“Rane Holdings Limited FY19 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Rane Holdings Limited Q4 FY19 Earnings Conference Call. I now hand the conference over to Mr. Binay Sarda from Christensen IR. Thank you and over to you sir.

Binay Sarda: Good afternoon friends. Welcome to the full year FY19 earnings call of the Rane Group. To take you through the results and answer your questions today, as usual, we have the management team from Rane Group, Mr. L. Ganesh – Chairman & Managing Director, Rane Holdings Limited; Mr. Harish Lakshman – Vice Chairman, Rane Holdings Limited; Mr. P.A. Padmanabhan – President, Finance & Group CFO; Mr. Siva Chandrasekaran – Executive Vice President, Secretarial & Legal Services; 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 anyone of you have not received the presentation, you could look it in our website or even the BSE site or you could also write to us and we will be happy to send the detailed earnings presentation over to you.

Before we start, I would like to say that everything that is said on this call that reflects any outlook for the future or which can be construed as a forward-looking statement must be viewed in conjunction with risks and uncertainties that you face. These uncertainties and risks are included but not limited to what is mentioned in the prospectus and subsequently in annual reports which you can find on our website. With that said, now I hand over the call to Mr. Ganesh. Over to you, sir.

L. Ganesh: Good afternoon ladies and gentlemen, thank you for dialing in. I would like to welcome you to this teleconference. You would have by now seen the FY19 performance highlights of the group companies posted on our website. Just a few comments before I hand it over to Harish and then we take Q&A. For the group, this has been an eventful year 18-19, some of the major milestones: Rane NSK won the prestigious Deming award. This is the fifth company in the group to win the Deming award.

We spent about 300 crores CAPEX across the group companies. This included 2 new locations, one for Rane NSK in Gujarat and the other for Rane TRW occupant safety division in Trichy. We have expanded the capacity for hydraulic steering gear products where the demand has been good, added some customer-specific capacity in valve train components, and we have also increased our hydraulic product capacity in the Mysore plant of Rane Madras.

The group continued to engage in various lean initiatives to improve productivity and reduce manpower wherever possible. Strategic initiatives on power sourcing, etc., were engaged. We are trying to continuously see how we can reduce power cost, also add non-conventional renewable energy sources.

Rane Holdings did some investments in Rane Madras as a continuation of the previous year's preferential offer and in Rane Engine Valve and Rane Brake Lining.

The group sales continued to grow and this year we crossed the 5000-crore milestone. The group companies have strengthened their market position in India and expanded the international business. The growth for the year 18-19 was about 12% compared to the previous year. The EBITDA dropped. This was mainly because of adverse material cost trend and some product mix issues and also warranty provision in one of the companies of the group. The aggregate PBT before exceptional items therefore dropped from 6.8% previous year to 5.4%.

Turning to the companies, Rane Madras standalone experienced a good growth of 13% driven by favorable growth of steering products and supported by increase in supplies to the new models. The die casting business continued to experience lower offtake which were explained last time that the order inflow is not adequate to give benefit to the 18-19. The operational performance of die casting business continued to improve and further cost reduction is planned as the capacity utilization is expected to remain underutilized for the current year 19-20 also. The EBITDA margin declined by 45 basis points due to unfavorable mix that is more domestic business compared to export, some inflationary pressure on raw material, and also across-the-company employee cost.

Rane Precision Die Cast, US, the performance has been continuing to cause concern for us. As we have been updating you in the last few quarters, there have been 2 problems in that business. One is insufficient new business orders. Second is operational inefficiencies. On the first issue, we have had now some reasonable progress. We have won some new businesses recently and looking at some very prospective orders in the next 2 months. So, we believe that by the time we talk to you next time, the order book issue should be hopefully behind us. The second, on operations, we have strengthened the team by sending a very senior person from India and we are also planning to depute another 2 or 3 functional managers from India in the next quarter. So, the turnaround to profitability is something we are closely focusing on but it looks like this is going to take another couple of years. We will update you on quarterly progress on this and our long-term view on this investment, we will kind of take a view towards the end of this year 19-20.

REVL had a favorable revenue growth supported by some strong offtake by OE customers and ramp-up in supplies to international customers. Better operational performance and productivity benefits helped us to mitigate increase in raw material cost and particularly employee cost because 2 plants came up for long-term settlement during the year and also the minimum wages substantially increased during the year. The company's management continues to pursue initiatives to manage cost and manage this little uncertain demand environment as we see today.

In Rane Brake Lining, we experienced a growth of 6%. The aftermarket growth was about 8%. There were some adverse forex movements and increase in commodity prices and employee cost that resulted in EBITDA margin drop.

Rane TRW had a strong growth of 21% supported by favorable demand for steering products in India and higher volumes on served models with export customers for occupant safety division continuing a strong offtake. Sustained cost saving initiatives helped to maintain the EBITDA margin despite this inflation.

Rane NSK grew by 9% but the EBITDA margin declined significantly due to material cost, some delay in localization, and incremental cost incurred in setting up the new facility in Gujarat. And on top of all this, the provision we have made towards warranty claim which we explained last time.

So, we had a challenging year, some interesting developments, but still nevertheless thanks to the first half, we ended up the year with reasonably satisfactory results.

The quarter 4, we started seeing some slow down and this year 19-20 has started on a very slow growth mode and we have to watch how the market evolves. The election having been conducted is over now and a strong government having come into place, we will have to wait and see how the market evolves from quarter 2 onwards. With these opening remarks, I hand it over to Harish.

Harish Lakshman: Good afternoon everyone. Just few more comments from my side on the overall market. While, as Mr. Ganesh mentioned, we started off on a very strong growth in the first half, similarly the second half was the exact opposite where we had significant slowdown in the growth and this was driven by a variety of reasons including the increase in fuel prices, the NBFC crisis that hit around October-November time frame, steep price increase on vehicles in both passenger car and 2 wheeler on an account of the insurance regulatory changes and the M&HCV had the multi axle regulation change sometime in September-October. All these, a combination of variety of reasons, led to a significant slowdown during the second half. However, as a group, we were able to grow better than industry across almost all the segments except the M&HCV where we were marginally down because of some served model business relating to both engine valves and friction material.

On the international business - exports - that was a very positive development from our side. Last year also, we grew by about 18% as a group supported by higher growth especially on Steering side, Rane Madras, as well as the Occupant Safety products from Rane TRW.

On the aftermarket side as well, we had a double-digit growth of about 12% and this was supported by some new product launches and also expansion of the dealer network. Overall, we had set ourselves several years ago that this should be the decade of profitable growth and overall we are happy that many of the group companies have been growing at a healthy rate, both top line as well as bottom line. And we are close to achieving our other stated objective of enhancing our international business. Today, we are at about 20% and we are hopeful of increasing that to 25% in the coming years.

I would like to again reaffirm that the Rane Group focuses on long-term value and while some of our businesses are yet to turnaround and make money, but in the past, there have been businesses within the group that have had a difficult period and we have come out strong. Similarly, we are hopeful and confident that some of the businesses that are not doing well will also turn around in the years to come. With this few words, we will open it for any Q&A.

Moderator: Ladies and gentlemen, we will now begin the question & answer session. We have the first question from the line of Viraj Kacharia of Securities Investment Managers. Please go ahead.

Viraj Kacharia: I had a couple of questions. First is on PDC. Our communication if you look at last 1 or 2 quarters, our own communication was flat you will see either stable operations or you will see further reduction in our losses. But as each quarter goes by, we are making a new high in terms of operating losses in the entity. Just trying to understand is there a timeline by which we internally, looking at things that are not working out well, we are looking at either closing it down or parting with the venture. The reason I am asking is because it kind of negates all the hard work, and all the benefits of the good work we have done in Rane Madras standalone are getting eaten away by the losses which we are continuingly seeing in PDC and with us also kind of now having to double our investment in that entity. So, just trying to understand till what point we kind of are willing to give it further time?

Harish Lakshman: I thought Mr. Ganesh's opening comments answered your question. He made it very clear that we will take a long-term view on the business by end of this financial year which is 19-20 and we have also mentioned that there are some positive developments. I think in the previous calls, we had made it clear that there are multiple challenges we are dealing with the business, both in terms of top line as well as operational efficiency and there are some new businesses that have been booked in the last 4 months and as far as the long term is concerned, I think we will have a clear view by the end of 19-20. As also mentioned in the last call, we cannot be taking a long-term view on a quarterly basis. I think with some of these developments, it is going to take us a few years to turn it around. So, you will likely continue to see losses in the business for some more time, and as we have mentioned, today some of the successful businesses that you are seeing, whether it is Rane NSK joint venture or our occupant safety business, 10 years ago, they were also losing money. We have made this clear that we carefully evaluate our businesses, assess the long-term viability, and our ability to generate profits from those businesses. That is what we are emphasizing that Rane has a track record, and if it is not, we will exit. And we have also successfully done that with some of the businesses in the past.

Viraj Kacharia: You talked about Rane NSK, you talked about Rane TRW. I completely understand and I completely relate to what you are trying to say. What I meant is even if I look at a long-term view for this particular business, if you take NSK or TRW for a second, these businesses eventually are in a phase where you have high growth where eventually each of these businesses are plus 25% to 30% ROCE businesses. When we say for PDC, do we see eventually this business also being in a similar profile as what we say when we talked about NSK and TRW? We will eventually be looking to recover the investment and the losses which you are funding right now. Second is, when we talk about this new models which you have bagged, will that be enough to help us reach that 32-33 million kind of a scale which we were looking at to turn operationally positive?

Harish Lakshman: The first question, I think in the past calls also, we have answered. The die casting business whether it is India or international, a sustainable ROCE is in the 18% to 20% range. So, trying to generate an ROCE of what we see in some of the other businesses is not going to be possible. We must also understand that some of these high ROCE businesses are also thanks to the technology that we get from our partners. While Rane is doing multiple things; on the one hand, we are leveraging strong global partners to bring in technology to the Indian market and those are generating high ROCE, but then, always those technologies also come with certain control aspects, etc. So, we are also trying to build portfolios where the technology may not be as critical as an airbag or an electric steering and therefore the ROCE tends to be lower, but it allows Rane to build the global business. So, consciously, at the group level, we are trying to ride both horses. Some will be inherent nature of the business and given the technology that we bring, it will be higher ROCE. That is the first answer.

The second, as far as the order book is concerned, yes, we see visibility currently to go to about 32 million but obviously that is not enough and that is why Mr. Ganesh specifically said we are working on a few more orders which we are hopeful in the next few months. I think in the next 4 months, we will have more clarity on getting orders beyond that 32 million, and a lot of the future depends on our ability to do that as well as achieve all the operational improvement targets we have set ourselves during this year. I think in the next 6 months, we will have clarity on the order book, and in the next 12 months, we will have clarity on operational improvements.

Viraj Kacharia: Second question was on the margin front. If I look at some of the group entities, we talked about REVL, we talked about Rane Brake Lining, even Rane TRW, we are seeing sequentially a significant improvement in operating margins. Is that something which is sustainable in the sense that in the past, we were kind of seeing an impact of raw material effects. Is that now behind us and we have gotten that price increase or that increment from the OEs? How should we look at this going forward?

L. Ganesh: Most of the commodity price increases have been recovered as we explained to you except in some products like friction material, we cannot completely get a recovery but all other products had back-to-back coverage by customer but the current challenge as you know as we start this year looks like volume. While commodity may be stabilizing, etc., volumes have not been very good. April has not been a very positive indication for the automotive industry. So, we have to wait and see closely what the volumes because many of our costs are, as you know, fixed and invariable.

Moderator: We will take the next question from the line of Sunil Kothari of Unique Investment. Please go ahead.

Sunil Kothari: Sir, my question is related to Rane Die Casting domestic unit. Will you explain a little bit more on how you see current lower utilization? Any opportunity for current year and onwards?

Harish Lakshman: Again, in die-casting in India also - I am rewinding about 12 to 15 months ago - we had 2 problems. One was the order book and second was the operational issues. The operational issues, touchwood, I think we have completely come out. Today, both the plants are running quite efficiently from an operational standpoint, but from a capacity utilization standpoint, it is quite bad and I think as we had indicated, unfortunately 19-20 also is not looking good. I say not looking good because we are not able to utilize the capacity. Now, the positive news is we have already booked some orders. The orders are in hand which will go into production towards the end of this financial year, towards February-March of 2020. Therefore, in the year 20-21, you will see close to 80% plus capacity utilization and we need to get to that level in order to achieve a break-even and a small profit. Unfortunately, this coming year is also going to be a difficult year for the India die casting business, but we are hopeful that beyond 20-21, given the current order book in hand and some of the future orders that are in discussion beyond that, we should be okay.

Sunil Kothari: In Rane Madras, where we are currently investing for future growth? Maybe hydraulic or any other products, any exports major development which we are anticipating since long? Any silver lining or positive side of the story?

L. Ganesh: The steering gear division is continuing to do well. Both in domestic we have got growing with the market or even ahead of the market and we have got some good export orders also for the steering gear. Hydraulic is doing well for farm tractors, although again in the last couple of months, farm tractor segment has slowed down but I am sure that is temporary. Hopefully, that it will come back. In terms of the steering gear division - SLD as you call it (steering and linkage division) - the order books are good in both domestic and export and we are investing wherever required for some specific customer orders. Otherwise, we are on top of that in terms of capacity.

Sunil Kothari: Sir, we were planning very hard to expand our aftermarket and grow on a higher growth rate. Anything on aftermarket?

Harish Lakshman: As I mentioned in the last year also, as a group, we grew at about 12% in the aftermarket and specifically in Rane Madras, in addition to the regular steering-related aftermarket, we have launched this initiative of doing other parts, what we call Rane auto parts. That business is steadily making progress. We are growing almost at 18% to 20% per year on that business and that seems to be heading in the right direction. This business did not exist a few years ago. We did 52 crores last year and we are hopeful of generating profits from this year on that business.

Moderator: We will take the next question from the line of Pritesh Chheda of Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, I have questions on Rane NSK and then questions on Rane TRW. First on NSK. Relative to comparable player, our growth rate is less. Is it do with model mix or there is any other reason that you want to highlight for the growth rate?

L. Ganesh: Rane NSK as you know predominantly, we supply to Maruti Suzuki and we have been very fortunate actually to be in the B segment where the models have done very well. Unfortunately, the whole passenger car segment including Maruti have started slowing down in the second half of 18-19 and this included all their models which did very well in the past. They have been nowhere near plan during the second half of 18-19. So, it is a question of drop in volumes, we have not lost any share or there has been nothing else. It is just a drop-in volume overall including the models which we serve.

Pritesh Chheda: On the margins, do we think that we recouped the lost margin in FY20 or there are other things to it?

L. Ganesh: In terms of margin, material cost whatever we could localize, etc., we have done except one or two critical parts which got delayed also because of this warranty issue, it was somewhat connected. Therefore, some localization has been pushed to 19-20. Hopefully, that should give us some benefit and the other is that this warranty provision itself hit us very badly in 18-19. That is also hopefully behind us, we will not see much of an effect of that in 19-20, and one-time expenses we have incurred in Gujarat. Once the volumes come back, I think 19-20 margin should be better than 18-19, but again, as I said in my first answer, volumes look a little worrisome as we see April numbers.

Pritesh Chheda: On TRW, could you give the breakdown of the occupant and the safety system revenue in terms of how much is seatbelt and how much is airbags?

J. Ananth: Seatbelt is Rs.330 crores and airbag is Rs.260 crores. This is for the full financial year.

Pritesh Chheda: What is the debt on the TRW and NSK companies, the absolute?

J.Ananth: The debt is around Rs.200 crores in TRW and NSK it is around Rs.70 crores.

Pritesh Chheda: A clarification on that warranty provision you said. If you could just quantify that as a percentage of sales so that we will get some sense on what margins might come in FY20? The one-off cost and the warranty provision as a percentage of sales if you could quantify that?

L. Ganesh: Warranty provision we have made is around Rs.31 or Rs.32 crores for the year ended 18-19. Raw material impact due to slower localization, etc., may be about 1% approximately.

Pritesh Chheda: This is RM and you mentioned one-off in the form of Gujarat plant, right?

L. Ganesh: Gujarat plant, that is one of the 3 reasons that is not significant. That plus raw material may be 1% to 1.5%.

Pritesh Chheda: RM localization you said.

L. Ganesh: It was delayed in the year, yes.

Pritesh Chheda: In true sense, actually, this Rs.31 crore warranty provision is the one which should not come next year ideally?

L. Ganesh: Yes.

Moderator: The next question is from the line of Devansh Nigotia from SiMPL. Please go ahead.

Devansh Nigotia: My questions are mainly related to Rane TRW. In exports, we have been seeing strong growth year on year and quarter on quarter. Are we at the peak utilization in terms of the orders? How are we seeing the exports going forward?

Harish Lakshman: The exports will continue to grow at a healthy rate. It may be difficult to sustain the same percentage growth, but as we have announced recently, we have added a new plant, that plant's significant portion of the capacity is also catering to the exports. So, definitely exports will continue to be a strong piece of the business. Today, the occupant safety about 50% is exports. So, it will be along with similar lines, as that business grows.

Devansh Nigotia: In case of our EBITDA margins, it has grown from 10.5% to 16.5% in this quarter. Are there any one-offs in terms of any exceptional items? If you can just quantify?

Harish Lakshman: Yes, there was a reversal of certain provisions.

Devansh Nigotia: If you can just share the absolute amount?

Harish Lakshman: It was around Rs.9 crores.

Devansh Nigotia: Can we have the group CAPEX number for 19-20 and 20-21 and in which group companies those CAPEX will be happening?

L. Ganesh: About Rs.250 crores for this year 19-20 we are planning as against Rs.300 crores last year. Again, this is subject to how the market evolves even if it continues to slow.

Devansh Nigotia: If you can just share it company-wise what you are expecting? Just a ballpark number, not an exact number.

L. Ganesh: Rane Madras out of that will be about Rs.50 crores and Rane Engine Valves about Rs.25 crores, Rane Brake Lining about Rs.35 crores, Rane TRW about Rs.70 crores, and Rane NSK about Rs.80 crores.

Devansh Nigotia: Sir, in case of Rane Engines, can you elaborate more on the cost inefficiency where improvement is happening because there has been gross margin improvement as well as improvement in our operating expenses as a percentage of sales? If you can throw some light on the same?

L. Ganesh: Rane Engine Valves, the sales growth as you have been seeing was very satisfactory. Actually the operating efficiency improved significantly in terms of rejections, premium freight, overtime, delivery, etc., all those issues had significant improvement. Unfortunately, all those improvements and the benefits were somewhat eaten away by the minimum wages increase and some raw material increase, although raw material increase we have been able to subsequently pass it on to the customers. There is employee cost increase due to long-term settlement in 2 plants and minimum wage increase which was significant in Tamil Nadu. So that took away, but in addition to that, almost about Rs.5 crores worth of provisions are there which is more in line with the Rane accounting policy but part of that has already been recovered in the first quarter of this year. So, that is not strictly an expense but a provision made in line with our current accounting policy which requires some provision. If you take away that, probably we would have ended up with a loss of about Rs.15 crores rather than Rs.20 crores which we have actually shown.

Devansh Nigotia: In case of PDC, can you share what would be the current order book and the orders that we are expecting that we will win in the next 2 to 3 months that you have discussed?

Harish Lakshman: Up to around $32 million, there is visibility, the order book. That is difficult to estimate. We are working on multiple orders. Our target is to get at least another $8 million.

Devansh Nigotia: Can you share the current order book?

Harish Lakshman: As I said, we already have secured orders for about $32 million.

Moderator: We will take the next question from the line of K.P. Singh, an individual investor. Please go ahead.

K.P. Singh: Rane Engine was in the process of replacing or renovating its old machines. Is this work is completed or is still pending? Related to the same question, what is the internal rate of rejection in Rane Engine Valves? How much percentage improvement in productivity during this quarter?

L. Ganesh: In terms of machine upgradation, the basic requirement of addressing all these grinding machines which is a key to quality in engine valve has been completed during the last 2 years actually. We are looking at some more improvements in terms of controls in the machine so that we can deskill and remove human errors. That is partly under progress now during this year and maybe part of next year we will continue to spend on that and that will bring down costs. Internal rejections have significantly improved. It varies from plant to plant but the worst case where we were nearly doing 14% to 15% rejection has come down to about 9% now and hopefully go down to about 6% to 7% in the next 12 months which will be quite manageable. In terms of productivity, I don't have the exact percentage but there has been a significant improvement. I cannot remember because again it varies from plant to plant but there has been good improvement in productivity also.

K.P. Singh: What is the future strategy for Rane Engine because nowadays all our vehicles are being replaced by electric vehicles? Will we sustain our productivity and earning things in the future?

Harish Lakshman: Long term, definitely electric vehicles will happen and therefore it is a threat to the business of Rane Engine Valves. However, I think overall globally just seeing what is happening on electric vehicles and given the rate of growth that we are seeing in the Indian market, net-net, IC engine will still grow from the next 5-7 year perspective. That is what most people within the industry feel and we also feel the same way that while electric vehicle will come, you can argue 7-8 years from now whether electric vehicle will be 7%, 10%, or even 15% of the market. Regardless, given the outlook of the automotive industry for the Indian market, net-net, IC engine will grow. So, we still see opportunity for REVL, both in the domestic market as well as the export market. From a long-term perspective, let us say from a 2030 perspective, we acknowledge that there is a threat to the business of Rane Engine Valve. I think the board of Rane Engine Valve is aware of this and we are continuously reviewing various options on what should be the future de-risking strategy of REVL.

K.P. Singh: In initial question, you had mentioned that you have provision of CAPEX for Rane Engine, Rs.25 crores. Is something again pending to replace machines?

Harish Lakshman: Some is for replacement and a lot of it is also for some new businesses.

Moderator: We will take the next question from the line of Viraj Kacharia of Securities Investment Managers. Please go ahead.

Viraj Kacharia: Just had 2 questions, one on Rane NSK. Just wanted to understand incrementally how we are looking in terms of new model launches from Maruti or elsewhere? If I compare our key competitor in the last couple of launches, they claimed to have a 100% share either with Ertiga, with Wagon R, and other models. For us, when we talk about new launches either from Maruti or other OEs, if you can just provide some color on that?

L. Ganesh: We are continuing to look for new businesses because Maruti gave us the big volume, Swift. Naturally we didn't get the next one, but as we go forward, as I had explained in the past, it is always they kind of keep a balance between the suppliers. So, we are also competing, quoting for new businesses in the A segment, etc. So, as and when that comes, we will also continue to win businesses. It keeps alternating between the sources. That is how it is.

Viraj Kacharia: If I look at the segment-wise details for Rane TRW, in this particular quarter, we have seen almost 20% growth in the Indian OE business for Rane TRW. I am just trying to understand where that growth has come from?

Harish Lakshman: Actually, on the steering side, there has been a clear de-growth in the domestic market. On the OSS side also, there has been a de-growth, but the export was very good. So, overall OSS had a positive growth.

Viraj Kacharia: On our margins for TRW, even if I adjust for that Rs.9 crore reversal, we will still remain with something around 14% EBITDA margin which is highest in the last many quarters.

Harish Lakshman: They are partly also due to the price increases that we got during the last quarter. They were all increases that we bore during the earlier quarters but we reached settlement with customers and the money actually kicked in only during the last quarter. That was the second reason.

Viraj Kacharia: So, the cumulative impact we have seen in 1 quarter. Is that the right way to look at it?

Harish Lakshman: Exactly.

Viraj Kacharia: If one were to just take that aside, what is the sustainable margin one should look at?

Harish Lakshman: On the OSS side or you are asking full company?

Viraj Kacharia: Both.

Harish Lakshman: Around 11.5% to 12% would be the sustainable margin.

Viraj Kacharia: We are hearing a lot about this tariff potential on auto exports from China to US. For us, from an export point of view for TRW, are we seeing any positive enquiries or anything which is kind of further increasing this exports opportunity for us?

Harish Lakshman: As far as the OSS is concerned, regardless of this recent trade war, there are a lot of opportunities that we are pursuing in ZF. As I said, that is the reason for the second plant also, so that is happening. As far as the recent tariffs on US, we believe in the long term, it will benefit both Rane Madras as well as our US operation of RPDC. Of course, nothing has been concluded but there are a lot of enquiries that are suddenly getting generated as a result of these trade wars. In theory, it should help us but we are yet to see any order as a result of it.

Moderator: We will take the next question from the line of Sachin Kasera of Lucky Investment Managers. Please go ahead.

Sachin Kasera: Just a couple of follow-up questions on PDC. You mentioned that on the current order book, you have visibility of around $32 to $33 million. Based on whatever visibility you have, what is the type of planning we have? Do we see a significant reduction in EBITDA loss as per the plan as of now for FY20 vis-a-vis Rs.25 crore EBITDA loss you reported in FY19?

Harish Lakshman: Yes, definitely we are seeing a reduction in the EBITDA loss during this year. That is what we are working towards because the order book will be better than 18-19 and we are hoping the operational improvements we will achieve.

Sachin Kasera: On the operational efficiency, we are not very sure how much will play out because we have just deputed some people. What is the type of gains we are building purely because of the order book improvement and what is it that can come from operating efficiency so that we know exactly what is the type of the EBITDA improvement we can see overall?

Harish Lakshman: I don't think we have that kind of numbers right now. So, we are not able to tell you but overall we are achieving improvements on both counts.

Sachin Kasera: But if we achieve the target for both the counts, can you look at an EBITDA break-even in FY20 in PDC?

Harish Lakshman: Unlikely.

Sachin Kasera: On the India piece of the die cast business, you mentioned that this year again we are working on cost reduction, but we have some good visibility in terms of the order book for FY20-21 and which is when we should move towards 80%. So, if you could first help us with what was the utilization in 18-19 and how do you see the utilization for 19-20?

Harish Lakshman: Around 55% was the effective utilization in 18-19, and 19-20 unfortunately is going to be around that same level.

Sachin Kasera: And then we see a significant improvement to 80% in 20-21?

Harish Lakshman: Yes.

Sachin Kasera: That is for the full year, but do we see say from H2, the improvement already visible or we will see all the improvement to this 80 only in FY21?

Harish Lakshman: Towards the end of 19-20, things will start improving.

Sachin Kasera: Currently what is the type of EBITDA losses we are making in this business?

Harish Lakshman: No, that business is EBITDA positive.

Sachin Kasera: You mentioned that at 80%, we will break even. That was at the net level or at the EBITDA level?

Harish Lakshman: No, that was at PBT level. The depreciation is high, because 4 years ago or 3 years ago, we invested in this new plant, massive capacity was installed, and unfortunately, the GM shutting down the 5 plants has hurt this business significantly. You must have read the news in January about GM shutting down. That is hurting the business significantly. But what I said was break-even is at the PBT level. EBITDA we are already positive.

Sachin Kasera: What is the negative contribution at the PBT level from this business currently?

Harish Lakshman: About -11%.

Sachin Kasera: So, around 7 to 8 crores?

Harish Lakshman: Yes.

Moderator: The next question from the line of Kamlesh Kotak of Asian Market Securities. Please go ahead.

Kamlesh Kotak: This is about Rane NSK. Which are the key models to which we supply the steering systems?

L. Ganesh: Basically Maruti Suzuki. In Maruti Suzuki - Swift, Baleno, and Brezza. These are some of the main key models we supply that is EPS columns. Of course we supply to many customers including Leyland, Tata, Mahindra's the commercial vehicle applications.

Kamlesh Kotak: What would be the share of electric power steering in our total revenue of Rane NSK?

L. Ganesh: That is almost about 90%.

Kamlesh Kotak: How do you see the competitive intensity now that Robert Bosch and Sona Steering with JTEKT acquisition? How the competitive intensity you see in terms of the OEM and the new models?

L. Ganesh: In terms of JTEKT, we are aware that with Sona exiting, JTEKT has taken full control. So, obviously their intensity of competition and their efforts in India, they increase. We are aware of that, and NSK is equally putting in efforts and supporting us in that. In terms of Bosch exiting, of course, there is a new entrant Nexteer in US and Mando is also quite active. So, overall competition is only increasing. So, we have to diversify our customer base. We are also looking at some export of manual commercial vehicle columns. So, we are also diversifying and not betting on the same thing that made us profitable in the past will continue in the future, that is not the assumption.

Kamlesh Kotak: In industrial or in the passenger vehicles, what would be the share of the electric power steering as of now?

L. Ganesh: 90% plus.

Kamlesh Kotak: And in commercial vehicles, what would be the share of hydraulic and manual? It would be all hydraulic?

Harish Lakshman: M&HCV (medium & heavy commercial vehicle) will be 100%. Light commercial vehicle would be around 50% plus would be hydraulic.

Moderator: The next question from the line of Venkat Subramanian of Organic Capital. Please go ahead.

Venkat Subramanian: We heard Harish saying that our break-even in the die casting is at around 80%. In an industry where ups and downs are fairly common, isn't that a fairly high break-even level? Are we comfortable at that? Is that how we conceived it?

Harish Lakshman: No, we are not comfortable. When I meant break-even, I meant at a PBT/PAT level. The problem is the die casting business is still suffering on 2 counts - high depreciation and high interest - because this entire new investment on the second plant was done based on borrowings and we don't have the sales. The same thing 3-4 years down the line when we had completely depreciated and paid off the loans for that second plant, the break-even will be easier.

Venkat Subramanian: Therefore, break-even probably was not exactly that, meaning it is at PBT level. So, you are basically hinting here that number will head down south.

Harish Lakshman: Correct, because if you see there has been almost zero investment last year and that will be the case for the next couple of years in the die casting business in India. So, depreciation will keep coming down.

Venkat Subramanian: Having seen several cycles in the past, how do you read the current cycle? It probably is not exactly a cycle, we don't know whether it is a killer or whether temporary in nature but what is your reading?

Harish Lakshman: It is anyone's guess. I think this year, net-net, there will be a positive growth for 19-20 largely driven by the BS-VI legislation that is going to come up next year. As of now, the current view is that next year will be a tough year for the entire industry because significantly vehicle costs are going to go up, again because of the BS-VI. So, most of us internally in our plans, we are planning a de-growth in the industry for next year. Now, with this new government coming in, new policies, etc., how things will change is anyone's guess. Obviously, from a 5- to 7-year perspective, we are very optimistic because the Indian market will be the fastest-growing automotive market in the world.

L. Ganesh: Current year we have to watch closely. Difficult to take a call now.

Venkat Subramanian: You think you will get some sense for it by the beginning of third quarter? Is that when you take a good educated guess?

L. Ganesh: We watch quarter to quarter, especially in deciding discretionary cost and CAPEX. So, for us, we watch very closely every quarter. As I said, we have started off on a very low volume in April, let us see how things pan out at the end of first quarter.

Moderator: The next question is from the line of Shyam Sundar Sriram of Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: From a Rane NSK perspective, given that post BS-VI, a number of OEMs may be launching new models. So, is there an opportunity to gain further business there other than non-Maruti side? Are we working anything on that front? That is my first question. And any color on new order? We understand Maruti may launch at least one more new model this year any color on the new order wins?

L. Ganesh: In terms of new models, whether BS-VI or no BS-VI, Maruti and others, as you know, continuously upgrade and launch new models. So, as I said earlier, we quote competition quotes and we win some alternate businesses. That is a continuous process. In terms of new orders, there is localization of Volkswagen which we are going to start towards the end of this year. Currently, it is coming from NSK China and that is going to be localized in India. Maruti, we are still discussing for the launch of new models. I am not very sure as of now whether we have won anything, maybe later we will know.

Shyam Sundar Sriram: In NSK, we mentioned a warranty provision of Rs.31 crores. If I remember correctly, last quarter, it was Rs.20.45 crores. Is there an increase in provision from last quarter? Have we made any fresh provisions there, sir?

L. Ganesh: What we did was being the end of the year, while projection of a possible defect is very difficult thing to do but in discussion with the NSK Engineering and with the auditors, we have taken a call on this and made a provision during the last quarter also. Hopefully, this should be the end of it but I think in another 2-3 months, we will know.

Shyam Sundar Sriram: Adjusting for that, the margin seemed to be around 12.5%. Largely, is this because of lower volumes - I mean reduction in top line - and therefore the negative operating leverage? Is that how to look at this business from this quarter?

L. Ganesh: Quarter-wise, yes, it is the lower volumes. Annually, as I said, raw material, some delay in localization, and some incremental cost, but for the quarter, it is purely the volume effect.

Shyam Sundar Sriram: Within TRW, on the seatbelt side, how much was the export? In FY18, I think it was Rs.200 crores. How much was it in FY19, if you can please help us with that number?

Harish Lakshman: Only seatbelt?

Shyam Sundar Sriram: Or the overall occupant safety exports whichever way you look at it?

Harish Lakshman: There was Rs.308 crores of overall occupant safety exports. And Rs.300 crores was local, domestic.

Shyam Sundar Sriram: And here we are seeing more tailwinds in terms of growth in order?

L. Ganesh: In exports, yes.

Shyam Sundar Sriram: In this Rs.308 crores, how much was in FY18?

Harish Lakshman: Rs.207 crores.

Shyam Sundar Sriram: Okay, so there has been a substantial increase in exports. Thank you sir.

Moderator: Ladies and gentlemen, that was the last question. I now hand the floor back to the management for closing comments.

L. Ganesh: Thank you very much. We hope things will be better with some positive views on the government formation, etc. Let us see and hope that next quarter when we meet, we will see at a better market for the year 19-20.

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