“Rane Group of Companies Q4 FY ’21 Earnings Conference Call”

June 16, 2021

MANAGEMENT: **MR. L. GANESH, CHAIRMAN AND MANAGING DIRECTOR, RANE HOLDINGS LIMITED**
MR. HARISH LAKSHMAN, VICE CHAIRMAN, RANE HOLDINGS LIMITED
MR. P.A. PADMANABHAN, PRESIDENT, FINANCE & GROUP CFO, RANE GROUP
MR. SIVA CHANDRASEKARAN, EXECUTIVE VICE PRESIDENT OF SECRETARIAL AND LEGAL SERVICES, RANE HOLDINGS LIMITED
MR. J. ANANTH, CFO, RANE HOLDINGS LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Rane Group of Companies Q4 FY '21 Earnings Conference Call. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle from Christensen Advisory. Thank you and over to you, Sir.

Diwakar Pingle: Good Afternoon, thank you Faizan. Welcome to the Q4 and full year FY '21 Earnings Call of the Rane Group. To take us through the results and answer your questions today, we have the Management team from the 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 & 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 a press release and the presentation link of the presentation deck. In case any of you have not received it, you could look at on our website or even the BSE site of Rane or alternatively could write to us and we will be happy to send the detailed Earnings Presentation over to you.

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

L. Ganesh: Thank you Diwakar, Good Afternoon Ladies and Gentlemen, thank you for dialing in today. I would like to welcome you all to this teleconference, hope all of you are staying safe and healthy. You have seen the Q4 FY '21 performance highlights of the group companies posted on the website.

I would like to provide a few comments on the economy and the industry and then hand it over to Harish. As you know, India's economy was supposed to have had a much bigger impact because of COVID the first wave in the first quarter of last year, but fortunately things started improving from Q2 and ultimately the economy contracted by 7.3% which was much less than what was originally thought about, and in fact Q4 there was a positive growth of about 1.4%, so this was a good recovery for the year. In the second half, manufacturing specifically in the auto industry saw some good traction in all the segments and while certain segments like buses, naturally, people movement still being restricted, was not showing signs of recovery, all the other segments started showing signs of recovery, so Q4 was a good quarter with a favorable demand environment across all vehicle segments in India and it was kind of activity level like pre-COVID level.

To compare the Group's performance vis-à-vis market, a few details on the vehicle segments. In the passenger car vehicle segment, Rane performed better than the industry due to higher growth of served models.

In utility segment of course, we did not grow as much as industry because of not being present in certain high selling models.

In the light commercial vehicle segment, we won some new business for steering resulting in a higher growth than the industry and in the medium and heavy commercial segment, the increased share of business and higher pack value resulted in our growth being better than industry growth. In the farm tractor also, we are happy to say that finally we caught up and grew better than the industry because of our capacity in hydraulic power steering, which we have increased during last year and more penetration in customers in power steering. The higher growth in two-wheeler segment was due to the strong growth of friction material where we have started supplying the high performing two wheelers. In terms of market segment, 67% of our revenue was from Indian OE and international segment contributed about 22% of sales.

This is broadly what happened in Q4. I will now handover to Harish for his specific comments on Q4 performance as a Group.

Harish Lakshman: Thank you Mr. Ganesh. Good afternoon everyone. As Mr. Ganesh explained Q4 was a good quarter for the entire automotive industry because the demand was much higher than what any one of us had expected. Even though there was significant increase in raw material prices, the operational improvement carried out by the companies and the lower employee costs and the higher volumes helped our margins.

At a Group aggregate performance:

The total revenue grew by 38% in Q4. The revenue from the domestic OE business grew by 46% with strong off take seen across all vehicle segments. The revenue from international customers also grew by 27% supported by strong off take for occupant safety product and new business for steering products. The revenue from the aftermarket segment also grew by 30%. The EBITDA margin improved by 70 BPS on account of lower employee cost and fixed cost reduction, however, the aggregate PBT loss for the Group in Q4 was about 46.6 crores compared to a loss of 4.5 crores in the Q4 of last year. This is largely due to the warranty provision for Rane NSK that I will talk about shortly.

Coming to Rane Madras standalone:

The revenue increased by 47%, the sales to Indian OE customers grew by 56% and sales to export international customers grew by 74% due to the commencement of supplies to a new customer for steering products and the sales through aftermarket increased by 30%. The EBITDA margin declined by 257 BPS due to the increase in material cost. The light metal casting India business is seeing good traction with new orders.

In Quarter-4, the business won a new order of about Rs.9 crores per annum from an European customer. This is in addition to another Rs. 32 crores new orders that were secured in the previous quarter. Coming to the light metal casting business in the US, obviously the COVID, as communicated in some of the earlier calls, has had a significant negative impact in ’20-21 in the US market and it did not spare LMCA as well. In addition to loss of sales of existing business, a couple of new program launches also got delayed. The operational performance of the business has improved with the introduction of TQM practices. This was evident from the significant reduction in expedited freight cost, repairs, and maintenance cost and consumable and tooling cost and the cost of poor quality.

The US sales in the current year appears to be coming back strongly and we are also launching two new customer programs. As mentioned in the past calls, the Board of Rane Madras is closely reviewing this business and we will update our outlook on this business after the next Board meeting in July.

Coming to Rane Engine Valves:

The revenue increased 29% supported by robust demand from Indian OE customers. EBITDA margin also increased by 157 BPS. Lower employee expense helped offset the material cost increase. The market decline due to COVID again impacted the timeline of the turnaround plan, however, we have reduced the breakeven sales through operational improvement and cost reduction measures. We are also enhancing the order book position.

Coming to Rane Brake Linings,

We experienced a 27% increase in total revenue in Q4. The domestic OE business grew 20% and the aftermarket grew by 29%. As mentioned with the other companies, the lower employee cost and significant savings in fixed cost help mitigate the increase in raw material prices.

Coming to the joint ventures Rane TRW:

The revenue grew by 41%. Growth was supported by strong off take and higher share of business for steering product in the Indian commercial vehicle segment. The occupant safety products experienced higher off take from international customers and better fixed cost leverage resulted in margin improvement.

Coming to Rane NSK:

The revenue increased by 43%, this was supported by robust growth in the served models largely Maruti and better fixed cost leverage resulted in margin improvement. However, this has been a very difficult year for us due to the continued warranty claims on top of the COVID impact. Warranty costs have been provided based on the technical and statistical estimates of NSK experts and are expected to cover future claims as well. We are reasonably confident that all root causes have been identified and appropriate counter measures have been put in place. However, the company needs at least another six months of product maturity in the market to ensure that no residual causes exist. At this time, our view is to provide for the worst and work and hope for the best.

The second wave and resultant lockdown has definitely caught us by surprise. This has impacted the growth momentum that we were experiencing. We are still hopeful that the demand environment will turnaround during Quarter-2. Schedules from international customers are calibrated based on the chip availability. They prioritize the models differently in various geographies. We are largely seeing sustained demand. There are few products and programs where we are seeing some reduction in schedules mainly because of the chip shortage. We continue to experience inflationary pressures on material cost. Our teams are working with customers on the price recovery, which will be key to protect our margins.

We continue to prioritize the safety of all our employees and continue to focus on cost management to navigate the challenging times. With these remarks, we will now open for any questions that you may have. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: Sir, Good Evening, thanks for taking my question, at the outset I think we had performed relatively very well at the operating level, given all the challenges on the commodity inflation and challenges in ramping up our production per se, my question firstly for Rane NSK, if you see I think when we started providing from FY19 third quarter onwards actually you have provided more than 300 odd crores there in terms of the warranty provision, what is the total revenue that Rane NSK has recorded from the sales of these models that are now seeing this warranty claims over a period of two to three years, what is the total revenue pile because just I am trying to understand how much more can the provisions happen if at all, what can be the worst case provision, so from that perspective just trying to understand what is the total sales for these models from an NSK perspective?

Harish Lakshman: Shyam, we understood your question, we do not have the exact answer, but I will just hazard a guess that it will be the revenue this warranty cost as you said is about 300 crores that has been provided for of this that includes the future provisions as well. The revenue is estimated to be around 1200 crores till date.

Shyam Sundar Sriram: This 1200 crores, did we also make some changes in the product specifications in terms of mitigate issues that came, so this 1200 crores is the sales that we did for these models prior to the changes we did Sir?

Harish Lakshman: During the period, we do not have the exact numbers Shyam, so I know you are getting into lot of details, so I do not want to give a number that is wrong, so maybe we will review this and come back.

[The correct position after review is: The estimated sale value of the products pertaining to the warranty defect was around Rs.1900 crores and covers the sales for the period from Apr'15 till Oct'18 i.e., upto the date of implementing the countermeasures.]

Shyam Sundar Sriram: Thanks for that Sir and from a TRW perspective on the export side, you are continuing good performance there and the last nine months we have held the export revenues at an average 110 odd crores, I thought the fourth quarter could have been slightly better but is it because of chip shortages impacting the Korean customers per se, so is it getting better as we go into the second quarter onwards, how are you looking at that side because we are also winning orders there, I mean this quarter also you have spoken about a new order win of 48 crores, so how to look at the exports revenues?

Harish Lakshman: Shyam definitely the chip shortage has impacted the revenue, otherwise, we could have done more and we are hopeful that from Q2 onwards, the situation will slightly improve, and therefore, the numbers will look better but at the same time, it is not near where the peak potential is. There is continued loss of revenue because of the global chip shortage.

Shyam Sundar Sriram: This new order win is also from the same Korean customer, Sir or is it we are also exporting to our parent also?

Harish Lakshman: Yes, while largely it is the Korean, but in both Q3 and Q4, we have also started supplies to our partner and many of which is also going to Europe so that is steadily picking up in terms of top line.

Shyam Sundar Sriram: Best wishes for that Sir, one last question on the Rane Madras we have also provided for this 62.5 crores impairment provisions to RPDC, Sir just trying to understand because last year also we provided around 38 crores from a Management perspective, we do not expect this business to revive because we have been continuously providing for the support that we have given during at end of the year as a prudent measure, so from the Management perspective how do you think of this business, you think you cannot revive and that is why we have providing for the support we have given during the year?

Harish Lakshman: As I told in my earlier remarks Shyam, we will give you a full update in our July investor call on the way forward but obviously because of the lack of increase in sales in that business over the last two-three years and coupled by the impact of COVID, the top line further dropped during last year as you know from about 24 million to 17 million, and therefore, that has forced us to take this impairment. We have also mentioned the situation is definitely improving in the US market and obviously from a top line standpoint it cannot be worse than that what we saw last year and in addition to that, there are some new programs that was supposed to launch in Q4 of last year that got delayed because of COVID, those are still there, it is not that those programs have gone away and those programs will also start coming back in the coming quarters, so we will share more with you during our July call on the future of that business.

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

Sanjay Shah: Thanks for opportunity, Sir my question was regarding this NSK our warranty issue, so this has been long, two years we have been facing this issue, so now what is the status, how long you see that coming in and what steps are we taking and have we lost this product to our competitor or still our OE people prefer buying from us the same product?

Harish Lakshman: I will answer the second question first, the answer is no, we have not lost any business to competitor. The product continues to be supplied and there is still life left over the next few years. As far as the first part of your question is concerned, as I said whatever this provision that we have made includes future complaints that will come, so the financial provisioning includes some more warranty problems that will come in the market, but what comes in the market are all older cars, so we have taken various countermeasures in terms of changing some parts of the steering design and manufacturing process etc., so those changes have all been completed sometime ago, so we are hopeful that in future as I said in my remarks, all root causes have been identified and in future the problems will not be there, but we will continue to have some claims coming that belong to the past and which have been financially provided for.

Sanjay Shah: My second question was regarding our Rane Madras, we have a market cap of around 550 crores and we have impairment of around 100 crores which we feel bit scary and we have many non core asset also lying with us, cannot we utilize that to enhance the shareholder value or use in the CAPEX?

Harish Lakshman: As of now there is no intent to look at any monetization of land etc., and as far as the future of this business, I think we have coming through extraordinary years on top of a turnaround situation that we were already struggling with, so we will come back on what the future direction is in the month of July.

Sanjay Shah: My last question was regarding how do you see the market ahead for our industry especially commercial vehicle for this year and next year?

Harish Lakshman: It is very difficult to predict Sanjay as you know we are extremely in a volatile situation; we have had significant lockdown. In fact we had to even postpone this investor call because Tamil Nadu has been under very strict lockdown till last week and even now we are in lockdown but some small relaxation has taken place, so there is a lot of uncertainty but having said that we still believe that there is demand in the market and the lockdown not allowed the demand to be fulfilled, and if the wave three etc. does not happen and the country opens up and vaccination also continue in a significant way, we believe the coming quarters will be better.

Sanjay Shah: What is the rationale behind believing that thing should improve especially in commercial vehicle I want to talk because we need to understand is that pent-up demand you see coming in or you see some economic activity which can push the earnings?

Harish Lakshman: It is a combination, so if your question is specific okay, I was answering for all the vehicle segments including passenger car etc., in CV the rate of pickup in demand will not be the same as what we see in passenger car or two wheelers. We have to wait and see how the economic activity improves, I think obviously that is a key driver for sales of the commercial vehicle especially all the infrastructure projects etc., so that will be one element but there is also some demand because as you know the CV market is a cyclical in the market and after the peak of '18-19, the market has come down significantly and it had bottomed out, so therefore a combination of some cyclicality in the inherent business and economic activity can improve.

Moderator: Thank you. The next question is from the line of Ashwin Agarwal from Akash Ganga Investments. Please go ahead.

Ashwin Agarwal: Good Afternoon Sir we had a 90-crore order from Nexteer for supply to General Motors for rack and pinion, can you update how much we have supplied this year and this coming year how much are we going to supply out of this?

Harish Lakshman: Obviously, Ashwin as I mentioned in my opening remarks, Rane Madras the export growth in Q4 was 74% over last year, so obviously as you are aware that is driven largely by that order that you are referring to. That business has also been impacted by the chip shortage, so the current quarter we are not hitting the projections the customer had given because they are facing chip shortage issues, but it will pick up, I am trying to see if we have the exact numbers available.

Ashwin Agarwal: So this year we should be able to complete the value of the order and we were also in discussion for further orders from Nexteer for some other customers, so any update on that?

Harish Lakshman: Correct, so this order will continue, one information that I am able to pull out is that the Nexteer business last year for the Financial Year '21 was 55 crores largely driven by this program which started somewhere in Q3 of last year and as you said that we still believe that 90 crore order the full impact will be seen in the coming year and the second part of your question, yes, we have won some more business with that same customer and some of those programs are launching during this year.

Ashwin Agarwal: Yes, that is a good news Sir.

Harish Lakshman: Yes, but of course as I said the steering orders that we started while we were supposed to do 90 crores, there will be a chip shortage impact so there will be some reduction to what was planned earlier, it all depends on how the chip situation is in the coming quarters, but overall RML will see a growth on the export.

Ashwin Agarwal: Can you give us a number for ball joint exports, what was the value of ball joint exports for Rane Madras for last year and what is the targets for this year, and we were also in discussion with Daimler and many other customers for export business so anything has happened on that front?

Harish Lakshman: With Daimler there is no significant progress, but with Nexteer, so the ball joint export is around 45 crores and it will grow to about 65 crores is the estimate.

Ashwin Agarwal: We were in discussion I said with Daimler and many other customer for large export business of ball joint, so anything is happening there?

Harish Lakshman: No, nothing significant has happened. We have one with another customer for ball joints during Q4, I think that also we had shared, we are not naming the customer, but yes we have won one contract but it is not a very large order.

Ashwin Agarwal: Sir, lastly coming to hydraulics we had a target few years back to reach 150 crores led by CVs and tractors and we have made a few new products and we have launched in the market, so what has been the revenue from hydraulics in last year and what are the targets going forward?

Harish Lakshman: That 100 crore target remains, last year we did about 64 crores.

Ashwin Agarwal: By when should we be able to reach and does this have any export potential?

Harish Lakshman: There is very little exports, it is largely domestic farm tractor segment based, so hopefully the target should be achieved in the coming year.

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

Sunil Kothari: Thanks for the opportunity Sir, hope everyone is healthy and safe at Rane Group, Sir my question is on Rane Madras latest standalone quarterly results and regarding December quarterly number, there is a wide variation in operating EBITDA margin, I understand raw material has dented this one of the reason, other expense also has changed so much in terms of from December to March, so just broadly if you can explain us this EBITDA margin which normally we were able to achieve (+10), 11% to 12% something suddenly it has fallen to 6% to 6.5%, how much time will it take to go back to those numbers, I mean how much time it take to pass on this cost to customer?

Harish Lakshman: Definitely, the material cost has played a significant role Sunil, but we will back to back get the increases that we are very confident, but there is always a lag effect, that is one. Second also as you know since the customer only compensates exactly to the amount of the increase, there is an inherent reduction in the margin, you understand what I am saying, so if you have a material cost of Rs. 70 on Rs. 100 sale and if 70 becomes 75, 75/105 automatically there is a reduction in the margin, so that is also playing a role in addition to the absolute increase. The third thing is of course we must also understand that many of our employees took a huge sacrifice during last year's Q1, Q2 and most of Q3 by taking salary cuts and all that, so therefore the Q3 the volumes picked up and many of the salary cuts etc. were there, of course we reinstated many of those things somewhere in the middle of Q3, so that impact is also fully seen in Q4.

Sunil Kothari: Sir my point basically luckily we are reaching at a really good size in terms of quarter number 370-390 crores there should be benefit of operating leverage also and if you look at our other company like RBL, we have increased margin in this COVID year also, so is there anything inherently you feel which is not allowing us to get a respectable margin at standalone RML?

Harish Lakshman: Sunil as I have explained in the past, the inherent profitability of the steering and linkage business, it will only be in that 10% to 12% range everything is perfectly aligned we could reach 12%-12.5%, otherwise, it will be in the 10%-11%, and of course quarter-to-quarter there could be differences based on various things that hit us, so I mean I am not sure whether comparing with Rane Brake Lining would be correct because the nature of the businesses are different and Rane Bake Lining has a significant aftermarket exposure compared to Rane Madras that is because again nature of the product, the brake lining, friction material aftermarket opportunity is much more than steering.

Sunil Kothari: I thought luckily we are getting now very good exports international exposure also in Rane Madras because of ball joints and steering joints and all, so I thought there should be improvement in margin, Sir my last question is it will be and it is painful for you also to give so much time your very key people to improve this operational efficiency of US subsidiary, we are losing almost every year 50-60 crore at PBT level, so have you analyzed, suppose any day we take a decision to stop this drain, will it cost more than 100-150 crores and is it worth taking this, I am not asking a very clear answer from you, I understand this, but it is draining I think our Management ability, it must be giving you stress also, so as a investor we are feeling so much pain due to this situation, I understand how much it will be troublesome for you, so any thoughts on this?

Harish Lakshman: Sunil we appreciate your comments and sentiments, I know you have been a long-term investor and yes there is a lot of stress on the system. As I said, on top of the turnaround difficult situation we were already in, COVID hurt us even more and therefore, in July we will share the plans with you, but I also want to, I think I had shared last investor call Enam had asked the question whether we were getting any support from the Government of US and the answer to that question is yes, we are getting support from the US Government and that was not accounted for during last year as there was some accounting procedures and processes that is involved with the US Government, so those supports have not been recognized, but we will share more details during the July quarter.

Sunil Kothari: My point is just that as an investor we are ready with you for this, any hit maybe 100-150 crore for this and we come out from this, so that is what I wanted to convey, thanks a lot Sir wish you good luck.

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

Manish Goyal: Thank you so much, I have few questions first on Rane TRW if you can provide revenue breakup between the steering and the occupant safety for FY ’21 and FY ’20, it would be really helpful and also follow-up question on occupant safety, if you can give a revenue breakup between domestic and exports?

Harish Lakshman: 178 is the total steering revenue in Q4, you wanted Q3 and Q4 is it?

Manish Goyal: No, Sir I wanted for FY ’20 and FY ’21.

Harish Lakshman: For full year, FY ’20 was 486 and FY ’21 is 451, and the occupant safety was 602 in FY’20 and 542 in FY ’21 and out of which 348 was the exports in FY’21.

Manish Goyal: What was it in the previous year?

Harish Lakshman: 355.

Manish Goyal: Sir, my second question is on Rane Engine Valves, it has been again quite challenging for us to see a turnaround over there, so if you can lay out your thoughts as to how do we see going forward for next couple of years on the turnaround of the Rane Engine Valves?

Harish Lakshman: Again yes that has also been a difficult problem for us over the last few years, but if you look at the operational performance of that business, there has been improvement at an operating level, but unfortunately the volume has not happened, and therefore, the absorption of fixed cost is we are not able to fully absorb the fixed cost, so the operational turnaround plan is continuing and there are some more initiatives that the company has taken in terms of improving the productivity of the machines. We are also doing some small VRS etc., so I think a combination of that with the growth in the top line will help. Now, in the top line in addition to the domestic and export growth we are also targeting a lot of non-automotive customers for engine valves, and during last year, we have won several new orders for the non-automotive valve application and some of those will also go into production in the coming year, so there is a conscious target by the Management keeping of course the long-term threat of electric in mind to also enhance the non-automotive portfolio for engine valves and we are seeing some early results in that. Ultimately, there is the top line growth coupled with this continued operational improvement is what is going to help the turnaround, it is unfortunate that again in Q1 we have been hit by the COVID, but if the market grows by 12%-13% during this year, the performance of that business will improve.

Manish Goyal: Sir, sorry to come back on Rane NSK warranty provision, so you said the product basically we have rectified the issue so the product supplies for the rectified product has started from Rane NSK?

Harish Lakshman: Yes, that has happened some time ago.

Manish Goyal: So when you said we have taken provisions factoring potential future liabilities, so why is that we are still expecting some more provisions to come in for say probably next six months?

Harish Lakshman: Typically what happens is once the warranty issue can come in a car that is one year old, two year old or sometimes three year old etc., and we have taken corrections all in the last year many changes have been made, so even now it is possible that customer who has purchased a car in 2019 could suddenly have a problem in the month of July or August and they will go to the Maruti Dealership and the steering will get changed.

Manish Goyal: So ideally for such a long, basically this problem which would not have faced by a customer in early part can still come after two years or three years?

Harish Lakshman: Correct.

Manish Goyal: But Sir you would have made the provision accordingly in the past as well, so I am just wondering so my point is that in next six month do we expect the quantum of provision to be significant what we have seen in Quarter-4 or provisions would be probably smaller amount?

Harish Lakshman: As I said that is why I said Manish that we need another six months to answer that question, we believe all actions have been taken and we have provided for the future, but however, we need six months more time to see the effect of these changes in the market before we can conclude so that is in my opening remarks I said we need another six months.

Moderator: Thank you. The next question is from the line of Pankaj Prasul, Individual Investor. Please go ahead.

Pankaj Prasul: Good Afternoon Sir, my question is on the occupant safety side especially on the airbag side, so what kind of revenue we are making right now in the airbag side and what kind of margin we are making and since from April 1, 2021, the second airbag is mandatory in all the passenger vehicle, I believe in the commercial vehicle also, so post scrappage policy, what kind of overall market you see in next three, four-five years and what kind of market share we have?

Harish Lakshman: The airbag sales for last year was about 240 crores all the airbag related business, and the legislation for the passenger airbag has also kicked in, but the impact of that will be not that significant because even before the legislation came in almost 90% of the cars that were being sold were already sold with the passenger car airbag you know while it was not mandatory, the OEMs were selling it as a standard package and 90% of the customers were buying it that way, so that impact will not be significant. Just to clarify there is no regulation as yet for airbags on commercial vehicle, so the commercial vehicle airbag sales is almost zero and there is no immediate regulation that we are seeing also.

Pankaj Prasul: What kind of margins we are making there Sir and do we believe that we are going to capture much more market share in India?

Harish Lakshman: We do not have the airbag margin alone, overall it is about 7% to 8% EBITDA margin.

Pankaj Prasul: Okay, and where do we stand in terms of market positioning, number one, number two, number three?

Harish Lakshman: For airbags, we will probably be number three today in the market that is largely because our presence in Maruti and Hyundai is limited.

Pankaj Prasul: Do we see in future we will get entry there?

Harish Lakshman: Yes, we have already got an entry for seatbelts in Maruti and we have also made some progress in Hyundai.

Pankaj Prasul: My next question on the Rane Engine Valve, do we see that within next 24 months we will make a turnaround?

Harish Lakshman: That is the intent but I also as I said earlier market also plays a role in terms of how quickly the economy revives and the growth that we see in all the vehicle segment that will also play an important role.

Pankaj Prasul: Can you throw some light on the Rane T4U business, how do you see future of those verticals?

Harish Lakshman: Obviously, it is an area where there are lot of opportunities, the connected space trying to offer telematics and IoT based solution, but at the same time COVID has had a significant impact on that business and we also one particular customer contract that we had come to an end and that contract, it was not a renewable type of contract, it was one contract but that could have been renewed but finally the customer decided that they will not do it so as a result there has been a decrease in the top line both due to COVID and this. We are still optimistic of growing this business, but there is lot of volatility in these kind of connected telematics type of solution, so it is difficult to give a long term prediction on how exactly with the growth of the business will be, it is little different from our core manufacturing business, but having said that we believe there is opportunity and in the next 12 months, we will have some clarity on the future direction of the business and how much capital we want to allocate towards this etc.

Moderator: Thank you. The next question is from the line of Naresh Ranka, Individual Investor. Please go ahead.

Naresh Ranka: Good Afternoon Sir thank you for giving me an opportunity, so my question is regard to Rane NSK Steerings, so we actually had a warranty provision of almost 351 crores from FY '19, last time actually there was a mention that there has been discussion for insurance claim, so are we eligible for claiming insurance for this warranty, Rane NSK?

Harish Lakshman: It is a very complex subject and it is still under discussion with various agencies, so I am not able to comment at this time on what is possible or what is not possible.

Naresh Ranka: Sir, because it has been 351 crores provision at least can you give us figure like how many vehicles we would have done the replacement on how many, maybe some 1 lakh, 1.5 lakh vehicles we would have done the replacement, the EPS?

Harish Lakshman: Incidentally, my understanding is the provision amount is 320 crores, so this provision will be approximately around 165,000 units.

Naresh Ranka: Based on your estimate like what will be the percentage of faults for which the replacement would have been done, the percentage of the fault there would be some estimate these many vehicles could have been at fault or is it like 100% provided for, any figure on that Sir?

Harish Lakshman: It is difficult to give an exact number, but it will be in the low single digits, 4% in that range.

Naresh Ranka: Based on the fault, where you are expecting fault on that percentage, like we are expecting 2 lakh vehicles fault and we have provided 1,65,000 something like that?

Harish Lakshman: As I told you the 320 crores that have been provided for includes future liabilities and as I answered to Manish earlier, as of now this is the total amount so this is at 160,000 so today it is not as though 160,000 vehicles have been replaced, the provision is for 160,000 vehicles. Now, whether this will remain at 160 permanently or not I think only in about six months' time the clarity will emerge.

Naresh Ranka: But 160,000 we have not done the replacement; we have only provided for?

Harish Lakshman: Correct.

Naresh Ranka: Sir, one more question to the Rane Light Metal Castings USA, I know there is lot of pain I guess you had made a cash loss of 100-110 crores, so what is the outlook Sir, I am sure you answered to lot of people that by July you will be able to give us clear indication, so but what will be the future plan for these subsidiaries Sir because it is a big stress to the standalone business of Rane Madras. I am sure you would have taken a call and I guess by July you will be giving the right thing?

Harish Lakshman: As I said we will share more details in July.

Naresh Ranka: No problem Sir, so apart from that yes Sir we are happy because we are also in the same automobile business, we know the brand Rane and it is one of the well-known brands and wishing you all the best.

Harish Lakshman: Thank you.

Moderator: Thank you. The next question is from the line of Rajkumar V., Individual Investor. Please go ahead.

Rajkumar V.: Good Afternoon Sir, I have couple of questions, the first question is on the Rane Madras operating margin, I was going through the CRISIL the current credit rating report which CRISIL has issued for RML, they are talking about the margin pressure not only due to the overseas subsidiary, they are also talking about the domestic die casting division which is also not performing well for Rane Madras and that is also putting pressure on the margins, so if you could please give color that, not only the raw material issue and this is also creating a pressure on the margins for RML is that correct statement?

Harish Lakshman: Definitely as we have been communicating in multiple investor calls in the past two years, the die casting business of RML India the two plants that we have in Hyderabad have been going through a very difficult time because we made a large investment in 2016-17 and based on some confirmed orders that we received on an export customer, and finally, we ended up that export customer, the volume turned out to be something like 20% of what they forecast, so therefore there was a significant impact and we could not immediately utilize that capacity for other customers, so it has taken us about three years but as I have mentioned in the past calls, we believe that the worst is behind us for that business because a lot of new business has been booked in the last 12 to 15 months and the sales is steadily improving from Q4 of last financial year and of course Q1 of this year there is again a COVID impact, but all the orders are in place and we think that going forward we will see margin improvement.

Rajkumar V.: What is the number for the last quarter, do you have like was it a profitable breakeven number or it is still a loss for Q4 the current year '20-21?

Harish Lakshman: The Q3 was about 42 crores and Q4 was about 32 crores.

Rajkumar V.: Sorry Sir this is bottom line number you are reading out or?

Harish Lakshman: No, top line.

Rajkumar V.: How about the bottom-line Sir?

Harish Lakshman: The margin in Q3 was about 8.5%, in Q4 was about 14%.

Rajkumar V.: This has actually a turned around thing, it is no longer a drag on those margins of RML right?

Harish Lakshman: Yes, that is what as I said going I think the worst is behind us for that business?

Rajkumar V.: The reason why CRISIL is highlighting this in their current reports from May '21 they have highlighted so you don't have that information?

Harish Lakshman: If you look at last year's full year performance definitely that has impacted RML negatively, so that is why CRISIL must have made that observation.

Rajkumar V.: Sir, this division turning around, so we can expect your operating margins to move to 12% to 13%, right given the raw material would be a pass through at some stage we catch up on the pricing?

Harish Lakshman: You are asking for the die casting business?

Rajkumar V.: No, overall for RML?

Harish Lakshman: Overall, very difficult to give a number but as I said the inherent it can be anywhere in the 10% to 12% band.

Rajkumar V.: Sir, if you see guys like Mahindra CIE and all they are all doing 12 to 13 and they have aspirations to do 15, so I was just wondering with Rane kind of pedigree, you should be ahead of those people so that is the reason I am asking this question?

Harish Lakshman: Understand.

Rajkumar V.: Sir, the second question is on the Rane NSK given the significant provisioning, so are there any funding requirements, will Rane require to fund further and also this narrative which you currently said you would wait for two quarters performance to see to wait for NSK to stabilize, so this narrative is kind of new now because in the past conference calls you have been saying that this warranty provisions is a thing of the past, it will not impact the current performance so if you could at least highlight why you are making this new narrative?

Harish Lakshman: I think yes you are right that in the past we thought that the problem will be contained to a smaller number, but it turned out to be bigger than what anyone had anticipated, see we go largely by the guidance given by the NSK experts, they do an estimation based on the number of defect that are coming in the market etc., so therefore there was an unanticipated or how do I say the analysis that was done did not comprehensively cover the full problem, but now we believe we have done that.

Rajkumar V.: Sir, lastly I just wanted to know is there a way you could consolidate all the companies under one umbrella and have a better valuation and also reduce the volatility of your stocks because many mutual funds will not even look at companies which below does not grow market cap given that we are multitude company is below 1000 market cap, it would be better Rane to look at merging all of them under one umbrella and have a better valuation, we see guys of lesser experience in the market coming with higher valuation and it is very saddening to see Rane with almost 10 decades of history having lower valuation in the market?

Harish Lakshman: Your point is noted, there are some companies that are joint ventures so they will always remain standalone entities, but of course merging everything and having the joint ventures also underneath that is theoretically a possibility. We keep discussing this internally and I am sure at the appropriate time we will come back.

Moderator: Thank you. Ladies and Gentlemen, we will take the last question from the line of Shyam Sekhar from I thought Advisory. Please go ahead.

Shyam Sekhar: Sorry to be repeating what a lot of people have said, but though you have provided 320 crores on NSK and the provisions are accelerating, I am not sure how you are saying that you feel that you have provided for the worst, somehow that is not convincing because the provisions are accelerating and you are still saying you have provided for the worst, it would help if you actually say how much of warranties you have paid out, you have actually provided for 320 crores, but can you give a number how much has been paid out till now so that we know what is the number that you have in cushion or in kind of a reserve to pay out into the future, I think the two numbers will give lot more clarity than all the questions that we have been hearing on this issue?

Harish Lakshman: As of March about 215 crores has been paid out.

Shyam Sekhar: How do you say that you have provided for the worst?

Harish Lakshman: As I said based on NSK experts they have given an estimation and we go by that estimation, as you know this is a 51% NSK owned company and they are experts providers in estimation and we go by that.

Shyam Sekhar: So can we emphatically say that the worst is over?

Harish Lakshman: I think I repeated six months from now we can be in a better position to answer, we believe we have taken all the actions to put this problem to rest.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to the Management for closing comments.

Harish Lakshman: We appreciate all the comments and obviously this Q4 has been a very difficult one for us while I think as someone mentioned at an operations level while we saw improvements on many fronts, unfortunately we have had some significant setback in terms of booking certain things in the accounts like the warranty provision, the impairment of the US business, I think the small impairment we had to take in Rane Holdings that for the T4U investment. I think it is a combination of certain things that have impacted those business negatively and COVID etc., so we decided that we will take some of the hard decisions. It has been a difficult quarter for us, but I am hopeful that with the market improving and some of these provisions that are being made hopefully the future will look better. Thank you.

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