"Rane Group of Companies Q3 FY '21 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Rane Holdings Limited Q3 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 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 IR. Thank you and over to you, Sir.

Diwakar Pingle: Thank you, Rio. Good Afternoon friends, Welcome to the Q3 FY '21 earnings call of the Rane Group. To take you through the results and answer your questions today, we have the Management team from the Rane Group represented by Mr. L. Ganesh – Chairman and Managing Director; Mr. Harish Lakshman – Vice Chairman of 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 you the press release and also, we have sent you the presentation link of the deck of all the companies. In case any of you have not received the presentation, you could look at 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 detailed earnings presentation over to you.

Before I start, I would like to state that anything that we say 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 we face. These uncertainties and risks are included, but not limited to what we mention in the prospectus and subsequently in annual reports, which you can find on our website.

With that said, I will 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. I would like to Welcome you all for this conference, wishing you all in the outset a very Happy New year 2021. I hope that the worst of COVID-19 is over for India and other parts of the world, and we can expect normalcy in our lives in a few months from now. You would have seen the Q3 FY '21 performance highlights of the group companies posted on our website. I would like to just provide a few comments on the industry. Q3 has been a good quarter with favourable demand environment across vehicle segments in India. This was better than anticipated recovery in the domestic automotive industry. The Indian economy except certain sectors like travel and tourism seem to have recovered well. As you are aware, the GDP estimate for India immediately after the initial lockdown was being talked about as something minus 11%, now the estimate is -7% which is heartening. Based on the effect and this recovery, the auto industry achieved pre-COVID levels in Q3 in most of the segments. To compare the group's performance vis-a-vis the market, let me share a few details with you.

In the passenger vehicle segment, the group had a slightly less growth than industry due to the growth in un-served models particularly utility vehicle segment. In the LCV, new business for steering resulted in higher growth. In the M&HCV segment, better growth than industry was due to increased share of business and higher growth in multi-axle vehicles where we had a higher pack value. The growth in the farm tractor segment, our growth was better than the industry due to new business from power steering and cylinders. The lower growth in the two wheeler segment is because again growth in the un-served market. At the market segment level 69% of our revenue was contributed by Indian OE segment and international segment was about 21%, better than expected growth in the Indian OE resulted in a change in the sales mix for this quarter.

With these few comments, I will hand it over to Harish for his comments and then review of Q3 performance.

Harish Lakshman: Good Afternoon everyone, I will just take a few minutes in talking about the performance of the various group companies, but overall, as Mr. Ganesh said we saw a robust demand environment in the automotive industry, thanks to the opening up of the economy gradually after COVID and also the support of the festive season across all the vehicle segments. On the plant operations across the group, effectively handled the production ramp up despite some challenges in our supply chain and also availability of labour. The group companies continue to prioritize on cost reduction measures pursued to minimize the impact on account of COVID during our first quarter. Overall, at a group level, the total revenue grew by 26% during this quarter and revenue from the Indian OE customers grew by 28%. The revenue from international customers also had a healthy growth rate of 28% supported by strong offtake from our occupant safety business in Rane TRW and new business for steering products in Rane Madras. The revenue from aftermarket segment also increased by 8% during the quarter. The EBITDA margin improved by 275 bps on account of lower employee cost and fixed cost reduction vis-a-vis the Q3 of last year. The aggregate PBT was 58.9 crores compared to a loss of 15.7 crores in Q3 of FY '20.

The RML standalone revenue increased by 42%, the sales to Indian OE customers grew by 37% and international customers by 82% supported by increase in schedules for steering and light metal casting products. Sales to aftermarket also increased by 14%. The cost reduction initiatives and the higher volume helped to mitigate the unfavourable mix and some of the commodity increases that we had to face during the quarter. The light metal casting India business is beginning to see good traction with new orders, in Q3 won order worth Rs. 32 crores per annum from various customers both international and domestic.

The US subsidiary, LMCA, continued to face challenges on volumes, vehicle demand, and the continued impact of COVID. Despite operational improvement, the drop in sales resulted in higher loss in the US subsidiary.

In Rane Engine Valves, the revenues increased by 11.6% supported by robust demand from the OE customers. EBITDA margins increased by 383 bps on account of lower employee expenses and reduction in fixed cost and higher volume. We also had an exceptional item of about Rs. 23.5 crores, which includes an income from profit on sale of land and we also had some VRS related expenses of about 46 lakhs.

In Rane Brake Lining, we experienced a 2.3% increase in total revenue, the sales to OE grew by 8% and the aftermarket by 3%. Here also the lower employee cost and fixed cost savings resulted in margin improvement. There was also a provision reversal on account of better collection in this quarter whereas there was a one-off provision of bad debts during the previous quarter, as a result of this there is a higher increase in margin that you see in Rane Brake Lining.

In Rane TRW, our revenue grew 30%, the growth was supported by strong off take and higher share of business for steering products in Indian commercial vehicle segment. The occupant safety products also experienced higher off take from international customers. Again here also better fixed cost leverage resulted in margin improvement.

At Rane NSK, the revenue again had a healthy increase of 26%, this was supported by strong off take in served models from Maruti. Better fixed cost resulted in margin improvement here as well. Based on the current warranty claim trend, we have provided an incremental amount of about Rs. 49.3 crores towards warranty. Looking forward, the demand environment remains robust barring some volatility in customer schedule due to the supply chain constraints including the semiconductor etc. We are definitely experiencing significant inflationary pressure on material cost and the group companies continue to pursue cost reduction initiatives as well as seeking increases from our customers. 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, thanks very much for taking my question, my first question is on NSK, we are seeing elevated levels of provisioning even compared to last quarter per se and these being actual replacement of steering systems do result in actual cash outflows, just my question is how much has our net worth in Rane NSK as an entity come down from FY '20 , we think it could be around 100 odd crores and does that impact our ability to grow the Rane NSK business if you can provide some, your thoughts and perspective on that and how do we look at the overall provisioning per se, so that is the first question, Sir? You have also talked about this new NSK order of 22 crores per annum, is this from Maruti or any other new OEM that we have added under the NSK umbrella that was the second question with respect to NSK? Any commodity inflationary, how much has been able to pass through in terms of the underlying commodity inflation reserves, if you can talk about that?

L. Ganesh: In terms of RNSS warranty, the increase in provision is because the claim trends are still kind of at a high level which was not predicted that much of significant provision will be required sometime six months ago, but obviously it is going up. It is still related to periods of '16-17 & '17-18 production, so after the countermeasures we are not getting too much of warranty, it is insignificant. So, it is to whole production, but still the numbers have somewhat surprised us to be honest, therefore, we have made this provision. In terms of net worth, the net worth has gone down obviously to an extent by about 30 crores compared to March 31st, so that is not a significant problem for us. The issue is in the short-term it upset the working capital cycle as we kind of pay up these claims, so we have the borrowing ability in the balance sheet so we are arranging working capital funds so that day-to-day operations which are also growing is not affected, but hopefully, we should see the end of this sometime in this year 2021, and thereafter it should not have an impact on the growth prospects of this business that is the second. Third is commodity increase across key business, not only in our business but other companies as Harish mentioned, so we are kind of back-to-back trying to pass it on to the customers and we will with a time lag, but yes commodity prices are going up at an extraordinary rate, so this is a matter of concern.

Shyam Sundar Sriram: Sir on the new order win in NSK the 22 crore per annum order win, is this from Maruti itself or any other OEM that we have added here and when does this order begin execution?

Harish Lakshman: It is from Maruti, we cannot disclose the model name etc.

Shyam Sundar Sriram: In TRW Sir we have spoken about new production lines being added at Trichy for the seatbelt and airbags, so we are also exporting to ZF from there, so far just trying to understand how much have we invested in this Trichy plant including the first phase and now? On this steering side, we have mentioned we have increased share of business, is it because of competitor ZF not being able to supply on-time or any other reasons behind that from a clearing perspective?

Harish Lakshman: The first question, yeah the investments that are happening in Trichy the addition of lines is for both, export as well as for domestic. Did you ask for a specific investment number, how much we have invested?

Shyam Sundar Sriram: Yes Sir, so far how much has been invested including the first phase?

Harish Lakshman: On the steering side, the increase in the share of business is because of partly our competitor not being able to supply and more importantly because when the vehicle moves to BS6, there was some engineering work that we have to do on the steering side as well, so we have been ahead of competition in completing all our engineering work prior to April 2020 before the BS6 launch started, so we were better prepared technically to support all our customers, so that has also helped increase our share.

Shyam Sundar Sriram: Sir, what is the current market share in the MHCV steering?

Harish Lakshman: You are asking in total commercial vehicle segment including small, light, medium etc.?

Shyam Sundar Sriram: No, whatever we supply from the TRW perspective, what is your market share Sir?

Harish Lakshman: I will be answering you by combining SCV, LCV, M&HCV, everything put together will be about 60% in the market.

Shyam Sundar Sriram: Sir, while you are pulling out that investment number, on the compulsory given airbag measure that has come out, we understand our key customer M&M, Ford mostly have all models with two airbags expect maybe Bolero may not have, so with respect to this regulation have we received any new enquiries for the airbag from some other customers maybe Maruti or other Hyundai or so at least as a second supplier, how are we seeing that and if you can provide the split between occupant safety and steering for the quarter?

Harish Lakshman: As far as the regulation is concerned Shyam Sundar, the regulation we knew it was coming and as you rightly said even before the regulation, 70% of the passenger cars in India were already having passenger airbags and driver airbags, so it is only the lower level model in Maruti S-Presso or Wagon-R, or other OEMs were offering a model with only driver airbag. Now, what will happen is those models will just go away and now the base model itself will become the next model which has driver and passenger car airbag, so therefore there is no direct enquiry as a result of this regulation, but OEMs were always aware this regulation was coming. For future models anyway it was being planned with driver and passenger, that is as far as your first question is concerned. On split between steering and OSD for the quarter, and by the way, unfortunately the investment number is not readily available, just the Trichy investment. The steering division had a revenue of Rs. 155 crores for the quarter and the occupant safety had Rs. 174 crores.

Shyam Sundar Sriram: Sir, one question is on the TRW export, sequentially there seems to be a drop there, is this because of some catch up that happened in second quarter which is now normalizing or is it because of some container availability issues that we were not able to?

Harish Lakshman: It is a combination of two-three things, one is some inventory correction at customer’s end that is one reason, some COVID related delays as well as some container issues, so everything put together, there was a slowdown in the quarter, but it is temporary there is nothing else alarming in the underlying business that has changed.

Moderator: Thank you. We take the next question from the line of Sunil Kothari from Unique Portfolio Management. Please go ahead.

Sunil Kothari: Thank you very much Sir, and hearty congratulations for after a very long time we are able to provide a very, very good sort of number and profitability. Sir, my question is this quarter has surprised everybody, OE, auto component supplier like us, export market, some orders which you were speaking previously and now it is materializing maybe related to rack and pinion, this steering products, joints and die casting also, Sir my question is with this challenging time which we faced during last one or two-three years, how prepared we are for maybe a positive scenario in terms of exports, international enquiries, domestic demand picking up, maybe Korean players are very positive about passenger vehicles, Bharat Benz is speaking lot positively about heavy commercial vehicles, so largely my question is related to Rane Madras, so broadly covering all these things, what possibility or positivity and how prepared we are?

L. Ganesh: In terms of preparedness as you know in the initial part of this year, we had completely frozen all CAPEX and then gradually started releasing the CAPEX in the second and third quarters based on specific programs, so in some products we are now coming towards that threshold of 85% to 90% capacity utilization so with the next year plan around the corner '21-22, we will plan appropriate CAPEX to catch up wherever because of the good orders as you said which we have got and we are on the threshold of capacity 85% to 90%, we have started doing the homework, and wherever necessary we will build that into the next year plan of CAPEX.

Sunil Kothari: Great Sir and previously some two, three-four years back we were expecting some very big orders from international markets and slowly we started receiving in small batches, so if you can throw some light on this rack and pinion and ball joints opportunity globally because we are a very globally competitive player which is already proven by some consulting agency and we already spoken about it, so if you can little bit maybe a little bit long-term viewpoint of in terms of this die casting opportunity from India and these two other products?

Harish Lakshman: As far as the steering rack and pinion opportunity is concerned Sunil, the good news is we have started shipments just before last quarter towards the end of Q2 we started, which is why I think I had also mentioned in Rane Madras you are seeing almost an 82% increase in exports vis-a-vis last year, so that has been a positive development that is that large rack and pinion order which has started and it is increasing month on month, we are in the ramp up phase right now. On the die casting side also the order booking as well as revenue, I mean there has been new order booking for the next 12 to 24 months as well as some orders that we secured last year have gone into production, which is why even the casting business I think has almost doubled compared to Q3 of last year, there has been a 70% growth in the casting business, so overall I think we are cautious but definitely optimistic about the India casting business because we were struggling for the last two or three years with order booking and now we are seeing clear visibility with whatever orders we have in hand as well as what is under pipeline that whatever investments we have made in the assets will be completely utilized in the next 18 months, so we will see that translating into the margins of that business. On ball joints, they have already secured lot of orders during 2020 and many of those programs will go into production in 2021, so overall we are optimistic about Rane Madras both steering and casting based on the domestic market, if the domestic market continues in this way and some of the new export orders we have secured.

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

Venkat Subramanian: Thanks for the opportunity, lot of bad news with respect to our US subsidiary is there in the numbers, what kind of positivity are you seeing, we also know that last quarter numbers were not all that interesting in terms of volume, what are the silver linings that you see there and how is it unfolding there?

Harish Lakshman: Even as we mentioned in the past calls, we had two problems there; one was the operational performance of that business which today I can say is probably contributing to 20% to 25% of the problem and the remaining 75% problem is with the order book. The operational problems I think we are making steady improvement month on month compared to 15 months ago, the kind of inefficiency that we had in operations versus now what we see, there is a good improvement having sent team of about five people from India over the last 18 months is definitely paying dividends. Unfortunately, the order book has been very unsatisfactory, partly we could not get some orders and partly there has been delay due to COVID and the COVID is right now hurting because we have made investments, as you know we invested about $ 8 million about 15 months ago for two new programs with two different customers, both have gotten delayed because of COVID, so therefore the situation is bad and it will continue to be this way for another five or six months after which we will start to see marginal improvement because these new programs kick in. As far as the silver lining is concerned, we have said in earlier calls we are still reviewing the future opportunities for this business, what it entails and what it means for Rane, so later part of this year we will come back on the future for that business.

Venkat Subramanian: On some of the larger vehicles, class-8 trucks etc. there has been a fairly significant uptick, on the addressable market for our operations, how is the market addressable opportunity per se, we heard that two customers have had delays etc., what is the status with respect to them and the market opportunity as well?

Harish Lakshman: Almost the entire automotive business of our US subsidiary is in the passenger car segment, but it is in utility vehicle not in the car segment, which is a good thing so almost all the models that we supply to is going into utility vehicles in US which is doing reasonably well, of course there has been a COVID impact, but general outlook is that the market is going to pick up again, but we are not in the class, we do not have any business in the commercial vehicle segment. As far as that delay is concerned, it is just a postponement of program launches by the customer because of COVID, what was supposed to start in November-December, they have pushed it by about four or five months, there is no other threat to the business or anything like that.

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

Manish Goel: Sir, on the Rane NSK on the warranty provisions, maybe if you can just clarify that why the provision levels have increased, did you refer to some provisions related to 2017-18 models, it was not clear, so if you can highlight that and also we would like to know going forward what can we expect?

L. Ganesh: Two things I wanted to clarify, one is the NSK had used certain statistical models to forecast what could be the claims, and based on that we had made the earlier provision and even I had made a mention in one of the conferences about nine months or 12 months ago that we do not expect any further significant provision, but unfortunately that model has not really worked out and the claims have been more than what even NSK forecasted, that is one. The other point I was making was the positive thing is that although the numbers have increased, those claims are all referring to a period before the countermeasures were put in place, so still relate to the production of the 2017-2018 when they reached a mileage they give a problem and we are replacing. After the countermeasures date, such a problem is very, very miniscule, so hopefully that is why I said we should see the end of this, sometime this year, not able to exactly tell you because on forecasting using a model, we are continuously watching this, so hopefully this year we should see the end of this sometime this year.

Manish Goel: So Sir like in last call you had mentioned that we have identified the problem and are looking to rectify, so what is the status on that now?

L. Ganesh: All that has been completed, as I said the countermeasures have been but in place and all the claims which are coming even now are related to a period of production before the countermeasure. By end of '18, we have completed all the countermeasures, 2018.

Manish Goel: Okay, so now the dispatches what we are doing right now is with the corrected steering system and on this we do not foresee any future liability coming up?

L. Ganesh: We are not seeing any big numbers, very, very insignificant which is a normal warranty, even less than that we are seeing after the countermeasures.

Manish Goel: Okay, so ideally this quarter provision is largely due to some higher than expected numbers which were modeled and also related to before the countermeasures?

L. Ganesh: Correct.

Manish Goel: So going forward in Q3, Q4, the provision number ideally should not be large provision, maybe small numbers?

L. Ganesh: Yeah, hoping so, yes, that is our expectation, let us see.

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

Sunil Kothari: Thank you Sir, just one more question is on, we being a very cost conscious, very cost conservative, technically also, so how prepared we are to face this raw material cost escalation or cost price increasing and what is the scope to improve the margin in Rane Madras which we achieved at a very really respectable level, but looking at mainly other auto ancillaries also everybody has taken a very good jump in operating profitability, so how sustainable this and which other cost measures we have scope to improve this margin?

Harish Lakshman: Actually Sunil this is going to be a real challenge in the coming quarters to maintain this kind of margin for a couple of reasons, one of course this commodity increase we have to get from our customers, there is no way we can absorb it and as you probably know just by the commodity increase, lets us say our material cost is Rs. 50 on a sale of 100, now if the material cost increases by Rs. 5, the best case we can get from our customer is 5, so it becomes 55 by 105 and automatically the contribution margin drops a little bit so that base impact itself we are going to face. Over and above that, the other challenge is we took some extraordinary measures to cut costs during COVID times including salary reduction etc., so all that we are now reinstating, so replicating the same while definitely we have also learnt lot of new things thanks to COVID on how to save costs for the future, not all costs that we could save in the past we will be able to do in the future, so net-net margins are going to be under enormous pressure. Having said that, the silver lining is volume, so if the market continues to be strong throughout '20-21 that volume growth can partially offset some of this to try and see where we can keep our margins.

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

Rajakumar V.: Good Afternoon Sir, thanks for the opportunity, congrats for the good set of numbers, Sir I have couple of questions, first one is relating to the Rane Madras US subsidiary, I was just going through the numbers, I see there is an employee cost alone if you see the nine months ended currently, that is almost equal to your top line, so given that US has a very flexible labour policy, so why we have not planned any employee related rationalization given the poor demand scenario in the subsidiary and also is there a way can we not service those customers from India, cannot we not do an export, have we explored that option?

L. Ganesh: Sorry, what is the second question?

Rajakumar V.: It is an extension of the first question, did we look at migrating the operations from US to India for Rane Madras subsidiary, is that a possibility?

L. Ganesh: In terms of salary cost yes, you are right. It is very high in the US, so based on the impact of volume what we have done is we have reduced the headcount significantly, but in terms of white collar there as it is we are having very few people, we have something like 30 plus people in the white collar including the Management and everything, so it is not much we could do there and that is where the technical competence etc. was there which one cannot lose, so in terms of direct operators on the shop floor we have reduced the numbers and as these new programs kick in, we will again take them onboard, but overall the flexibility of the cost in the US is much less than what it is in India for temporary volume shift that is the problem there. Second is shifting some of that here, the whole strategy that we went to the US and acquired this was that some customers were wanting to buy locally in the US so that was one of the main assumption and they were willing to pay a slight premium for that which will offset to some extent the higher labor cost there, so that shifting it to India may not directly apply, we are really seeing which are the customers would really want to buy there which is still happening, some of the new orders that we have got are all from customers who want local supplies in the US.

Rajakumar V.: Okay, Sir my worry is you are pumping almost close to 200 crores into the subsidiary and that subsidiary borrowed money, so it is kind of dragging the market share of Rane Madras, so I was wondering if the situation in India turned out to be bad then I do not know how you would have managed this year's if India does loss and US does loss then Rane Madras will be a penny stock I am really worried and concerned, I mean thank God our operations in India turned around, but I think beginning to be really watchful on the US part, we should not be throwing good money after bad money?

L. Ganesh: Absolutely, that is the reason why we are taking very close look at this business and as Harish mentioned earlier at middle of this year, we will have a strategy for this business, we are aware of what you are saying, absolutely agree with you.

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

Manish Goel: Thank you so much, Sir just want to clarify, in the presentation in particularly Rane Madras, we have mentioned about couple of orders, so just want to clarify that even in Q2 presentation you had mentioned about couple of orders in rack and pinion and light metal casting, so I believe that this has separate orders like it is not a repetition of Q3 into Q4, right?

Harish Lakshman: No, these are new orders, so that is why I had mentioned earlier also, Manish the order booking in the last two quarters both in domestic market and in international market for Rane Madras has been good, both on the steering side as well as on the casting side, both in Q2 and in Q3, and all of this will go into production in FY '22.

Manish Goel: Okay, so in light metal casting ideally as earlier we had mentioned that our peak revenue potential can be 170-180 crores, so that is something which we can achieve in FY '22 next full year?

Harish Lakshman: In next financial year, yes.

Manish Goel: And ideally what kind of margin should we look at in that business, Sir?

Harish Lakshman: As I have told in the past also Manish I think definitely a 12.5% EBITDA is possible in that business, of course Dollar has to continue at that 73 plus.

Manish Goel: Sure, in Rane Brake, there was certain reversal of provisions in the current and we had one-off provision in last year Q3, so can you give both the numbers and what was the reversal and what was the provision in the last year Q3?

L. Ganesh: Total positive impact was about 3.8 crores.

Moderator: Thank you. The next question is from the line of Samant Singh from PPF Capital. Please go ahead.

Samant Singh: Thank you for the opportunity, my questions are around Rane Brake Lines, out of the 2.3% revenue growth, could I get the breakdown between volume growth and value growth please?

L. Ganesh: Volume and value growth, I am not sure whether we will have that ready here. We do not have that readymade with us now.

Samant Singh: In terms of just cost pass through could you just talk about the difference between being able to pass through raw material inflation with the OEM customers versus the aftermarket?

L. Ganesh: Our idea will be to pass through both in the OEM and aftermarket and we are kind of already alerted the customers, regarding the commodity prices, the first round of discussions have already started with the customers, so our idea will be to, in the aftermarket we have not taken a call, but I guess if the commodity prices sustain like this, we will have to do both OEM and aftermarket.

Samant Singh: On average what is the sort of margin our distributors get in the aftermarket?

Harish Lakshman: Really do not know, it varies, because they do not fully disclose, we just set sales targets for them and then they get some turnover based discounts, e.g. if they achieve 100 crores they get 2% discount so that kind of a scheme, how much margin they make we would not know.

Samant Singh: So if there is significant inflation, I mean do we increase our target levels as well because?

Harish Lakshman: As Ganesh said, for 100% sure we are going to be increasing the prices in the aftermarket, usually the respective companies take a call on the date of increase based on past orders that confusion is always there like an FMCG product because we have back orders whereas inventory across the dealerships, so what date to increase the price without, at the same time minimizing the impact on our dealers and distributors, so that call the respective companies take based on conversations with them, so all those discussions are underway right now, but we will definitely be increasing the aftermarket prices as well as the OE prices.

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

Venkat Subramanian: I am saying in the previous administration they were inward looking and lack of, it was anti-globalization and lot of pressure on local sourcing within companies that were headquartered in USA, so with the change of administration, is there less localization there and therefore does it work against us?

Harish Lakshman: I do not think so, even now Biden has launched some program, Make in America recently and the largest country where this conflict is with China and that seems to be continuing as of now even under the new administration, so I do not think there is going to be a shift as a result of that, but having said that the competitive forces that is continuing, the ability to source a casting from US versus Mexico versus India, so that competition is always there, whereas the China thing is still in favour net-net.

Venkat Subramanian: In previous calls you had kind of mentioned that customer still insist on American products but closer to Indian cost etc., so to that extent again, pricing power is still a worry or we are probably likely to get reasonable prices now?

Harish Lakshman: Definitely, we will only take on business that makes financial sense so while customers may ask for that we are never going to agree, but the challenge that we have been facing is that we are not being able to, if you go back and see the numbers three years, we were at $ 30 million business and we were hoping to grow it to about 35-36 million whereas we dropped to 25 in the last year and this year because of COVID and zero sales for one quarter, it is going to be even lower. The struggle that we are having is to get back to that $ 33-34 million top line, so that is a challenge that we are grappling with.

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

Rajakumar V.: Sir, thanks for taking the follow up, Sir the question is on the warranty provision, I mean given that these provisions will be made despite your comments last year, I just want to say cannot we frontload this provisions so that we are done with the cycle and it is easier for the company and for the markets to understand, and second thing this warranty because of this issue, have you increased your normal warranty provision cost on the ongoing business?

L. Ganesh: First question I could not hear, second question, the normal warranty is continuing for all other parts etc. continues to be at a reasonable level for which we make provisions, so this is an extraordinary item for which this provision is being made only for this particular problem.

Rajakumar V.: The first question is can we not frontload the warranty claim provision so that we are done with the provisioning cycle because you said that you are going to be done with this by 2021, if you look at frontloading this provision given that this number has been kind of volatile for the last few quarters?

L. Ganesh: Are you saying that why not we provide once and for all?

Rajakumar V.: Yeah, that is correct.

L. Ganesh: The problem is numbers as I have been trying to tell you, there is lot of, sophisticated statistical model was used by our partners NSK and together we tried to use that model and do a provisioning, but that model has also not worked so the actual claims have gone ahead of those model, so they are again redoing this model etc., so we are not able to exactly predict the numbers, that is the reason why again the provision started this quarter.

Rajakumar V.: Sir, do you see similar number for the fourth quarter, another 29 crores of our share?

Harish Lakshman: We do not know as yet, we will have to wait and see.

Moderator: Thank you. As there are no further questions, I like to hand the conference back to the Management team for closing comments.

L. Ganesh: Thank you very much and we wish you all a very safe '21 and we hope that this momentum will continue and with the budget which seems to be very encouraging '21-22 will be a good year ahead for the automotive industry. Thank you.

Moderator: Thank you very much. On behalf of Rane Holdings Limited, that concludes the conference. Thank you for joining us, Ladies and Gentlemen, you may now disconnect your lines.