



“Rane Group Q3 FY-19 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY19 Earnings Conference Call of Rane Group. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Diwakar Pingle: Thank you Bikram. Good afternoon friends welcome to Q3 FY 19 earnings conference call of the Rane Group. To take you through results and answer your questions today we have the management team from Rane Group; Mr. L. Ganesh – Chairman and Managing Director, Rane Holdings Limited, Mr. Harish Lakshman - Vice Chairman, Rane Holdings Limited, Mr. P.A. Padmanabhan - President, Finance and Group CFO, 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 we have sent you the presentation link of the deck. In case any of you have not received the presentation, you could look it on our website or even the BSE site of Rane, or you could write to us and we will be happy to send the same over to you.

Before we begin this call, let me remind you that some of the matters we discuss on this call including the business outlook are forward-looking and as such are subject to known or unknown risks. Listeners are cautioned not to place undue emphasis on these forward-looking statements and we undertake no obligation to update any such statements. With that said, I hand over the call to the management. Over to you Mr. Ganesh.

L. Ganesh: Thank you Diwakar. Good afternoon ladies and gentlemen thank you for dialing in. I welcome you to this teleconference. You would have by now seen Q3 FY 19 performance highlights of the group posted on the website, just a few additional comments.

This has been a challenging quarter. We started experiencing softening of demand across most vehicle segments in India. The inflationary pressure on commodities continued with some volatility in Forex that also affected Q3 results. Turning to the group performance, the Rane Group sales registered a growth of 6% in Q3 compared to the previous quarter of the previous year. EBITDA margin dropped from 12.7% to 8.4%. The effect of volume and sales mix had a negative effect. This was also partly due to unfavorable Forex movement, increase in the raw material cost which continued. Of course, we are attempting to regain some of this through customer price increases but there is, as you know, a lag. There was a one-time provision for an estimated expense towards product warranty claim of about Rs. 20.45 crores in Rane NSK. So the aggregate PBT margin without exceptional item declined from 7.8% to 3.3%.

Rane Madras standalone had a good quarter, 7% growth with good off take from Indian farm tractor segment and international customers for steering products. Of course, there was an unfavorable mix in the sense that aftermarket was not very buoyant and inflationary pressure on raw material continued resulting in an EBITDA margin drop. Rane Precision Die Casting, the improvement in delivery performance, operational performance has started showing up. However, the sales dropped and some costs on utilities and repairs and toolings increased the losses. We continue to work on this and probably during the course of discussion we will explain little more what we're doing on this.

As you are aware, the revival of operational performance of REVL is underway. We experienced a good off take from both Indian OE customers and international OE customers. This helped REVL post revenue growth of 16%. All the plants improved output and reduced internal rejections. Deliveries have improved, premium freight has almost come to nil so productivity improvement are seen across the plant. So, certainly as we have been talking about for the last one year, operational improvements are well under its way. However, there was some adverse Forex movement and product mix and raw material employee cost which affected the results. Also in this quarter we had some one-time provisions etc. which we hope will get reversed in future. We continue to pursue various cost reduction initiatives as a part of the turnaround plan.

Rane Brake Lining had a sales growth of 5%. M&HCV and two-wheeler customers of Rane Brake Lining did well. There was a marginal drop in aftermarket sales owing to the higher base effect of Q3 of last year which was the post GST quarter. To some extent here also, Forex and increase in raw material and employee costs continued and as we explained before recovery of the full commodity increase with price increases is not possible in this business.

In Rane TRW there was a strong export in occupant safety business. However, domestic passenger car sales and productions declined affecting to some extent the domestic demand. Raw material and forex impacted significantly in this business and we are negotiating with customers to recover both.

Rane NSK had sales growth despite a decline in passenger vehicle segment helped by higher off take in the served models. However, we had some adverse material costs and delay in localization here because of customer approvals getting delayed, and there is a provision in this quarter for estimated expenses towards product warranty claim of nearly Rs. 20 crores and that affected the profitability severely during this quarter.

Overall Q3 has been challenging. Slowdown in the markets is a matter of concern. With these opening remarks I will hand it over to Harish for his comments and then we will take your questions.

Harish Lakshman:

Good afternoon everyone. So few more comments to add as Mr. Ganesh explained the overall domestic OE growth was very-very marginal last quarter as we grew at growth level of only by

about 2% and there are several factors to this; one is of course the passenger vehicle segment which is the largest contributor which actually declined due to the subdued demand. And in commercial vehicle also while we had growth it was not in line with the market mainly due to a mix issue on both small commercial vehicle segment as well as the medium and heavy commercial segment. This is to do with both Rane Madras and Rane TRW depending on what kind of vehicle application our revenue per vehicle is different so I think that impacted and that is why our numbers are slightly lower than the industry.

Of course, in farm tractor we grew thanks to gaining of market share both in the manual steering gear as well as our power steering hydraulic business. We also saw positive performance in the two-wheeler segment supported by ramp up in supplies of valves and disc pads from the Rane Brake Lining.

The good thing in last quarter was the international revenue. Our international customers, we grew by 25% over last year and largely driven by Rane Madras the steering division, mechanical steering, and also the seat belt and airbag businesses of Rane TRW. Unfortunately the aftermarket also declined by about 4% due to muted demand. The domestic demand you know, continues to be sluggish and we are keenly watching the market and see how things shape up in the coming quarter. So with those few comments, I think we are ready to take any questions you may have.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have our first question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Just have a couple of questions. First is you know, sir if we look we are almost halfway through the quarter, Q4 FY 19. So have you got any you know, price increase from our customers and does that fully cover for the raw material and the Forex cost pressures which we are kind of facing for last couple of quarters?

L. Ganesh: Well we have launched a price increase request with all the customers and we are in the process of negotiation. But since OEM customers demand also has kind of softened, naturally their response is not as good as it used to be until Q3. So longer discussions are taking place, they're also trying to defer if possible, any price increases. But we continue to make efforts.

Viraj Kacharia: Okay. So far we have not got any price increase yet from the OEs?

L. Ganesh: No, that is an ongoing process, some we have got some we are discussing. But it is not as forthcoming as it used to be till Q3 because they are also finding softening demand.

Viraj Kacharia: Any changes to the production schedule from OEs in the near term? I mean, are we seeing any indications of that, and if you look at the next 6 or 9 months you know, what is the

communications we are getting from OEs with respect to BS VI? I mean, because there is some amount of pre-buying and hence you know, they were looking to ramp up production?

Harish Lakshman: So I mean, clearly this quarter the demand, as the schedule releases are lower than what everyone anticipated. I think that is definitely a fact. Now how long this will continue, is it temporary? I think honestly even our vehicle manufacturers are not clear. Nobody is able to give a clear answer. But everyone is still holding on that there will be pre-buying especially Q2 and Q3 of next year, that is the general view in the industry.

Viraj Kacharia: Okay. The second question was on the warranty expenses you know, the provisions which we made in Rane NSK during the quarter? So if you can elaborate what are the problems and which model these are pertaining to?

L. Ganesh: Yeah, well Rane NSK, we had a problem in couple of models which we serviced and the problem is somewhat unique to India. First of all, this problem is not being faced by NSK in Japan or other markets. So this obviously has something to do with humidity and the operating conditions in certain parts of India. Complaints are not coming from all over, but in certain coastal areas, that is number 1. So it took us a while to find what the root cause is and we think we have fixed the issue now to a large extent. As and when complaints come, we are working with customer to replace the EPS. So that is what we have provided. So we made some estimate based on the debit so far, we have made some estimate for the next few months and made a provision in discussion with our auditors. So the real debit etc. we will probably know in the next 6 months as we go forward, but we made a provision and of course we're discussing with the insurance company on how to deal with it as far as the claim is concerned.

Viraj Kacharia: Second thing is you know, also on Rane NSK, are we there in any of the newer models or the refreshers which Maruti has launched, the WagonR, the Ertiga or the new Baleno which they are going to launch or even from Honda?

L. Ganesh: Yeah, these discussions are going on, nothing immediately but nothing has been finalized but you know, obviously we do quote and we see that our pipeline also is there for all new models. So it is an ongoing thing.

Moderator: Thank you. We have the next question from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: My question is sir on a little longer scale. Whenever we present ourselves I mean, our basic objective is to grow better than market and grow profitably. So currently I understand the situation is very challenging. In this environment and this situation, what strategically internally we are doing to maybe adding some products or technology some improvement or cost-cutting, anything you would like to share during last year what we have done?

L. Ganesh: See one is, some of these activities are not directly correlated to current performance so technology development, new products, looking at opportunities this is an ongoing exercise. So that is one thing. Second is our reaction to the market, obviously things were going on a high-growth level till about maybe September or so, October, only then we started seeing signs of softening and even then our customers were not clearly indicating that it is softening. You know, they were talking about some festival demand, some liquidity issue etc. So it always takes time in our industry to know, for customers also to tell us, 'yes, there is a slowdown.' So now that seems to be as Harish said even now customers are not fully saying whether it is a slowdown or whether it is a temporary blip. So however, what we do is immediately of course, companies look at fixed cost, discretionary cost you know, try to cut back some non-critical CAPEX; that is an automatic reaction we immediately do. Only thing is as I said, it takes a couple of months or three months in our industry for all of us to come to a consensus that, yes, there is a slowdown.

Sunil Kothari: Right sir, and another point is this RPDC, somewhere we were able to improve our operational efficiency, we reduced the employee cost but other expenses is again going up. So during the last 2-3 calls also we are ready to take a call on this, the venture. Any thoughts or any change, anything in detail if you can tell us about RPDC?

Harish Lakshman: I think as I had explained in the last call, I think I communicated that you know, when we acquired the business in 2016 February, we put together a plan for a 3 year turnaround, that is achieving breakeven at the end of 3 years. Now unfortunately that is getting definitely delayed by 2 years. As I said due to some operational problems that we were hopeful of improving but we could not achieve our targets. And secondly, a big contributing factor was the lack of new business. But definitely there is some traction in the last 3-4 months on some new business that we have started winning and most of this will convert into revenue in the next 12-18 months. So I think we are still maintaining that it will take 2 years to turn this business around. As of now the visibility is still there that this business can be turned around. Honestly we cannot be reviewing this quarter-to-quarter I think you know may be, we made this statement last October so maybe by this coming October we will get a good conviction as to where the business is heading and whether this if you know, at the end of 5 years from acquisition we acquired in 2016, so at the end of 5 years whether we're still in line with the revised target or not we will have a clearer picture. I think it will be very difficult to comment on it on a quarter-to-quarter basis.

Sunil Kothari: That is fair enough, I totally accept that. But what I thought is if you feel the situation which is not maybe in our control or may not be as per our expectations, if you would like to change or any thoughts on that, that is why I asked you. Anyway, second sir is, domestic die casting business. Any change any major orders I think we're trying since long for some new business also and some thoughts on this hydraulic segment which is doing well?

L. Ganesh: So the Indian die cast division, while we do see some potential new RFQs we have quoted etc. we think 2019-2020 may continue to be stressful in terms of topline and capacity utilization. So 2019-2020 we are only focusing on cost reduction further how to reduce costs and keep the

process to a minimum. But we do see some good possibilities for 2020-2021 for which we are discussing with customers and probably in the next 3-6 months we will know how 2020-2021 order book is, which looks a little promising as of now. Now in terms of hydraulic business that continues to do well, in fact we have expanded our capacity and even compared to Q3 of last year when we did about Rs. 12.2 odd crores, we have done about Rs. 17 crores in this quarter of this year and that continues to grow, 1 or 2 new customers, increase in market share and 1 or 2 new technology is there, additional products for automation in the farm sector, customers are talking to us so hydraulics, farm tractor hydraulics looks promising and will continue to grow, it is a focus area for us.

Sunil Kothari: Sir last question is die casting first 9 months the numbers if you can share, and you feel next year will be worse than the current year or it will be static?

L. Ganesh: Well it looks as of now, we have just not prepared the plans yet but the topline is not so being very promising in 2019-2020 while we have a lot of RFQs, we have quoted a lot of business, how much of this can be converted into topline is our concern for 2019-2020. So there may not be much of topline growth and as you know this business since the fixed cost of depreciation and interest is the higher part, the EBITDA may be okay but depreciation and interest is the challenge. Unless the topline grows there will be an issue on the bottom line also.

Sunil Kothari: Right sir, and how much we have done during 9 months, this first 9 months the die casting?

L. Ganesh: Rs. 99 crores sales

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

Mahesh Bendre: Sir just want to know the broad outlook for Rane Madras. I mean, we have grown 20% in last 9 months but in last quarter the growth has been single digit. So as you mentioned topline might not grow? But is it feasible I mean, is it reasonable to assume that the growth will be in single digit for the next year?

Harish Lakshman: See we are not able to predict clearly. It all depends on you know, how the passenger car market, commercial and two-wheeler market move, it's anyone's guess. I think everyone is confused as to what is going to happen. But if the same momentum is what is there then it will be single digit.

Mahesh Bendre: And sir for Rane Madras, what is Maruti's contribution to the overall sales, stand-alone?

L. Ganesh: We will come back to you later.

Moderator: Thank you. We have the next question from the line of Shyam Sunder from Sundaram Mutual Fund. Please go ahead.

Shyam Sunder: Sir, you spoke about the strong traction in exports from occupant safety perspective. Have we got any new program wins there, if you can talk about that? And how much currently is occupant safety for 9 months from a TRW perspective?

Harish Lakshman: So whatever revenue we are seeing is what we had shared in some of the past calls is that business to Korea which has a combination of seat-belt as well airbag business. So this is just revenue realization of some new business that we won last year. To answer your second questionso you had asked for the quarter or for 9 months?

Shyam Sunder: 9 months sir.

Harish Lakshman: Rs. 415 crores.

Shyam Sunder: And sir exports, how do we look at exports from TRW perspective for the next year sir? What kind of growth trajectory can we expect there?

Harish Lakshman: The same momentum will continue where the revenue will be approximately 50% will be exports.

Shyam Sunder: And sir just one question on the provisioning. So you know, the provisioning seems to be just for about 10,000 to 12,000 numbers of electronic power steering. So if it is an ongoing thing should we expect more of this so could you guide us on that sir? Because we would have sold a lakhs of EPS so with probably provisioning as such for about 10,000 to 12,000 numbers so could you give some color on that sir?

L. Ganesh: Yeah I mean, basically we know we have isolated the months of production where probably this could have happened, and therefore it is forecast on this particular period is what we are trying to do. The regions as I told you it is also certain regions. So it is little complex to project but we think that the provision will be adequate because based on some discussion with Maruti based on some debits in the past etc. we have done a forecast and our estimate is that this should be adequate. We don't expect anything more than this.

Shyam Sunder: Sir because of this product issue will our relationship with Maruti or getting nominated on new platforms, will that get impacted from that perspective?

L. Ganesh: Well I don't think so, because I mean these kinds of problems do happen in our industry. I think the only thing is as I told you also this is a unique problem. So NSK also faced this for the first time. So there was a bit of a challenge because of certain Indian conditions. But having, said that you know, the response; how we respond to it in making the warranty, giving them adequate gears to replace immediately when the customer ask. But how we manage it, how we respond, hopefully that should kind of take away any negative effect for the future.

- Shyam Sunder:** Sir just one last question, the disc pads that we started supplying that is from the new facility that we started, is that correct sir?
- L. Ganesh:** In Trichy, yes, for passenger cars and for two-wheelers we are making it in Pondicherry plant.
- Harish Lakshman:** Yeah going back to the earlier question someone had asked, Maruti is about 17% of Rane Madras stand-alone.
- Moderator:** Thank you sir. We have the next question from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.
- Sachin Kasera:** So the question is regarding RPDC, you did mention that it is very difficult to take a quarter-to-quarter call, and you also mentioned that against the original term of 3 years now we are looking at a 5 year plan for the company. But just in terms of the way things have progressed, is the current year plan moving as per what you had made as per the revised 5 year plan or there also we are lagging little bit behind in terms of the projections?
- Harish Lakshman:** No very clearly we are lagging behind the plan that we have made, I mean, that is why we had a plan for a 3 year turnaround but definitely now we are seeing....
- Sachin Kasera:** No, sir my question is that yes, I understand we have revised the plan from a 3 year plan to a 5 year plan. My question is now as per the 5 year plan are we on track or even as per the 5 year plan right now we are running behind projections?
- Harish Lakshman:** No I mean, just putting together that plan. So we are not in a position to answer that right now and you know quarter-to-quarter it varies, if you see Q2 we were in line with our internal plans but Q3 we are behind our plans. So that varies due to several other factors.
- Sachin Kasera:** But as of now, what is your sense for the...so this is fourth year, so fourth year will it be in line with projections of 5 year plan or is it that as of now the way things are looking, even the fourth year we will be behind the projections?
- Harish Lakshman:** No, as of now we are making a new plan by which we are going to have losses for 2 more years. So that plan is under preparation.
- Sachin Kasera:** And sir in between if you remember Rane Madras had committed some additional sum to RPD, US plant because they needed some more funding. Now incase if 5 year plans the losses are more than anticipated, so will RML have to put further resources to support RPDC or we may look at some other alternate resources to raise funds for RPDC?
- Harish Lakshman:** Yeah so again, we are not able to answer this question right now. We are still preparing the plan so we will have better clarity maybe during our next call.

- Sachin Kasera:** The second question regarding the capital allocation policy, as you mentioned that obviously the die casting business, we are still trying to have some positivity but in general you know, what is the policy we are following for new CAPEX and return on capital or IRR so that we ensure that in the future you know, some of the investments that we make as a group we have the requisite data that are required by return on capital?
- L. Ganesh:** We do have, I mean, the way Rane Holdings looks at each company is like a strategic long-term investment and obviously we like each company to, depending on its market competitive position etc., get a return on capital employed which is satisfactory to Rane Holdings. So the idea is always that. The only thing is some of these investments are taking longer or we are facing some intermittent problems. So it is not that the allocation of capital for Rane Holdings is done on a continuous basis so we have got a strategic position in each company and we expect each company to perform well and give a return on capital employed. But within the company, you know companies look at what is the CAPEX, how sales to CAPEX turnover and what is the return, you know those kinds of things in the company we very carefully evaluate. From holding company point of view, you should look at it, the companies look at as a strategic investment.
- Sachin Kasera:** Sure and what is the minimum cut off that most of Rane Holdings as an operating income to look at sir?
- Harish Lakshman:** So you know we always aspire for a return on capital employed on any investment upwards of 20%. And many times, it is also upward of 25%. In some cases, in certain business, certain investments we even take a decision to go ahead even at 16% or 17%. Very-very rarely we will take any decision below that. Sometimes what happens if you take a decision then the assumptions under which you took that decision changes which impacts the returns, that is obviously and that is what we always have to then subsequently manage that or find a solution to solve that problem.
- Sachin Kasera:** And sir this 15%-20% bare minimum is there a timeframe that we have put in like, at least over a period of 5 years it has to be realized or we look like really long-term like 10-12 years? Sometimes in that case if the first 4-5 years it does not fructify we are okay and we look at a very-very longish term?
- Harish Lakshman:** We usually look at definitely a 5-year horizon.
- Moderator:** Thank you. We have the next question from the line of Roshni M from Citibank. Please go ahead.
- Roshni M:** In the previous calls on Rane Madras so you had discussed about a contingent liability claim of Rs. 104 crores from one of your customers in the US. Is there any progress on that, we were last updated that the claim was on hold?

L. Ganesh: Yeah, the claim continues to be on hold. The customer has not gone beyond that. So as of now business is going on and they have not pursued on this. So we have also just left it at that. There is no progress on that.

Roshni M: And sir one more question on Rane Madras at stand-alone and consolidated level what are the debt numbers that we are looking at for this year?

L. Ganesh: We will come back to that. Do you have any other questions?

Roshni M: No sir, that is all.

L. Ganesh: RML is about 48% debt to capital employed.

Moderator: Thank you. We have the next question from the line of Abhishek Shah from Valcore Capital. Please go ahead.

Abhishek Shah: Sir my question I just wanted some more clarity on precision die casting. We have seen a sharp deterioration in the profitability and other loss of this magnitude is quite you know, surprising. So just want some more understanding on like, how do you see these losses to continue and will it continue at this pace or you see some reduction and any measure that we are taking at our end in the coming quarter? I understand we are looking at a 2 year perspective minimum for the company to turnaround. But you know, even in the short few quarters what are the measures that in terms of cost cutting or some maybe improvement in our revenues, just some more clarity on that.

Harish Lakshman: Sure, so as it is indicated the loss is much more than what we had also anticipated and also for your information there is also a Forex impact which every quarter depending on where the rupee closes at Rs. 70 or Rs. 68 that also has an impact on the loss number. But obviously the business is bleeding and there are two contributors for that; one is operational problems that is leading to premium freights and overtime etc. and second is lack of sufficient business. So as I had said, when we acquired the business, we were hopeful of winning certain new businesses which has not happened but which has started happening in the last 6 months. Now therefore to turnaround we clearly see another 2 years. Having said that, we are hopeful of seeing improvement in the operational side, as we have also announced there is some marginal operational improvement that is taking place and we see more improvements happening in the coming quarter. You know, things like premium freight have reduced drastically and therefore that benefit we will see in the coming quarter. So while there will be an improvement operationally and therefore the losses will reduce I mean, our view is that the losses will reduce but it will take 2 years till we are able to completely get over the problem.

Abhishek Shah: Sir to what extent I am sorry, I am questioning you further on this but to what extent do you expect I mean, last quarter the loss was you know a low single digit and this quarter like almost

a double digit loss. This is a significant rise, are we expected to maybe annualize this because it is then on the overall consolidated number it looks very-very shocking and surprising so that is where I am coming to.

Harish Lakshman: You should annualize it. See as I said, one is you will have to remove the Forex effect and see it.

Abhishek Shah: What will be that impact again, sorry, the Forex effect would be?

Harish Lakshman: It depends, last quarter it was Rs. 2.5 crores if you compare with previous year quarter. I don't know how the movement is from Q2 to Q3, and secondly you must...Q3 generally November and December are low months in US because of Christmas shut down and all that. So that is why I am saying you should annualize it, you should not look at it quarter-to-quarter. Half of December entire US auto industry pretty much shuts down.

Abhishek Shah: So, sorry I am just asking you again. So then just to confirm you are saying that the December numbers, the loss may not be as high in the coming quarters. Is it safe to assume that way? Like I mean things will not deteriorate from where we were in December in the precision die casting?

Harish Lakshman: Yeah.

Moderator: Thank you. We have the next question from the line of Devansh Ligotia from SIMPL. Please go ahead.

Devansh Ligotia: Sir the question was relating to Rane TRW. I just wanted to understand the sustainability of export. We have clocked highest ever quarterly exports and you talked Rs. 114 crores, and so are we seeing a demand that is coming from, is it linked to demand conditions in say, US or say China? And relating to that only, ex-Korea are we seeing any traction for exports? And what would be our wallet share for key OE?

L. Ganesh: So export is mainly driven by airbags and seat belts and main business is in Korea. So that is not impacted and future growth, some of it for the next year is planned on exports to Europe. So we don't see that being impacted too much and our share in the global market is going to be so small that even if there is a little bit of a growth problem there, this business will continue to grow, our export business.

Devansh Ligotia: And how is our margin profile between domestic and export since considering our strong pick-up in volumes in exports and favorable foreign exchange. One more thing that there should be some cushion on margins but that is not what is actually happening in the numbers. So if you can throw some light on that?

L. Ganesh: No the problem in margin this quarter was the commodity prices and forex. So you know with domestic market we have still not recovered that from customers as I said earlier, we are in

discussions and negotiations so here we have provided for the cost. But the revenue part we have not still got secured from the customer.

Devansh Ligotia: So is it that we have not got the favorable foreign exchange effect, is that what you are referring to, right?

L. Ganesh: No the Forex on imported material since significant part of BOM is imported in the airbags, that impact has to be passed through to customers here, that has not been done. For exports it doesn't matter really but for domestic sales.

Devansh Ligotia: And sir, next could be regarding Rane Madras and Brake Lining. If we look at our aftermarket business both for Rane Madras, Rane Brake Lining, there is lot of lumpiness in our revenues. So if you can elaborate why is that?

L. Ganesh: Well I mean, if you see year-to-date both have grown marginally. I think this quarter there is a sluggishness and it is also as we explained bit of the post-GST effect of the last year. Because post-GST Q2 of last year was very dull and things picked-up sharply in Q3 because people were waiting for GST. So when you compare quarter-to-quarter the growth is not significant or there is a marginal decline. But year-to-date there is a marginal growth in the aftermarket sales. So, but overall aftermarket also is a little sluggish in India. Having said that, aftermarket is not very buoyant now, various reasons that you know....

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

Manish Goel: Sir, you just gave the number for safety occupant in Rane TRW at Rs. 415 crores. Can you give the comparative number for 9 months last year and also the breakup between seat belts and airbags?

J. Ananth:: Yeah, 9 month last year was Rs. 360 crores.

Manish Goel: Okay, and breakup?

J. Ananth: Breakup of seat belts would be around Rs. 230 crores for current year. Out of Rs. 415 Cr, Rs. 230 Cr will be seat belt. Last year also slightly the same, it is Rs. 240 Cr, more or less the same.

Manish Goel: Okay, because I have a number of Rs. 266 Cr for last year so I am just trying to...okay. And can you give the breakup of occupant safety, the breakup between domestic and exports for 9 months?

J. Ananth:: Almost 50:50 proportion.

Moderator: Thank you. We have the next question from the line of Ravi Purohit from Securities Investment Management Private Limited. Please go ahead.

Ravi Purohit: Lot of my questions have already been answered, a couple of them. I just wanted to understand you know, in terms of relationship with NSK and TRW, and in brakes with Nisshinbo in terms of you know, any exploratory you know, are we like again looking at adding new product lines, new models or doing some work for them to...is there any scope for expansion of a relationship with our MNC partners, or how do you kind of envision our relationship with these partners over the next 3-5 years?

Harish Lakshman: So there are two parts to it, existing products for which we have the joint venture, that is you know, there are always new customers, new programs coming in both in domestic as well as an export. So that is like an ongoing project that the regular management you know, manage it. As far as strategically can we add new products, new other things, that continuous conversations happen between the partners and wherever, it makes sense then we go ahead and do it. And you know, obviously whenever we are ready to share anything with public we will do that. I mean, the classic case is the recent announcement of the new airbag plant that we announced last week, that was an outcome of more business that is coming into the JV post discussions with our partners.

Ravi Purohit: Okay, and this new plant is essentially for exports, right?

Harish Lakshman: Both, domestic and export.

Ravi Purohit: Okay, but you have some visibility on exports through our MNC partner?

Harish Lakshman: Yes.

Ravi Purohit: And sir what is our vision for let's say, our brake? I think we have been talking about brakes business I mean, there is some opportunity in the European aftermarket, we had partner work, so any headways or you know anything that we have kind of been able to kind of...so we were just trying to understand because we kind of not been had significant growth in sales or you know, expansion business over the last few years. So any thoughts that you could share with your investors over the next 3-5 years? What are businesses where you are very confident or where you are kind of very excited about in terms of growth?

L. Ganesh: See, as far as a Rane Brake Linings domestic of course as you know the growth is happening in terms of more high-technology products, asbestos free disc pads, two-wheeler disc pads for ABS Braking etc. so growth is coming from there. And as far as export is concerned, while we have been talking to our partners for export to Europe as you rightly said, nothing much has happened honestly in the last 2 years and we have some exports which are not through partner but directly by us. So we're focusing on that and trying to see whether geographically we can expand that

business which is our own products which we are exporting now little bit to Middle East and Africa and the neighboring countries, SAARC countries, we are seeing whether we can expand that. Our dialogue continues with the partners, but that is not their focus area for various reasons currently. So that is not progressing too fast.

Moderator: Thank you. We have the next question from the line of Shyam Sunder from Sundaram Mutual Fund. Please go ahead.

Shyam Sunder: Sir you explained in TRW, the margin fall was because of the Forex impact which was not passed on. In case of NSK even if we adjust for the provision the margins sequentially we were clocking close to 14%. You were adjusting it for the provision which is around 12%. Here also is the same Forex impact the reason or is there some other cost item that has flared up here sir?

L. Ganesh: No here, there are a couple of things, one is the partly new plant has started operating in Gujarat. So there were some costs regarding setting up inauguration of the new plant, and you know, some cost regarding that. Second is some localization which we have planned has not happened in this quarter, there is some delay in localization that has affected. And of course there is some cost pressure here also in terms of commodity prices. So all the three are true in NSK also.

Shyam Sunder: Sir my second question was on this new airbag plant that we inaugurated. Sir as we move towards this July 2019 for compulsory airbags, is this plant being set up to cater to the increased the demand for airbags. So if that is the case, what is the kind of revenue pickup that we can see from the domestic airbag segment per se?

Harish Lakshman: So this plant is a combination of a few things, one is backward integration. I think as we had announced in the press release now we have started also cutting the bags, which is a new technology, a laser technology. So it is partly backward integration, partly for some of the new export orders that we got through our partners and partly for the domestic. So what we will be doing is our Chennai plant is already very full. So we will be moving some capacity to Trichy plant and then adding some backward integration, so it is a combination of that. Now as far as the domestic market is concerned, we are definitely winning new businesses and we will see the impact of those businesses kicking in 2020 timeframe.

Moderator: Thank you. We have the next question from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: Sir this time I think we have given the revenue split of RML, domestic, etc. 17% you said Maruti. If you can give furthermore some customers revenue and if this can be practiced every quarter in our press release that will be really very helpful.

- L. Ganesh:** See our customer base Sunil, especially in a Rane Madras and most of the group companies is very wide. So unlike you know, it is not like Rane NSK where there are only 2-3 OEM customers for EPS at least.
- Sunil Kothari:** So sir the top 5 customers if you can provide, that will also be very helpful.
- L. Ganesh:** But we can always answer your questions but we will consider your suggestion.
- Moderator:** Thank you. We have the next question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.
- Viraj Kacharia:** Just one clarification, you know, in TRW typically you know, is there a margin difference between say, domestic and export?
- Harish Lakshman:** Yes, I mean, obviously Forex also plays a role but yes.
- Viraj Kacharia:** So domestic will be more profitable or exports? Because the reason I asked is one of the previous participant asked you know, we have seen almost 50% growth in exports. Now if you see both quarter-on-quarter and you know the kind of margin erosion we have seen in TRW. So one more thing, that you know, there should be some kind of margin cushion actually you know, considering that we have seen such a strong healthy growth in exports and forex has also been quite good.
- Harish Lakshman:** Sorry, can you repeat the last part?
- Viraj Kacharia:** So Forex has also been quite favorable from export point of view.
- Harish Lakshman:** Well but yes but also please understand the imports is significant because inflators are getting imported.
- Viraj Kacharia:** Okay, just on TRW okay you know, I want to check on the Renault, you know, when should we see commencement of that and would we be there on XUV 300 and Altura for airbags?
- Harish Lakshman:** No, not for airbags for the complete seatbelt, yes.
- Viraj Kacharia:** For Renault sir, if you can comment?
- Harish Lakshman:** For Renault I am not clear, what is the question on Renault?
- Viraj Kacharia:** So we were expecting commencement of you know business from Renault for airbags in domestic market.

- Harish Lakshman:** I think that kicks in only much later. When Renault launches their new car, 2020 timeframe or end of 2019 I think.
- Viraj Kacharia:** Okay, and there were some one-time provisions you were talking about in REVL. So if you can quantify how much that will be, and there was a negative other income of Rs. 2 crores in RML, so just these 2 parts.
- L. Ganesh:** REVL, it is regarding some raw material, imported raw material because we have certain special alloys there where the minimum order quantity is much larger and the bag size for exports is much smaller. So as per our internal accounting policy we had to make some provisions. But these materials are very much usable so will get reversed, in the future. And we also made provision for some old C-Form collection etc. and there was a provision because there was some late payment from one of our customers and as per our internal accounting policy, we have made but both have since been kind of collected. So I think that will get reversed this quarter. So one-time effect I think is around Rs. 1.2 crores in REVL approximately.
- Moderator:** Thank you. We have the next question from the line of Dhanesh A from iThought Financial. Please go ahead.
- Dhanesh A:** I just want to know the capacity utilization for Rane Engine Valves?
- L. Ganesh:** Capacity utilization now has improved, so about average 72%. It used to be about 64-65 last year now it has come to about 72% as a whole.
- Dhanesh A:** Okay, so this as a group or is it specific for REVL?
- L. Ganesh:** This is REVL.
- Moderator:** Thank you. We have the next question from the line of Roshni M from Citibank. Please go ahead.
- Roshni M:** Sir in Rane Precision Die Casting there is a loan from Exim Bank which we have to do payments from February 2019 after the 2-year moratorium. So considering the performance of the subsidiary, will Rane Madras be required to support it?
- Harish Lakshman:** From day one that was the plan. RML has to repay the loans for RPDC.
- Roshni M:** So any additional investments are being planned sir, for the coming quarter?
- Harish Lakshman:** That as I said, we are not yet ready, the business plan is under preparation. Depending on what kind of new businesses we win, there may be some investments. But we have to decide whether to take on those businesses etc. so I think we will have better clarity during the next call.

- Roshni M:** Okay sir, and on Rane Madras compared to FY 18 the debt in Rane Madras stand-alone numbers have increased by about Rs. 33 crores as in December. Will there be any further increase towards Q4?
- L. Ganesh:** Depends on the plan that you know, for next year, 2019-2020 CAPEX etc. is being worked out now. So we will know by end of March normally the plan is presented to the Board. So that is when we will know about the requirements.
- Moderator:** Thank you. We have the next question from the line of Pranav Mehta, individual investor. Please go ahead.
- Pranav Mehta:** In Rane Engines can you tell me sir, how much is the non-engine and how much is the engine portion?
- L. Ganesh:** The entire thing is related to engines, only thing is that it is diversified from two-wheelers to stationary engines, marine engines, locomotive etc. but everything is related to engines.
- Pranav Mehta:** Okay. So then sir what happens in the future with growth coming in only from EV, you know maybe in 10 years' time. So how do we take care of that?
- L. Ganesh:** See we are now focusing on turning around the current business and as we see it, while we set-out, setting right all the operational issues for the next 3-5 years we don't see a challenge to continue to grow. Thereafter depending on how the EV penetration is there globally and in India we will have to address that issue. So we thought as a the group level we will start thinking, but at the company level the management we wanted them to focus on turning around the current business because so next 3-5 years we don't see a challenge for that.
- Pranav Mehta:** Okay. So but sir can we not diversify into non-engine business parts or it is totally focused only in engine?
- L. Ganesh:** No, no we can but as I said currently the first job is to get this business turned around so that the management attention is not diluted, that is our approach and later on maybe after 2-3 years once this business is stabilized we certainly look for other diversification.
- Moderator:** Thank you. We have the next question from the line of Devansh Ligotia from SIMPL. Please go ahead.
- Devansh Ligotia:** Sir my question was relating to Rane NSK, so in OE typically you know they rate us on QCD parameters and in the past we have gained from the management a quality issues of our key competitor. So incrementally what communication are we getting from OE for future launches?
- L. Ganesh:** No, as I said you know, not that I am belittling but these things happen in our industry some problem, some mistakes do happen. So how we manage it and how we respond to the customer

is most important. We have managed, we are responding to the customer, replacing, whatever complaints come from the end customers etc. so while it is a short-term irritant we don't think it will have any long-term implication.

Devansh Ligotia: So but incrementally I mean, how are the communications that are coming from OE for future launches? I mean, if you can comment on that.

L. Ganesh: We are still continuing to get RFQs, there is no issue at all. We are currently discussing for the future model so there is absolutely no issue on that.

Devansh Ligotia: Okay. And sir for NSK we have seen continuous margin erosion that is happening and 80-90% the localization in key model. So adding to these pressures how much is the startup cost due to new Bawal plant and how much would be the absorption of fixed cost?

L. Ganesh: No, Bawal plant as I said in Q3 we did some expenditure because opening etc. some people movement from here to there etc. affected the company bottom line. But going forward we expect the new business, once the volume picks up for Suzuki because the models we are servicing are being made now in Gujarat. So gradually we will shift that from Bawal and then Bawal will take on some of the other new Manesar and Gurgaon business. So this transition may take another year or so. Thereafter Gujarat plant should be on its own.

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

Viraj Kacharia: Most of my questions have been answered just I had a follow up you know, about this other income there is a negative other income of Rs. 2 crores in RML. Just trying to understand what was it about?

J. Ananth:: This was some foreign currency translation. Some Forex movement, nothing specific.

L. Ganesh: That is last quarter-to-quarter.

Viraj Kacharia: Yeah okay, and you know for on PDC you know, almost a year back you know thought process was we will invest around \$10 million over the next 3 years. So is there a relook at that number I mean, considering the kind of loan obligations and other things we have to take care of?

Harish Lakshman: No as I said earlier, as of now there is no change. We are working out the fresh business plan. So I think we will have better clarity by next call.

Moderator: Thank you. We have the next question from the line of Ravi Purohit from Securities Investment Management Private Limited. Please go ahead.

- Ravi Purohit:** I wanted to just get a sense on your aftermarket strategy. We had a tie up with this North India company which we kind of sold out our stake in that. So is there any rethink on our aftermarket, or are we kind of going on our own and you know, so if you could just share a little bit more on your aftermarket strategies across group companies as in across the company?
- L. Ganesh:** Yeah, you know aftermarket strategy basically there are two things; one as you know we took an initiative of starting a small trading business using Rane brand that is going as per plan. As far as our distribution of existing products is concerned there is no fundamental change or shift in our discussion with JMA we had a joint venture where we were minority and they were majority, and being managed by JMA. There was some restructuring in JMA which they were also thinking about, they wanted to merge 2-3 distribution companies, consolidate etc. so at that time in our discussion we felt that we could exit and as you know, our relationship continues, they happen to be our one of our largest distributors, that continues as of now. So we just exited so that they could buyout 100% and then merge it within their group 2-3 companies they are thinking about. Otherwise there was no other change.
- Moderator:** Thank you sir. Ladies and gentlemen that was our last question. I know hand the conference over to Mr. Harish Lakshman for closing comments. Sir over to you.
- Harish Lakshman:** So thank you all. I think definitely we are ending this quarter on a little less enthusiasm compared to the previous quarters. So we will just have to wait and watch hopefully you know we will see a quick revival of the market and the growth momentum will continue into 2019-2020. So we will keep you posted during our next call. Thank you.
- Moderator:** Thank you very much sir. Ladies and gentlemen on behalf of Rane Group that concludes this conference call. Thank you for joining with us you may now disconnect your lines.