growth for Power Steering model in the tractor has been higher than the Manual Steering. Although for Rane Madras, we have had the highest ever growth in the Power Steering segment. So we are happy that the Power Steering for farm tractor is growing significantly in Rane Madras. But it is still not in line with the overall market because our share is still small as of today. And we also had some delivery bottlenecks in our Engine Valve company. As a result, the tractor market, we have not been in-line. I think, in every other segment we have exceeded the segment growth which you will see in page #3 of our Presentation. In Two-Wheeler segment, also the performance was positive, thanks to growth in both Rane Engine Valve as well as Rane Brake Linings Disc Pad business.

Export also was overall positive, we grew by 25% over last year. This is largely driven by (i) the Occupant Safety business in Rane TRW, the Seat Belt exports we had started to Korea, as well as in (ii) Rane Madras some of the Steering products. So that drove the growth in the export.

Aftermarket as everyone knows Q1 was a very bad quarter because of GST, I think the good news is we are clearly seeing a gradual revival, so we manage to post a growth of 4% in Q2 and based on what we saw in November, we think that the traction will continue going forward in the aftermarkets.

So with those few words, we are ready to take any questions that you may have.

**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 Management. Please go ahead.

**Viraj Kacharia:** I have couple of questions. First is on Rane TRW, if you can provide the split between the Steering part of the business and the Occupant Safety in Q2 and the comparative for the similar quarter last year?

**Harish Lakshman:** In Steering, the growth was about 7%. Last year we did about Rs. 135 crores and this year we did about Rs. 145 crores. On the occupant safety, the growth was 50%. Last year we did about Rs. 80 crores and this year we did about Rs. 120 crores.

**Viraj Kacharia:** Okay. Just had a follow-up question on this, if we look at our Q1 performance, we had seen a sharp de-growth in the CV OE sector and despite that we had seen a 27% growth in Rane TRW

sales in Q1. Now, we had outline the market share gains in CV and strong growth in Occupant Safety as a reason why we are seeing this kind of growth rate. Now, if we look at Q2, we have seen a recovery in CV volumes in the OE segment. So even after that one would have expect relatively much more better performance in Q2 for TRW, but that does not really played out.

**Harish Lakshman:** No, I think, Q1 the Steering side of the business, we had negative growth. It is only in Q2 where things have become positive for the business, where the 7% growth was only in Q2. So the Q1 overall growth was driven by the Occupant Safety business.

**Viraj Kacharia:** Right. And when you say Steering business, does the last year figure also include the passenger Steering business which is a kind of declining in India

**Harish Lakshman:** Yes.

**Viraj Kacharia:** So this year there will be no contribution from the Passenger Vehicle segment for Steering?

**Harish Lakshman:** No, there is some business, but that business is a declining business. As far as Rane TRW is concerned, the hydraulic Passenger Car Steering business is declining, gradually every year it is reducing. As far as the Commercial Vehicle Steering business that we are in a very dominant position, we are strong number one in the market and that will grow in line with the market. In the same company, we also have the Occupant Safety business which is making seat belt and Air Bags that business is growing at 50% per year. As far as the Steering side of the business is concerned, the Passenger Car business is de-growing and the Commercial Vehicle business is growing in line with the market. So Q1 we had a bad quarter because the M&HCV market had tanked, whereas in Q2 we are seeing revival and hopefully, that should continue.

**Viraj Kacharia:** Okay. Second question is, if you can provide some outlook on the Occupant Safety division, especially the India business going forward, how we see that growth panning out?

**Harish Lakshman:** At a very high level as we have mentioned in the past, we expect good growth, very strong double-digit growth for this business in the coming years at least in the next two three years. This is driven by multiple things, one we have worked with our partners to start using India as a base for exporting to other countries which has started off and of course, the second is the Air Bag legislation that we are seeing in the country. That is driving some of the new business and we are also winning some more Seat Belt business in the domestic market.

**Viraj Kacharia:** Okay. Just had few more questions. If we look at the Air Bags what will be your content per vehicle in Air Bags in the domestic PV and who will be the key customers who are supplying at the moment?

**Harish Lakshman:** There are multiple players in the market, you know there is atleast four global manufacturers in the market. So, the market is hyper competitive. Autoliv for example is a strong player; Takata

is another player; then there is another Japanese company called Ashimori. So there are three - four players. In terms of vehicle content, it is very difficult to quantify because the Air Bags we supply only the passenger and driver Air Bag product. The Air Bag works in conjunction with Sensors, ECU, etc. which is not in our scope of supply.

**Moderator:** Thank you. We have next question from the line of Mahesh Bendre from Karvy Stock Broking. Please go ahead.

**Mahesh Bendre:** Sir, the Die Casting business for Rane Madras, we have been struggling for last many quarters. I mean rejection and underutilization is really impacting us. So how long this will continue? I mean what is the outlook for this?

**Harish Lakshman:** So, I mean, yes, it is unfortunate that we are in this situation. As explained by Mr. Ganesh, we made this large investment of the second plant about 18 months ago, more than Rs. 75 crores was the investment. And last year, because of new program launches we went into serious operational problems delivery, quality, air freight, etc. which hurt the financials last year. And as a result of which also there was some business loss that we have suffered temporarily which is hurting us currently. The good news is operationally the business is under control in terms of quality, delivery, etc. the EBITDA margins are also reasonably healthy number, it is a double-digit number. The key now is to get our capacity to full utilization, so discussions are going on various existing customers as well as new customers to fill up the capacities, and once we fill up the capacities we are confident that profitability will be achieved. Now, in terms of timing as to when we can fully fill up the capacity, it is a little difficult to predict but I expect, it will happen in the next 12 months' time frame.

**Mahesh Bendre:** Sir, what will be the current utilization in this facility?

**Harish Lakshman:** About 60% - 65%.

**Mahesh Bendre:** Sure. And sir, last seven quarters, we have seen very healthy growth, we have been growing in double-digits, very rapid growth we are seeing. However, the operating margins are struggling and not picking-up, we are not getting benefit of scale.

**Harish Lakshman:** Which business?

**Mahesh Bendre:** Overall at Rane Madras. So we have been growing in double-digits for seven quarters and the scale effect is not benefiting us in terms of margin. So, do you think in FY 2019, probably we will get that benefit? Along with growth the margins will come back?

**Harish Lakshman:** No, I am not able to understand, the EBITDA margin has grown by 20%, right? Last quarter to this quarter, for a 16% top-line growth, the EBITDA margins have grown 20% in Rane Madras.

- Mahesh Bendre:** Yes. But sir, our operating margins are I mean low only I mean around this quarter it was 10.7%. So if we are growing 15% - 17%, we should have got the benefit of operating leverage. That has not taken place.
- Harish Lakshman:** I am not sure how to answer your question. See, the Die Casting business is below potential, there is no doubt in that and hopefully, in the next 6 months to 12 months, we will see improvement in the Die Casting performance, so therefore the EBITDA should improve with better Die Casting utilization. As well as Steering business is concerned, I think as we have mentioned in the past also, the business has a potential of achieving the best case 11% - 11.5% EBITDA and we are close to that. I think, the Steering business is operating at close to peak potential.
- Mahesh Bendre:** Sure. And sir, last question, on Precision Die Casting U. S. facility, we were planning to bring it in a positive territory in terms of margins, we are on track? Or anything has changed?
- Harish Lakshman:** So as we have stated in the past, we said, in the third year it will breakeven. We are still in our second year. So far by and large it has been going on track. Of course, the U. S. Passenger Car market in the last four months has had a little bit of up and down; it was down in Q2 but again, things have started picking-up again. So by and large, it is on track.
- Moderator:** Thank you. We will take the next question from the line of H. R. Gala from Finvest Investments. Please go ahead.
- H. R. Gala:** Just one question or two questions on Rane Madras. Sir, our effective tax rate has increased, so what is the reason behind that?
- L. Ganesh:** I understand, Rane Madras was in MAT last year, this year we have come to the regular taxation that is the reason.
- H. R. Gala:** Okay. So now, we should be close to marginal rate?
- L. Ganesh:** Yes.
- H. R. Gala:** Okay. And sir, second question is pertaining to this Rs. 10 crores claim that we have received from a customer, so what was it pertaining to?
- L. Ganesh:** See, we started business on a new program last year and in the first two - three batches we had a quality issues, there was some understanding gap between customer expectation and what our plant had understood. So there were some quality issues and this had been rectified and some of it had to be replaced at the customer end.
- H. R. Gala:** Which product is that?

- L. Ganesh:** This is rack and pinion Steering, it goes to U. S. market. So then after that, of course, things have settled down and what needs to be done was understood and in future batches there is no issue. So this claim relates to the first two batches which unfortunately, there was a long lead time because of U. S., one month in the ship and one month in the warehouse and quantity got affected. So for that, the customer has sent a claim, so we are in discussion with insurance company, we have got adequate product liability coverage, so we are confident of getting this compensated
- H. R. Gala:** Have we settled this claim? I mean, have we paid this money to the U. S. customer?
- L. Ganesh:** Not yet. Only now, they have raised the debit, so, that is the reason this quarter we have disclosed that. Only this quarter the debit has come after long time discussions. Now we have to settle the claim with the insurance company.
- H. R. Gala:** Whatever claim we have provided we have offset against the insurance claim receivable?
- L. Ganesh:** Correct.
- H. R. Gala:** Sir, how is our business of this Korea going ahead? We got some big order.
- Harish Lakshman:** Yes, that is the Occupant Safety business growth in Rane TRW which I mentioned, is growing quite well, that is the reason for a large part of the growth, 50% growth that I mentioned in the Occupant Safety business.
- H. R. Gala:** Okay. So that is covering the Korean order also?
- Harish Lakshman:** Correct.
- H. R. Gala:** Sir, last question. What kind of capital expenditure program we will have? We did discuss something in Q1 concall, are we more or less on track on that?
- L. Ganesh:** You are talking Rane Madras again?
- H. R. Gala:** No, not Rane Madras, in general for Rane Group, different companies.
- L. Ganesh:** In general, Rane Group, yes what we indicated by and large I think, overall CAPEX will remain the same. Many of the companies have not spent proportionately in the first-half but that is only a question of deferment and some timing issues, so our estimate is whatever we projected I think, we will end up spending that for the year.
- H. R. Gala:** By end of the year?
- L. Ganesh:** Yes.

- H. R. Gala:** That was I think, roughly, some Rs. 225 crores or something?
- L. Ganesh:** Correct.
- Moderator:** Thank you. We will take the next question from the line of Sreenath Kirshnan from Sundaram Mutual Fund. Please go ahead.
- Sreenath Kirshnan:** Sir, in the TRW Presentation you have mentioned, you will be expanding capacity for Seat Belts. What will be the capacity increased, sir and what will be the current utilization?
- Harish Lakshman:** Sorry, you are asking specifically only to Seat Belt, is it?
- Sreenath Kirshnan:** Yes. You have mentioned that you are increasing capacity for Occupant Safety in TRW piece. So how much is the expansion done now, like by how much are you expanding there?
- Harish Lakshman:** So significant expansion is going on as I mentioned our business is growing at 50% in last quarter as mentioned in the earlier calls also, we expect that business to grow upwards of 20% for the next couple of years. So there will be CAPEX. But as I have indicated the capital intensity of this business is not as high as some of our other businesses. So to that extent the outlay is not as significant as what you would see in the Rane Madras or Die Casting, etc. but there is outlay going on.
- Sreenath Kirshnan:** Okay. What will be asset turns in this piece sir, Occupant Safety?
- Harish Lakshman:** 6:1.
- Sreenath Kirshnan:** Okay. So margins will be less, certain EBITDA margins.
- Harish Lakshman:** Correct.
- Sreenath Kirshnan:** But sir, if that holds on Y o Y basis Rane TRW growth has been phenomenal in terms 30%, your EBITDA growth has also been very high. But margins have expanded. On a Y-o-Y basis, the Occupant Safety has done much more than the Steering division of TRW. Logically this should have come down, right? Margins should have decline, is not it?
- Harish Lakshman:** No, I mean in the sense while the growth has happened significantly in last quarter there is some more fixed cost expansion that is going on. So you understand what I am saying. This is one step that we took and now we are enjoying the peak benefit of that. Now, some more investments are going on including a new facility, etc. so those cost will also rise. So this will not be a sustainable EBITDA.
- Sreenath Kirshnan:** 14% margin that we have seen is not a sustainable one.

- Harish Lakshman:** On the Occupant Safety side, yes.
- Sreenath Kirshnan:** Yes, on the Occupant Safety side. You are in this Rs. 120 crores run rate, right for the first-half you have done in the occupant safety. Is it more of manned capacity or what do you mean by capacity in Occupant Safety?
- Harish Lakshman:** No, we usually talk in millions of pieces for Seat Belts as well as for Air Bag and there is quite a bit of labor involved.
- Sreenath Kirshnan:** Okay. So your capacity utilization will be close to 100% now at this point of time, at this current run rate?
- Harish Lakshman:** Yes.
- Sreenath Kirshnan:** And I mean considering the run rate would you be doubling the capacity here or how would it be?
- Harish Lakshman:** Yes.
- Sreenath Kirshnan:** Revenue potential and you look to achieve that in next one to two years, you utilize that facility?
- Harish Lakshman:** Correct.
- Sreenath Kirshnan:** Okay. So this is largely coming into Seat Belt, is not it more from the Air Bags portion.
- Harish Lakshman:** I mean, in the next one year or two years, the Seat Belts will outgrow the Air Bag.
- Sreenath Kirshnan:** Okay. So what is the total potential, initially you mentioned that with your partner you worked with them and you have come to understanding that India is an export hub, so can this become a Rs. 500 crores business in next three years' time? Now, you are at Rs. 240 crores annual run rate.
- Harish Lakshman:** Correct. Yes, we can, we see potential.
- Sreenath Kirshnan:** Okay. Sir, that is wonderful. And for NSK what will be the model pipeline that we would have? Currently we are supplying to Brezza, Baleno. Going ahead which are the models which we would supplying to and any new additions in the last one quarter?
- L. Ganesh:** Well, currently we continuously bid for new programs, mainly the Electric Power Steering goes to Maruti and Honda as of now. But we continuously bid for new programs and as and when we win that is what it is so. It is a continuous exercise. So, of now we are in all the models which are doing very well for Maruti. So again, that is one of the things that is helping us grow. So

going forward, we would not be able to say which program will win but we do bid for every program and try to win as many programs as possible.

**Sreenath Kirshnan:** Okay. But sir, this year has been phenomenal. Last two years have been great, as we look back for NSK. So do you think this supernormal growth can continue, do you think we will return to that industry level growth by next year, what are your thoughts?

**L. Ganesh:** I think, for the next couple of years we will have good growth because as I mentioned last time we are on the new Maruti model which is doing very well. And therefore, I think couple of years might still be good. After that we will probably settle down to the industry level growth unless something new happens, some new model, new companies we get into otherwise it will settle down to normal rate.

**Sreenath Kirshnan:** Okay. Sir, here too if we look at Rane NSK between FY 2013 to FY 2017 kind of you double the revenues but margins you had moved from something like 11% to 13%. But this quarter it is moved to nearly 15.5% and in the presentation, you have mentioned that there have been a lot of localization initiatives. Here is it sustainable, the 15% margin for NSK.

**L. Ganesh:** **Yes.** I mean, in the sense it is quite competitive, Although it is high technology product, in India all auto components are now very competitive. So, every time the new high-volume business we are bidding, we are finding that the price points are becoming very challenging. It is going to mean, and we have already reached some (+80%) local content. So the room for further cost reduction is getting somewhat compressed. So I would say, our attempts will be to maintain this kind of margin. But it is becoming more challenging.

**Sreenath Kirshnan:** Okay. And CAPEX for this business, sir how much would you be incurring here for next two years for NSK?

**L. Ganesh:** This year our plan for CAPEX in NSK is about Rs. 67 crores. I think we will be incurring that. Next year while we had some long-term numbers we will finalizing this sometime by February - March.

**Sreenath Kirshnan:** But it will be similar in quantum, right?

**L. Ganesh:** It will be in similar quantum, yes.

**Sreenath Kirshnan:** So that can give a revenue of something like Rs. 360 crores to the business because you have a 3x asset turn in the NSK, is not it, sir?

**L. Ganesh:** Well initially, if it is new location, etc., straight away you cannot have 3x turn, so it may not be as good because we are thinking probably a one more location there. So initially you cannot use that 3:1

- Moderator:** Thank you. We have the next question from the line of Dharmesh Rajdev from BMA Wealth Creators. Please go ahead.
- Dharmesh Rajdev:** My question pertains to Rane Brake Limited. I want to know what is the capacity of Brake Linings and Disc Pads?
- L. Ganesh:** Just one minute, you want to know the capacity. In terms of capacity, roughly I am saying, Disc Pad utilization is almost (+90%) now. In terms of Brake Linings it is around 65%.
- Dharmesh Rajdev:** Okay. As mentioned by you in the last concall you were supposed to spent Rs. 30 crores of CAPEX from RBL, what is the current status of that?
- L. Ganesh:** In the first-half it has been somewhat low but as I said earlier, we are going to make up in the second-half and it will be around Rs. 30 crores for the year.
- Dharmesh Rajdev:** How much capacity will we add?
- L. Ganesh:** It will be primarily in disc pads this year because disc pads business is growing. And also in Two Wheelers, other than Passenger Car we are significantly increasing our capacity. Whereas you know the market is growing very rapidly. So it will be primarily in disc pads. I do not remember exactly how much numbers this will add but this is primarily in disc pads.
- Dharmesh Rajdev:** Right. So my next question is, like you said aftermarket is growing. Are you planning to open afterservice centers in the Northern or Western part of the country?
- L. Ganesh:** For this product we do not have aftermarket service centers, we deal through distributors and dealers. So we already have all over India. But as we go along they are adding distributors also in various regions. So we could be doing that. But we are well-covered in most of the markets. In the North and West we could be adding a few more distributors and dealers, but we do not have any service centers. There is no need for a service center for this product.
- Dharmesh Rajdev:** So do you make Brakes without asbestos?
- L. Ganesh:** Yes. In fact, significantly. All OE production is now asbestos free. In the aftermarket Commercial Vehicles still a percentage is asbestos. But overall, we are almost about close to 80% asbestos free total.
- Dharmesh Rajdev:** And sir, this Electric Vehicle Emergence, will it affect any demand in the Brake Linings business?
- L. Ganesh:** We are still trying to understand the impact of Electric Vehicle. Everybody is now trying to understand this. So it is a little too premature to say what will be the impact on Friction Material but we are trying to understand this as we go forward.

- Dharmesh Rajdev:** Sir, in your Presentation mentioned that there are some headwinds in the after markets in the H2 you need to be cautiously optimistic. What are the headwinds doing with that?
- L. Ganesh:** No, headwinds in the aftermarket in terms of GST did cause a lot of problems in this business and a lot of small dealers stopped buying for a while especially in the northern part of the country. So Q1 was very bad, but Q2 we have slowly started regaining and we feel that this sentiment is positive and post Q2 also, October and November have been quite good. So, we see that the GST seems to be behind us. They are a little cautious, but I feel that the aftermarket will pick-up and come back to normal pretty soon now.
- Moderator:** Thank you. We will take the next question from the line of Manish Goel from Enam Holdings. Please go ahead.
- Manish Goel:** I had few questions. On Rane Madras, just wanted to get a sense on sustainability of this margin after we have seen a good improvement, so EBITDA margin we have seen a 10.7%, is it sustainable going forward, sir?
- L. Ganesh:** Yes, I mean that is our aim definitely to improve because the volume has been good and capacity utilization has been good and our objective is to maintain and even improve this slightly possible as Harish was mentioning something like 11.5% EBITDA margin is what we would like to sustain.
- Manish Goel:** Yes, because Mr. Harish mentioned that at Steering business we are already very near to 11.5% and Casting business I believe in last call you mentioned that we are at 13% - 14% and we aim to go at 18%. So basically this 10.7% still has a room to go up?
- L. Ganesh:** Some improvement is possible. But we are working on it, yes.
- Manish Goel:** And also like employee cost has jumped by 21% in Q2 like we have seen consistent increase in employee cost for Rane Madras, so just wanted to get a sense on that.
- L. Ganesh:** See, the employee cost out of the 21%, 12% is straight related to volume, variable cost of engaging more people on the shop floor because as you know the sales growth has been nearly 21%. So 12% is due to that and about 8% is due to the increase in salary compared to the previous year. Every year as you know staff and management salary goes up. So it has roughly gone up by about 8% in line with industry increase. And there is a small additional gratuity adjustment because of this actuarial valuation. But this is a very small may be half percent or so. Essentially it is volume and salary increase.
- Manish Goel:** Okay. And sir, on the Die Casting business, our exports have declined in first-half. What is the revenue of Die Cast total and how much have we seen decline in exports of Die Casting?

- L. Ganesh:** Yes, we had a small de-growth of exports in the first-half and we think that in the second-half the export will be better and overall for the year, I think we will end up with about 8% to 9% less than last year. First-half has been seen more drop but second-half our order books are better. So overall, for the year I think we will end up with about 9% lower than last year.
- Manish Goel:** So this was only for Die Casting or overall export, sir?
- L. Ganesh:** Only Die Casting. Exports Steering is doing very well, we will continue to grow at about (+20%) and for the year we will end up with (+20%) export growth.
- Manish Goel:** Okay. And sir, also like you did mention last time that we are still pursuing a large export order. So any further development, any comment on that sir?
- L. Ganesh:** So yes, we continue to work as the first program which we started with US customer is going well. In fact, the volumes are now looking even better than what they originally projected. So the second program, we are working on which got cancelled as you know that is gone because the GM selling to PSA. The third and fourth programs we are working on, nothing has been finalized but we are continuing to work on, we have quoted and sent some samples. So we will know may be in the next few months as to how that turns out.
- Manish Goel:** This is for rack and pinion and steering.
- L. Ganesh:** Rack and pinion and some steering ball joints also.
- Manish Goel:** Okay. And sir, on Rane TRW, you said Occupant Safety business revenues are Rs. 120 crores, so would it be possible to break it up between Seat Belts and Air Bags, number one. And number two, possibly if you can give the break-up of domestic and exports in both the segments?
- L. Ganesh:** Okay, for the half year 30% is Air Bag roughly; 70% is Seat Belts.
- Manish Goel:** Okay. And domestic and export, sir?
- L. Ganesh:** Domestic and exports, it is about 60% - 40%.
- Manish Goel:** So domestic is 60% or 40%.
- L. Ganesh:** 60% domestic.
- Manish Goel:** And sir, you mentioned in your opening remarks that Rane TRW is becoming a sourcing base for global partner, so this was in context for Seat Belt or Air Bags?
- Harish Lakshman:** Seat Belts and some little bit of Air Bag as well.

**Manish Goel:** Okay. And this growth what we mentioned was that going forward we will see 20% plus growth, it will be driven by domestic as well as exports?

**Harish Lakshman:** Correct.

**Manish Goel:** Right, sir. And sir, on Rane Brake somehow the Presentation also mentions that OE segment has seen a muted growth. So just wanted to know that despite all other companies doing well on OE front, what is the reason for Rane Brake to see a muted growth, number one? And number two, we have seen aftermarket recovery in quarter two, so has it fully recovered or we still see that in Q3 there should be some more recovery and aftermarket number should be better?

**L. Ganesh:** See, your first question on OE, one of the reasons is the mix. Just as in the case of Rane NSK favorable model which have done well has helped us. In Rane Brake Linings, we are in some program which have not as well as some of the other model that is one reason. But this keeps changing as we go forward. Second is OE Spares is a big market for Rane Brake Lining and OE Spares has somewhat declined, I do not know whether is it still again because of GST our OE customers somewhat buying was a little muted during the quarter or we do not know the reason honestly. But OE Spares is a big business for us that also declined. But I think, this will correct as we go forward. Aftermarket definitely there is a significant improvement, in fact after the quarter October - November is even better. So aftermarket is definitely coming back to normal if not already, I would say in the next one month or two months, it should be quite back in normal.

**Moderator:** Thank you. We will take the next question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

**Viraj Kacharia:** You mentioned in Occupant Safety for Rane TRW we may see Seat Belt outgrowing the Air Bag for next one year or two years. Where we are seeing this growth for Seat Belt? Is it largely the export opportunity which you are talking about? Also we are seeing an incremental growth in domestic market? And if we look at in the context of the recent regulation on Air Bags, as we are talking about preponing the whole regulation by one year, what kind of growth opportunity we are seeing from Air Bags in the interim?

**Harish Lakshman:** So, the first question is this current quarter, the last two quarters and may be even the next quarter you will see that the exports is significantly outgrowing the domestic because we have launched a new program to Korea. But however, if you take two years to three years view, the growth of both exports and domestic is by and large equal. So the domestic business is also growing quite well. As far as the Air Bag legislation is concerned, I think advancing the regulation by a year is not going to further our sales because most of the programs that we are supplying to our customers, they have already started fitting Air Bags in anticipation of the 2020 legislation. So advancing it is not going to give a further boost. We are already enjoying the growth because of this legislation.

- Viraj Kacharia:** Okay. Just two more questions. One is about Air Bag again, currently as you said we are at least just purely assembling the Air Bags and catering to the OE. Now, if you look at the overall market size which is of Passenger Vehicle in India and given the kind of growth rate we have it could be close to 5 million market in next two years. So are we seeing an increase in value addition for Air Bags for us now or what are the factors would actually drive that higher value addition? That is one.
- Harish Lakshman:** So, definitely, the value addition is increasing every year compare to what we were doing two years ago of just doing the assembly today, we are doing some final stitching of the Air Bags and as we go forward, as part of our expansion plans, we are looking at doing cutting and sewing as well. So every year the value addition is increasing. Of course, the maximum value addition will come when we only localize the heart of the Air Bag which is called the inflator. Unfortunately, I do not see that happening for the next three - four years and also, given the recent problem in Takata where the problem could be directly linked to this inflator, it is a very sensitive high technology product with huge CAPEX requirements. So I think, for us to localize that in India, we are still several years away.
- Viraj Kacharia:** Okay. And for Air Bags the regulation also talked about potential Air Bags introduction on LCV which is not the case currently. So do we have any orders or which we cater to any of the M&HCV or CV players currently for Air Bags?
- Harish Lakshman:** No, nothing.
- Viraj Kacharia:** Okay. And second question was on the Aerospace and the Telematics business, so if you can provide any update on those two businesses?
- Harish Lakshman:** Aerospace as we exited the last investment and we continue to look for opportunities. Telematics has been a recent acquisition. It has just been a little over two months since we close the transaction. We believe that business has a potential for growth given all what is happening in the market, in terms of intelligent solutions for transportation. Of course, it is a competitive market, there are many players. But the company that we have acquired has a decent customer base that we are planning to build on.
- Viraj Kacharia:** Okay. And if I can squeeze in one more question, for Air Bags, I just want to know which are the key OEs whom we are supplying to?
- L. Ganesh:** Ford, Mahindra, and in future Renault in domestic.
- Moderator:** Thank you. We will take the next question from the line of Sunil Jain from Nirmal Bang. Please go ahead.

- Sunil Jain:** My question relates to Rane Madras, this is more related to Casting division, how much is the capacity utilization in the current period and how you expect it to move in say a year's time?
- Harish Lakshman:** As I mentioned, 60% to 65% and the management team is aggressively working on filling up the capacities.
- Sunil Jain:** So any program we are working right now for that?
- Harish Lakshman:** Yes, there is a lot of programs and in fact, we have won one or two small businesses also which will improve the capacity utilization. But the goal is to take it to full utilization of 85% - 90%. And we are hoping that will happen in the next 12 months.
- Sunil Jain:** Great, sir. And sir, about U. S. subsidiary which of Casting divisions, can you share how was the performance in Q2?
- Harish Lakshman:** So, the business is still in turnaround phase. So obviously we had plans for losses last year this year and achieving breakeven towards the end of next year was the original target. And as I mentioned, by and large, we are in line with the plan, but we are still making losses. The only positive thing is compared to last year from a negative EBITDA we have become EBITDA neutral or slightly positive. So, I think, that is a positive development which is in line with our plan. But going forward there is still much work to do to get to achieve full profitability.
- Sunil Jain:** Okay, fine. Even in the second quarter, it was EBITDA positive.
- Harish Lakshman:** Yes.
- Moderator:** Thank you. We will take the next question from the line of Sunil Kothari from Unique Investments. Please go ahead.
- Sunil Kothari:** Sir, after very long time we were able to achieve very reliable respectable top-line. So how we are hopeful to improve this on first-half we grown at 14%; 16% - 17% in second-half with lower Die Casting business also. So this trend of 15% - 17% growth you see feasible for current year in next year?
- L. Ganesh:** See, I mean, this growth was partly driven by the auto industry doing very well and partly our winning some new businesses and growth in certain segments, some new products that we develop, etc. So it is a combination of all these factors while we will do all that is needed in the new product development, new technology which is helping us. The market of course, has to sustain. So if the market also sustain then this kind of performance is repeatable I would say.
- Sunil Kothari:** Yes, because why sir, I am asking within next 6 months to 12 months our objective is to achieve full utilization at Rane Die Cast which is at present at 60% - 65%, we are increasing our exports days with this first program with US customer and hopefully third and fourth program may be a

little later. So, trend of around (+15%) growth which we always wanted to achieve, hopefully should see the days of the light.

**L. Ganesh:** That is what we are working for right now, that is our aim, I would say.

**Sunil Kothari:** Yes. And sir, this employee cost which only gone up year-on-year and quarter-on-quarter, should we see stability now in this range or you see any major change?

**L. Ganesh:** See, as I explained a little earlier, this quarter the employee cost went up because about 12% of the increase is because of volume straight away so that is directly related to variable cost and about 8% was the impact of annual increase which was not there last quarter. So I think, that annual increase is in line with what industry gives. So that increase of 8% is because of that and 12% is because of volume. That is why you see this 20%. If you see benchmark, I think we are very well within the benchmark of industry in terms of salary cost.

**Sunil Kothari:** Right. And sir, when we bought this Precision Die Cast, we have certain premises and certain strategy to achieve in the long-term basis some near customer of production base and to get a bigger business in a future course. So how would you see after this 18 months - 20 months experience, those things you feel that is on as per expected line. Can we hope for some bigger opportunity because of this acquisition during next two years - three years?

**L. Ganesh:** Yes. We are working on a lot of new programs in the U. S. for the subsidiary. In terms of pipeline, we have quite a healthy pipeline. But how much of this will get converted into actual orders that as Harish was mentioning we will come to know in the next few months. So we are working on both the Indian division and the U. S. with a lot of customers in Europe and U. S. so how it will get converted into orders, we will see in the next few months. But we have quite a bit of pipeline on which we are working on quoted negotiating with customers, etc.

**Sunil Kothari:** Great. And sir, last question is we were expecting some for current year from Rane Precision Die Casting Rs. 6 crores - Rs. 7 crores around \$1 million loss, Is there any major change in those numbers at a bottom-line level?

**Harish Lakshman:** So as I mentioned, yes, we had planned a little over \$1 million. But it might exceed that because of the some of the performance in the Passenger Car market that is what we are waiting and watching, we will have to see how Q4 is. But largely, market driven as I said there has been a small dip in the U. S. market in Q2 but since then again in November we have seen some sales pick-up. So we will have to wait and see.

**Moderator:** Thank you. We will take the next question from the line of Mahesh Bendre from Karvy Stock Broking. Please go ahead.

- Mahesh Bendre:** Sir, I have question on the balance sheet, we have Rs. 255 crores of debt on the balance sheet, we have reduced it by capital infusion in the company, but still the debt-equity ratio is high about 1 on 1. So what is the outlook for FY 2019 in terms of debt?
- L. Ganesh:** Yes the debt to capital employed has come to about 52%. By end of March 2018, I think it will be around (+50%) which the business grows as it is this year at about 10% - 12% plus it is quite sustainable. That is not an issue. Of course, we will bring in one more tranche of equity which we have taken as warrants which will come may be in next year about another Rs. 15 crores that will also go towards strengthening of the equity. But overall, I think we have brought it 50% in the next two three years if we are able to bring in to around 45%., I think that should be very comfortable for us. It is acceptable kind of level.
- Mahesh Bendre:** Sir, is there any further way we can reduce the capital employed in the business or is it just say it is the optimum currently now?
- L. Ganesh:** See, it depends on which segment is growing. Steering joints is a less capital-intensive business, we are trying to focus a little bit on that segment growth. We are trying to balance rack and pinion capital investment requirement, Die Casting as you know is very capital intensive. So what we are trying to do is strategically when we look at two years to three years, how to balance the growth so that the capital employed will be within acceptable limits and the ROCE will be kind of achieving our target. So that is the way we look at it.
- Mahesh Bendre:** But is it reasonable to assume that if export business grows up the capital employed in the business will also go up?
- L. Ganesh:** It depends on which export, if Die Cast export goes up, capital employed will go up. Steering to some extent less but yes, if it is ball joints export, the capital employed is much less. The asset turn is much higher.
- Moderator:** Thank you. Next question is from the line of Dharmesh Rajdev from BMA Wealth Creators. Please go ahead.
- Dharmesh Rajdev:** Again regarding Rane Brakes. The aftermarket share was 26% in Q1 and in Q2 it is 40%. What we envisage for the Q3, sir?
- L. Ganesh:** Well our normal percentage is around 40%. So Q2 we have come back to kind of normal. So I think, it should be around that number.
- Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique Investment. Please go ahead.

- Sunil Kothari:** Sir, just two request and suggestions. One is regarding consolidated numbers, if you can provide Rane Precision Die Cast numbers also on a quarterly basis whenever I mean after this year or in next quarter whenever comfortable. And second is, a lot of companies are providing customer wise revenue, if that will be possible, it will be very helpful to every investor and analyst in terms of say revenue from Maruti or Ashok Leyland or Mahindra, top five - seven customer and variance, if you can provide now for Rane Madras that will be great.
- L. Ganesh:** We will internally review your suggestions and we will get back on this.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments.
- L. Ganesh:** Thank you very much. And hope most of your question's we have answered, and we hope that the market will continue this momentum. We do not have any doubts that why it should not. And we hope year end also will be a good year for the auto industry and for Rane. Thank you for participating.
- Moderator:** Thank you. Ladies and Gentlemen, on behalf of Rane Holdings Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.