



“Rane Group Q4 and Year 2022 Earnings Conference Call”

May 30, 2022



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*Rane Group
May 30, 2022*

Moderator: Ladies and gentlemen, good day and welcome to the Rane Group Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle. Thank you and over to you sir.

Diwakar Pingle: Thank you, Jacob. Good afternoon friends. Welcome to the Q4 FY22 Earnings Call of Rane Group to take us 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 Rane Holdings Limited, Mr. Harish Lakshman – Vice Chairman, Rane Holdings Limited, Mr. P. A. Padmanabhan – President (Finance) and Group CFO, Mr. Siva Chandrasekaran –Executive Vice President (Secretarial & Legal Services) and Mr. M A P Sridhar Kumar - Senior Vice President (Finance) and CFO of Rane Holdings Limited.

Please note that we have sent you the press release and also have sent the presentation link of the Earnings Deck. In case any of you have not received presentation you could look at it on our website or even the BSE site of Rane or you could write to the investor relations team at EY and we'll be happy to send the detailed earnings presentation over to you. Before we start I like to say 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 the risks and uncertainties that we face. These uncertainties and risks are included but not limited to what we mentioned in the prospectus and subsequently in the annual reports you can find on the website.

With that said I will now handover 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 teleconference You would by now seen our Quarter 4 FY22 performance highlights of the group companies posted on our website.

I would just like to highlight a few comments in the industry before we look at the Company's performance:

Despite the third wave of COVID in India and supply chain constraints, the demand environment remained somewhat mixed in Quarter 4 of FY 22. The passenger segment recovered in Q4 after facing a severe semiconductors shortage in Q3. Strong booking pipeline and inventory remained low because of lower suppliers by the car companies.

Commercial vehicles after two-three years of slowdown saw a strong growth, infrastructure activity continued healthy pace and fleet utilization and replacement of some of the old vehicles seemed to be resulting in good demand. This was a good moment especially some segments like tippers. Farm tractors which had a good last year showed continued sluggishness in this quarter

and some decline on a high base last year. Higher dealer inventory and production cuts by OEM lead to a decline in a two-wheeler segment. In terms of challenges, we saw three major issues on the horizon. One is, as you are all aware of the semiconductor shortage, we have been facing this for almost two years now. And it continues to remain a concern. Though the gap between demand and supply seems to be narrowing, it will probably take another year or so to become normal. Meanwhile, we have to wait and watch the impact if any of the Russia Ukraine crisis and the lockdown in China on this aspect. In terms of inflation, there has been a significant increase in various raw materials due to supply constraints and logistics challenges. We see some softening of prices in some commodities, but generally, the trend still seems to be really vulnerable. The global economies are showing signs of slowing down the inflation all over it leading to tighter monetary policies and the war in Ukraine is also causing trouble in the world economies. The year 2022, therefore, is very critical lot of uncertainty. The industry is also going through a transition in focus to EVs particularly in two wheelers and passenger vehicles. Although the Indian economy is showing resilience, and our industry has shown some positive signs in April and May, I think we need to watch the developments of this year closely and steer cautiously. We are working towards improving our supply chain customers, suppliers to mitigate the inflationary pressure and we are facing various logistic challenges.

I will, with these comments, handover to Harish for his comments and review of the Q4 performance. Thank you.

Harish Lakshman:

Thank you, Mr. Ganesh. Good afternoon everyone. We all know I think Q4 was an eventful quarter. We saw strong growth, the revenue increased by 12% at a group aggregate level compared to the previous year's quarter. However, the material cost increases and higher employee costs and some other expenses resulted in a drop in our EBITDA margins.

As you may have seen in the Presentation that was posted in our website on a full year basis, the aggregate revenue was Rs. 5,440 crores, which is our highest ever revenue and I now briefly cover each of our companies and significant highlights from each of these companies.

One is from Rane Madras, we secured an Rs. 18 crores per annum order for rack and pinion from an Indian passenger vehicle customer.

Our Light Metal Casting Indian business focused on operational improvement and resulted in reduction in internal rejections, improved machine availability, cycle time reduction, etc.

Our Castings Operation in America has been able to sustain the operational performance with the continuation of our TQM practices and some positive results have been achieved in areas of improved customer deliveries, quality and zero expedited freight costs.

There have been improvements in our Tooling and Consumer costs also which helps sustenance of our various cost metric.

However, the business continues to face challenges due to the global supply chain shortages largely the semiconductor shortage, leading to deferment in launch a few new customer business and also some lower offtake from our existing customers.

The focus for 2022-2023 will be to build on our operational improvements, secure some more new business, and hope for our volume enhancement of our current business to ensure the long-term sustainability of the company.

In REVL (Rane Engine Valve Ltd), we continue improving the operational performance across plants, and increase in material cost was mitigated through recovery from customers and cost saving initiatives. We are working on multiple R&D projects with new customers and new age engines such as CNG, flex fuel, and hydrogen as fuel, etc.

In Rane Brake Lining, the revenue growth was positive supported by the strong OE demand however, the margins were impacted significantly during this quarter due to the commodity price increases.

Coming to our joint venture with ZF which as you all may have seen, now the new company is called ZF Rane Automotive India Private Limited. This is a 35-year relationship which started with TRW and then ZF and through this relationship, we were able to bring in advanced technology to the Indian customers. In order to enhance the cooperation for their automotive products in India, we agreed to transfer 1% stake to ZF in order to take the relationship to the next level. The enhanced cooperation is envisaged around three broad areas. One is bringing new products. Second is to enhance the localization of certain high technology products and third is to leverage the relationship with ZF, for Rane Group companies to become a strategic supplier to ZF. As you all know we already have quite a bit of exports going from Rane Madras to ZF.

RTSS now ZRAI, was originally established in 1987 to bring hydraulic power steering technology to the Indian market. The product portfolio has continued to evolve over a period of time and also enhanced by the introduction of new products such as seatbelts and airbags in the company. The name is ZF Rane Automotive India Private Limited reflects the transformation of the company has undergone from a steering product to include passive safety system. The steering business benefited from the recovery from the commercial vehicle segments and the increased demand from M&HCV customers. The offtake from export customers was lower during the quarter for the occupant safety business.

I am also happy to share that we commenced the construction of an inflator plant within our Trichy campus. I am also happy to share that the occupant safety division of this company has got approval under the PLI scheme so that we can further enhance our domestic and export business.

Coming to our joint venture with NSK (RNSS) – we enjoyed good growth on serve models largely with the Maruti, however, the adverse product mix an increase in variable overheads impacted the profitability. As mentioned in the past calls, we are confident that the causes for the warranty issue have been identified, and countermeasures have put in place. We continue to experience warranty returns pertaining to the prior period to the countermeasures. This will start to come down as we go forward. The additional provision during the quarter is for the returns during the prior period.

As far as the financial burden is concerned, we are in continuous discussion with our joint venture partner NSK and our customer MSIL to solve as and when there is a significant update, we will keep our investors informed.

We remain optimistic about the demand environment and the opportunities ahead. You know, obviously India remains the fastest growing major economy and is also expected to be the fastest growing automotive market in the world. So, we remain quite optimistic, despite the various challenges that Mr. Ganesh talked about. The indications based on April and May volume also seem to be quite positive for the coming year 2022-2023.

With these remarks will now open for any questions that you may have. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Abhishek Jain with Arihant Capital Markets Limited. Please go ahead.

Abhishek Jain: Sir if you can throw some light on which are the segments which are doing much better relatively in this quarter as the management has talked about April May, and which are the clients where you are seeing much more traction on relative basis?

Harish Lakshman: Obviously, the commercial vehicle market continues to show robust growth in this quarter, passenger car is also reasonably strong. So, businesses which are highly dependent on commercial vehicle, so for example, the steering division of the ZF Rane even Rane Madras Steering division, we are all benefiting from this

Abhishek Jain: If you can throw some light on how the margins are there right now, because have you taken any hike with the client right now, in terms of the input price hike.

Harish Lakshman: This definitely is a significant challenge for us, because the commodity prices have increased substantially during the previous quarters and unfortunately there is also talk of some more steel price increases coming in this quarter. It has not happened as yet, but there is a lot of pressure from the steelmakers. So, this obviously impacts the margin, even though we recovered almost, if not all the increases from our customers within a short time lag. It is still because of the denominator effect there is a loss in margin. So, you know, therefore, we are looking at additional productivity improvement measures of cost savings etc. to maintain our margins.

- Abhishek Jain:** Okay and impairment anymore impairment?
- Harish Lakshman:** Impact for which business?
- Abhishek Jain:** In Q4, we have done last. Okay, that was last year sir. Thank you sir. All my questions have been answered. Thank you.
- Moderator:** Thank you. The next question is from the line of Samarth Singh with TPF Capital. Please go ahead.
- Samarth Singh:** Could you just give me, I guess, volume growth or degrowth, between FY20 and FY22?
- Harish Lakshman:** Volume for which business?
- Samarth Singh:** For Rane Brake Lining given that FY21 was an odd year, I just want you to compare the growth and volumes between FY22 and FY20.
- Harish Lakshman:** Unfortunately, we do not have the exact data readily available. We are not able to pull it up. Obviously, there has been a growth except in the aftermarket, the growth has been fairly muted, but we do not have the exact data.
- Samarth Singh:** Could you please throw some color around, margins for this business? I mean, I understand that because the denominator is going to grow substantially, the percentage margins are coming down, but even on a just on absolute EBITDA number we are it does not seem like you are going to be able to pass through all the costs increases. So, if you could just give some more color just on what is going on in the industry and with Rane Brake Lining in terms of ability to pass the cost?
- Harish Lakshman:** Yes, definitely it is a concern for us, as well as that the margins have come down because of the commodity price increase, and we have not been able to pass on all the increases for the customers, Rane Brake Lining, as you also know, is a substantial portion of that comes from the aftermarket, almost 45 to 50% of the sales of the company. So, that the ability to pass on increases the aftermarket is also a function of what is happening, the competitive space in the aftermarket. So, sometimes it tends to have a longer lag effect. However, I am also caution that 2019-20 and 2020-21 was also beneficial for RBL because of the commodity price decline that happened to in the company compared to the previous two years. So, we had some extraordinarily good margins in those years and now unfortunately, the pendulum has swung the other way. But we are hopeful that, the margins should start improving after the commodity prices stabilize.
- Samarth Singh:** Okay, and when you say stabilize you believe that even if they do not come down as long as they maintain, you will be able to pass on these cost increases?

Harish Lakshman: Gradually we will be able to pass on. We just found the answer to your earlier question. There has been 11% increase in production, across all the brake lining product lines, including lining despite everything.

Moderator: Thank you. The next question is from the line of Pratik Kothari with Unique Asset Management. Please go ahead.

Pratik Kothari: Sir my question on the Rane Madras US subsidiary. I believe there were two major challenges that we are facing there. One was on the operational side and another was leading new orders and expanding our revenue base in India. If you can throw some light, what is the status there currently.

Harish Lakshman: Yes, as I said in my opening comments, the operations improvement is definitely going according to plan and all the inefficiencies that we used to have, like expedited freight, overtime and also, unexpected machine downtime losses, there has been significant improvement and as I said such expedited freight has been zero throughout last year. So, I think operationally, a lot of improvement has been made. Now, the question is about booking new business and launching new business. During the previous two years, for 2022 to 2023 also, the booking of new business has been reasonably decent, but unfortunately, as I said, one of the businesses that were supposed to launch during early part Q1 of 2022, because of chip shortage, the customer is delaying the launch. So, that is impacting us and second is the existing book of business. There has been some up and downs, some from about 5-7% loss of sales, again, due to chip shortage. So, both are external factors. So, we are hoping that with the chip shortage situation improving during the latter part of this year, the sales will start coming back to as per our plan. In addition, we are also working on some new businesses that we are quoting for for the subsequent years and the pipeline is looking encouraging as of now.

Pratik Kothari: Sir would you like to share what kind of top line numbers you were expecting to see in FY23 on the RPDC side?

Harish Lakshman: I think it is around \$33 million.

Pratik Kothari: We did \$25 million this year, we expected to \$33 in the coming fiscal?

Harish Lakshman: Correct.

Pratik Kothari: Okay, ideally this is good enough to break even EBITDA level.

Harish Lakshman: No, it will not be because we must also remember that while there is volume growth, there is also substantial aluminum commodity increase that has happened. So, a lot of the growth is also happening due to the commodity increase. So, to that extent, the breakeven point does not change, because some of that growth is coming due to the commodity increase, not due to business growth.

- Pratik Kothari:** So, where would a new breakeven number be at?
- Harish Lakshman:** I don't have that kind of a number readily available.
- Pratik Kothari:** As per slide, you have shown that India's production growth in passenger vehicle was two versus Rane 17 commercial vehicle at 16 versus 20. Now, I would assume that there will be at least 10-15 maybe 20% of price increase that would have that we would have seen in this year. So, subtracting for that if we only look at volume growth for Rane it seems to be much lower than what India as a country has done. Just your comments on this.
- Harish Lakshman:** You are referring to that slide or the investor presentation we have put where we are saying our growth, but if you see our growth in most cases is better than the industry growth.
- Pratik Kothari:** No sir, but that could account a lot of price increases also right, because we are comparing volume growth of India to sales growth of Rane.
- Harish Lakshman:** Right. So, that's a good point. Yes obviously the commodity price increases is included in this as a production column does not include. So, but this even if you remove that effect there is still growth for us, obviously, and my understanding is it will be still better than the industry across almost all the segments. Except for the reasons I have mentioned in the investor presentation.
- Moderator:** Thank you. The next question is from the line of Ankur Jain NRI investor. Please go ahead, sir.
- Ankur Jain:** I want to ask for Rane NSK are the provision related to the old claims or there has been a new claim related to new products?
- Harish Lakshman:** Yes, as I said, it's all pertaining to the old claims.
- Ankur Jain:** Okay, got it and my second question will be, as you mentioned, we sold 1% of Rane TRW to ZF. So, when will this transaction be concluded in which quarter?
- Harish Lakshman:** It was already concluded on December 30th, 2021.
- Ankur Jain:** Okay. It's already reflected in Q3.
- Harish Lakshman:** Yes that 1% transfer was reflected in the accounts, Rane holdings account of Q3, correct.
- Moderator:** Thank you. The next question is from the line of Yogesh Mittal, an individual investor. Please go ahead.
- Yogesh Mittal:** My question is regarding the Rane Brake Lining on the research and the development expenses. Can you please help me understand the kind of the nature of expenses we do there and what we are trying to achieve and also, if you can give me some indication on the percentage or the

absolute term, just a ballpark number like what are we looking ahead in the years to come in terms of the expenses? This is my question. Thank you.

Harish Lakshman: And which number from where. Can you please tell me which number you are referring to?

Yogesh Mittal: No, I am not referring any number. I am just generally asking on Rane Brake Lining as such, the research and development in general, because this seems to be industry where we are seeing that there are changes happening in terms of the technology is being used, but just wanted to understand basically in general sense that what are the research and development expenses we do and what are the kinds of activities we are doing and basically trying to achieve and what kind of percentage in terms of the sales or just in the ballpark numbers if you can give me, I do not want the exact thing just the color?

Harish Lakshman: The good thing about Rane Brake Lining is we are extremely well positioned in the domestic OE market, whether it is passenger car, SUV, even two-wheeler, with the slowly with ABS coming, there is friction material dispatch also coming into two wheelers. So, across multiple segments, we are already number one and well positioned. In the last three-four years, if you go back and look at the annual reports of RBL significant investments have been made in R&D. In fact, and I think, if I look back at '19-20 or '18-19, we invested even close to 8% of our sales towards R&D. A lot of these went towards being in investments like dynamometers, which help do a very quick testing for our customer and many different types of testing, which we had to earlier depend on other countries. So, Rane Brake Lining has been using the profits that the company has been generating to invest in R&D keeping in mind the next 5-7 years, and we believe that these investments have further strengthened our position as a market leader for friction material. So, therefore we are quite confident that these investments will help us as we go forward in the future and of course just to add, I mean, as we have a good relationship with our partner Nisshinbo and a lot of these localization of these R&D Investments is happening with their support.

Yogesh Mittal: So, if I can just ask that these activities for the R&D are happening basically inhouse.

Harish Lakshman: Yes.

Moderator: Thank you. The next question is from the line of Chetan Phalke with Alpha Invesco, please go ahead.

Chetan Phalke: Sir I think just you are just answering to one question prior to this one, that the warranties are being NSK warranties are being paid out on old claims. Sir just wanting to understand what is the cutoff date when we say old claims, as in vehicles that are sold prior to 2021 vehicles that are sold to 2020? Is there any year any month or something like that?

Harish Lakshman: I am not able to give you an exact date, but they are all prior to 2021. 2020, 2019 that period? they are all the old ones? Yes, no new one.

Chetan Phalke: And please correct me if I am wrong. So, from what I understand, there is a three-year OEM warranty whenever I buy a vehicle, and then there is an option of having a two years extended warranty. So, in total, the warranty period is up to let's say, five years. So, given the I just wanted to understand the way our the warranty contracts are structured, is there a chance that we may have to pay warranty beyond these five years as well. Are we paying any warranties on vehicles that were sold more than five years back, is there a chance, or are we paying?

Harish Lakshman: No, there is very, very little that comes beyond five years. There has been some in the past, and even that has stopped. So, there is almost zero now, that is beyond five years.

Chetan Phalke: But still, there is a slight chance that it might come.

Harish Lakshman: I would say very, very little chance. I mean, theoretically, yes. But I am quite hopeful that they will be nothing beyond five years as we go forward. There has been some in the past a few years ago.

Chetan Phalke: And given the fact that we have provided for almost Rs. 470 crores over the last three years, I just wanted to understand, in your estimate, what percentage of vehicles sold are covered under the provisions that we have done? I just wanted to understand where are we in terms of provisions are towards the fag end? Are we in the middle of it?

Harish Lakshman: No, I believe that this number, we are hoping that this covers all aspects that we know so far and I think we have mentioned in past calls, warranty returns from the prior period is anywhere from 4% to 5% of the total vehicle sales of those particular models. So, this factors in what is estimated to happen in the future also. As you rightly asked, there is some vehicles still made in 2019 or 2020, but that could be in its third year or fourth year, and it comes up for warranty claim. So, this should take into account all of that.

Chetan Phalke: Okay, okay. But can we say we have crossed at least the halfway mark when it comes to the provisioning?

Harish Lakshman: Yes, we are hoping that. I mean, we have changed our own estimates at least three times in the last two years. It is unfortunate that that has happened. So, we believe that it will not go further. But I think, as we go along, we will see. We are hoping that this is going to be 100% If not 80% plus, not halfway mark for sure.

Chetan Phalke: Yes, one last thing. I think in your opening commentary, you are talking about some negotiating being done with our partner, can you throw some light on it with respect to warranty thing?

Harish Lakshman: Yes, I am not able to say anything more other than the fact that we are in discussion with our partner. As I have said in the past calls, this is a very complex issue because there are 4 different legal entities involved. There is NSK in Japan, which is responsible for the product and process engineering. There is Rane NSK that is joint venture which makes it. Then there is a approval

by Suzuki Motor Corporation in Japan, who then licenses their vehicle technology to Maruti Suzuki, okay, so trying to resolve this among four entities; and not being able to travel to Japan where at an engineering level, as well as a senior management level to discuss this issue and reach a conclusion, has been challenging. I think but for COVID, maybe we would have progressed on these discussions faster. That is the only thing I can tell you right now. What will happen, how it would land - cannot comment at this stage.

- Chetan Phalke:** Okay. Any chances of something getting announced during this financial year?
- L. Ganesh:** So, I said during my opening comments, as in when there is an update, you can be rest assured, you know, we will immediately inform our investors. Obviously, this has been pain point for all of us.
- Moderator:** Thank you. The next question is from the line of Jigar Shroff from Financial Research. Please go ahead.
- Jigar Shroff:** Sir in earlier call you mentioned this Rane NSK warranty provision is pertaining to sales made from April 15 to October 18 of approximately Rs. 1900 crores. Am I right, sir?
- Harish Lakshman:** Yes, correct.
- Jigar Shroff:** Yes but how much is the aggregate provision we must have made?
- Harish Lakshman:** Rs. 490 crores.
- Jigar Shroff:** Since you mentioned these all pertaining to vehicles sold prior to 2020 realistically, should this warranty claims continue till about 2025 because since you said that they have taken come to five years.
- Harish Lakshman:** Theoretically, yes. But it will significantly drop off, you will not see this level continuing as we go forward because a lot of countermeasures to solve the problem, more than 90% of the issues were sorted out in 2018 itself. So, a lot of corrections, whatever in the product and process that happened they all happened many years ago 2018 But unfortunately, we are dealing with a lot of vehicles that were produced before that period.
- Jigar Shroff:** How much have you provided in FY21 and FY22 sir, if you could tell me, please.
- Harish Lakshman:** From April 21 to March 22, we have provided Rs. 161.6 crores.
- Jigar Shroff:** FY21 sir.
- Harish Lakshman:** Rs. 177.1 Cr.

- Jigar Shroff:** So, you expect this to taper off significantly, going ahead?
- Harish Lakshman:** Yes.
- Jigar Shroff:** My second question was an earlier call you have alluded, sir, that you may look at merging all the group companies except the joint venture at some point of time to create shareholder value which you said in the works and if you could shed some light on that.
- Harish Lakshman:** We have maintained this for the past several years. This is constant feedback that we have got from our investors and we continue to evaluate all options, but we have not taken any decision as yet and I think as and when we have some internal clarity on what is best for the each of our businesses, we will come back to our investors.
- Moderator:** Thank you. The next question is from the line of Rajakumar Vaidynathan, an individual investor. Please go ahead.
- Rajakumar Vaidynathan:** Sir I have three questions. So, the first one is on the US subsidiary of Rane Madras. I just wanted to with the kind of interest rate hikes that the US is going through, and that is where I also talk about recession being around so just wanted to know, what keeps running management enthusiastic about the turnaround and also what is the medium-term outlook for this subsidiary? I do not want one year. Next three years, where do you see this subsidiary?
- Harish Lakshman:** Again, as I indicated in last June or July Investor Call, after a lot of debate by the board of Rane Madras and looking at the operational situation at that company, as well as the outlook for that business, we took a decision that we will stay invested for now and, we were seeing a path towards profitability, but this was much before the semiconductor shortage issue impacted us, I think. So, we continue to monitor, there is no change in our decision and I think we will keep reviewing this as we go forward. But there is nothing immediate, that, we are deciding one way or the other, but all I can tell you is we are continuously evaluating the situation.
- Rajakumar Vaidynathan:** Yes, sir. I think you said this so many times. So, we understand that. So, what I am asking is see if all the plans that we are working, obviously turn out to be successful, I just want to know where do you see the substitute trades, it is going to operate at 80% utilization level, just typical of any auto industry, I just want to raise the subsidy, what would be projected top line or the bottom-line numbers? Because as an Investor I want to know, when we will be able to make whatever money that we have lost in the past?
- Harish Lakshman:** If everything goes according to the way we plan it, then for sure we see a visibility of growing the top line for this business to \$40 to \$45 million because as I said, there is a lot of space available in that plant for expansion, as well as even right now the capacity utilization on the die casting side is only at about 70%. So, there is scope for getting some businesses and with less investment, we can expand. Now, the profitability of this business, as we have always maintained from day one of acquisition, this is not something that is going to give u a significant

10% PBT or anything. This acquisition was always going to generate 3% to 4% PBT with a return on capital employed of about 14 or 15%, but what it gives us, it gives us a footprint in North America, it enhances our customer base and using that we were going to look at other expansion opportunities or even other parts of North America and Mexico, etc., so if everything goes according to plan, this would just be a footprint to help make our business more global, and make some money in the process, may not necessarily make the maximum amount of money.

Rajakumar Vaidynathan: Okay, thank you. So, the second question is on the JV companies, would it be possible to upload the financials, so that we will be able to get more details than to call? Because I will know, I just want to know, like, from NSK standpoint, how the auditors have made this warranty provision and is it a significant audit matter and how they have disposed of, so that would kind of give us more insight, I can understand the technical, the challenges the team is facing, but it would be better if you upload those events, given that you have 49% stake in this company.

Harish Lakshman: I thought we are right now sharing all the information in our investor presentation, including the, the performance, etc. and I am sure you know, if you want more information, it is also available through, other government channels like MCA etc.

Rajakumar Vaidynathan: It is a request to part of I think, Rane is known for good corporate governance. So, you can always do this because it should be with you, anyway, available, right?

Harish Lakshman: We will review this. We will take your comments, and we will review it.

Rajakumar Vaidynathan: Yes, thanks a lot sir and sir the third question, this is, again, the question that they asked in the previous call. So, I see all the most of institutional investors exiting the Rane Group. Even recently, I saw United Insurance have sold their stake in Rane Brake. That it is kind of disheartening from a retail investor standpoint. So, just want to know what steps management is taking to get back the institutional holders back into the shareholding.

Harish Lakshman: We note your comments. We are also aware that United has exited. But of course, I understand that more than United they have been shareholders for a long time, and they are not as active. But many of the mutual funds are not active. So, this is something that we are also reviewing internally on what we can do.

Rajakumar Vaidynathan: Rane Brake Linings, the current quarter numbers are much better than what they have reported in the past. So, do we expect things to show up better in the days to come? Rane Brake Lining is reported almost close to Rs. 16 Cr.

Harish Lakshman: I am not clear. Q4 to Q4 there is a huge margin drop last year, Q4 of FY21 to Q4 FY22, there is a huge margin drop. I want to make sure our understanding is correct and as I said, that is because of the commodity increases that we have suffered at Rane Brake Lining, but hopefully going forward while we cannot dramatically improve the margins back to what we saw last year, but it hopefully there will be improvement.

- Moderator:** Thank you. The next question is from the line of K Mohan, an individual investor. Please good ahead sir.
- K Mohan:** I wanted to know, the individual standalone turnovers of these two joint venture companies NSK and Rane TRW, both the top lines, the sales and the PBT of these two companies, it is possible to give us this information individual turnovers as the profitability of these two companies.
- Harish Lakshman:** Yes, this is you are asking for the top line.
- K Mohan:** Topline and the bottom line of TRW and Rane NSK.
- Harish Lakshman:** I think of course one is it is available in that investor presentation we uploaded, but I can tell you Rane NSK year ended March 22, we ended up with Revenue of Rs. 1430 Cr. PBT of about Rs. 62 crores before exceptional items and a loss of Rs. 100 crores after exceptional items because this is a warranty issue. And coming to another joint venture, we ended about Revenue of Rs. 1340 crores with a PBT of about Rs. 63 crores.
- K Mohan:** So, roughly if this provision of warranties goes away completely, as they say is balanced only very little left we should be talking about Rs. 125 crores PBT between these two companies, which will flow into roughly 50% that is the company profit for Rane Holdings. So, we are looking at let's say a potential Rs 60 crore profit from these two companies will be in the current year, though it is premature to say that I am not saying make a forward-looking statement, but this is what will based on last year, this is what you would expect if there is no provision.
- Harish Lakshman:** Yes.
- K Mohan:** Okay. So, that between a PBT for RNSS of (-100) and ZF 63 between these two associate companies, they make a loss of Rs. 37 crores which is flowing into the balance sheet for Rane Holdings. Instead of a loss of Rs. 37 crores 50% of that, let's say Rs. 18 cores. With Rs. 18 cores, we should look at roughly a profit of 60 crores without any warranty provision. That's a significant change in the texture of the profitability of the company going forward. It could be one year or it could be two years, but definitely we are at the end of the road as far as warranty provisioning. From what I understand.
- Harish Lakshman:** That's correct.
- K Mohan:** Thank you. Thank you. That is a very, very positive outlook that we share for the future and I wish you all the best. Thank you.
- Moderator:** Thank you. The next question is from the line of Naresh Ranka, an individual investor. Please go ahead.

- Naresh Ranka:** Regarding Rane NSK, the warranty so out of this Rs. 490 crores provided how much we have actually paid out and how much would be the extra like I mean, which is not being paid?
- Harish Lakshman:** About Rs. 395 crores have been paid out.
- Naresh Ranka:** Rs. 395 crores has been paid out. Okay. So, I guess I think with most of the warranties were vehicles before 2017 or 2016. I think with this provision, I guess, maximum would have already been provided and I guess further, maybe it might be only a very little, I guess, right. The warranty the worst is over, I guess, for Rane NSK.
- Harish Lakshman:** Right. That's what we had mentioned earlier. Majority of it is behind us.
- Naresh Ranka:** Sir one more thing, what has been the capacity utilization in percentage across all your companies in Q4?
- Harish Lakshman:** It would not be very meaningful to give a generalized number across the group. 65% to 70%. Because it stands across two-wheeler, tractor, commercial vehicle, passenger cars and some of these capacities are not completely comparable.
- Naresh Ranka:** So, maybe as a whole group, it would be 75% utilization.
- Harish Lakshman:** So, as I said between 65 and 70%.
- Moderator:** Thank you. The next question is from the line of Pratik Kothari with Unique Asset Management LLP. Please go ahead.
- Pratik Kothari:** Sir on the standalone Rane Madras I believe for the last 10 years we used to report 40% and above gross margin. I understand the raw material sizes, etc., challenges that we are facing, we are at about 35-34 right now. So, any corrective actions from our side we have take in the company in the next quarter, I mean what will be or rather what will be the time period for us to go from 35 to 40 plus.
- Harish Lakshman:** I mean, the problem is we always pass on the increases to both OEMs as well as aftermarket but the timing, there's always a little bit of a mismatch. The problem with commodity increases, as long as commodity they fluctuate up and down, then margins can go up also and come down depending on whether it goes up the problem is if it keeps on increasing, then we are always playing the catch up and because of that denominator effect also the margins keep shrinking. So, unless we see some stabilization of commodity prices or even start seeing some drop in commodity price, it will be difficult, we will always be playing this catch up because with from our customers, we are only able to get what the actual increase that has happened.

- Pratik Kothari:** Okay. So, just to understand the raw material prices that we pass this passage is in absolute terms and not percentage term. So, this percentage margins that we have to expect this through our own internal efficiencies and productivity gains.
- Harish Lakshman:** Correct. Exactly, exactly.
- Moderator:** Thank you. The next question is from the line of Jigar Shroff With Financial Research. Please go ahead.
- Jigar Shroff:** Can you tell me something, how are we planning to engage in the PLI schemes in terms of our various companies? Any thought process would you like to share on that.
- Harish Lakshman:** Yes, sure. As I explained in my opening comments, we have already applied and got the approval for the PLI scheme for our seatbelts and airbag business. This is towards expanding our airbag domestic business export business as well as to increase our localization. So, for to achieve all the three increasing sales, for export and domestic as well as increase in the localization which will obviously, help our margins in the long term. So, we have got the approval from the government. So, we will be making the necessary investments and decisions incorporating the company etc. during the course of this year.
- Jigar Shroff:** So, what is the investment they are looking at?
- Harish Lakshman:** So, the PLI scheme requirement Rs. 100 crore investment and Rs. 200 crore turnover within the span of three years That is the requirements under the PLI scheme, which is what we have applied under.
- Moderator:** Thank you. The next question is from the line of Abhishek Geta, with Alpha Invesco. Please go ahead.
- Abhishek Geta:** Sir wanted to know when TRW with our EBITDA margins FY17, '18, '19 used to be in range of 13% and that has actually come down right now in next 3-4 years to 8% so can we see in future repricing improvement of margins or out of the situation?
- Harish Lakshman:** Yes. There are two things. One is the performance of the commercial vehicle segment. That particular company depends a lot on the performance of the commercial vehicle segment especially the medium and heavy commercial and so I think while the positive news is we are seeing after 18-19, we are seeing signs of the commercial vehicle segment coming back strongly and that generally, as you know, that tends to be a cyclical industry. So, 3-4 years, we have had a down cycle. So, if that segment continues to perform well, and there is strong growth in that segment, it has a direct positive impact on the margins of the joint venture and therefore even achieving a double-digit EBITDA figure. The second, of course, that is a headwind is the commodity prices, if that continues to increase even beyond during '22 and '23, then that will

pose a challenge. But so, we are hoping that, you know, that will stabilize, and that will not hurt us. So, if that happens, then, you know, we have visibility for double digit EBITDA.

Abhishek Geta: And if I am not wrong in FY22 we did around Rs. 690 crores occupant safety, and FY21 around Rs. 520 crores in occupant safety, right.

Harish Lakshman: So, you are asking for the full year, right?

Abhishek Geta: Yes.

Harish Lakshman: Total Revenue for Steering did about Rs. 625 crores and our safety business did about Rs. 720 crores.

Abhishek Geta: Okay, and out of the Rs. 720 crores, can you please give a breakup for exports.

Harish Lakshman: Exports was about Rs. 415 crores and domestic was about Rs. 260 crores.

Abhishek Geta: And the steering exports.

Harish Lakshman: Steering export is not significant. But one thing maybe at Rs. 20 crores in exports.

Abhishek Geta: For FY 21, occupant safety exports how much was it?

Harish Lakshman: Around Rs. 350 crores.

Moderator: Thank you. The next question is from the line of K Mohan, an individual investor. Please good ahead.

K Mohan: With regard to the top line, I am assuming that that the passenger vehicles grew between 7% and 9% this year, and commercial vehicles grow the 10% to 12%. I am making a broad assumption on the basis of character and of course, two-wheeler business, not a very significant part of our total product portfolio. So, I am leaving it out. What kind of growth in top line can they expect from each of these companies or more particularly TRW and NSK what kind of top line growth are we budgeting for 2022 to 2023? Do you in broad principle, would you agree with my assumption of 7 to 8% for passenger vehicles and 10-12% for commercial vehicles? I mean, you can also elaborate on that if my assumptions are not correct, then you can put your own estimate best estimates of what the growth of the industry will be and where will our companies will grow.

Harish Lakshman: We are expecting about an 8% growth in our passenger vehicle and commercial vehicle we are planning about a 10% growth. That is what we're looking at. Of course, as you said, two-wheeler is not significant, but we are looking at a 7% growth and about a 4% growth of farm tractor. That is what we are planning for 2022-23 and we hope that this is a reasonably conservative plan

and, right now, maybe there is like optimism that the numbers could be better than this. So, as far as the growth for our businesses over and above the domestic growth, we have exports also. So, I think on average, our group is planning at about a 12% growth.

K Mohan: Wouldn't that be a significant growth in revenue because of the occupant safety and government mandating all passengers to have the seatbelt? Do you expect a significant increase in the top line for TRW?

Harish Lakshman: Yes, I mean, not been a lot of that legislation is kicking in early next year. So, that 2 airbag, 6 airbag. So, that impact we will see only in second half of 2023 because I think the legislation is likely to come from October 2023, but besides that we are planning on good growth for this business, because in addition to enhancing our domestic share, we are also growing in exports. So, we are looking at good growth there.

K Mohan: Of course, you did give these figures of export, but I missed it. TRW and NSK put together would account for about Rs. 300 crores of export. Where are we right in that?

Harish Lakshman: No, just the occupant safety business last year with more than Rs. 400 crores.

K Mohan: Okay, that is TRW.

Harish Lakshman: That is TRW.

K Mohan: What about NSK., you said hardly anything.

Harish Lakshman: NSK is largely a domestic company, very insignificant. There is some export but insignificant.

Moderator: Thank you. The last question is from the line of Naresh Ranka, an individual investor Please go ahead.

Naresh Ranka: Yes. So, I just have one more question. So, regarding the electric cars and electric vehicles currently, like what percentage of the Rane Group revenue will be from electric vehicles sir, although it might be insignificant or whatever, what could be the percentage of Rane Group Revenue from electric vehicles?

Harish Lakshman: Fortunately, other than engine valve, all our product lines are there in an electric vehicle. So, 92% of our sales is not impacted due to EV and obviously, we continue to specifically target EV based platforms, both in India as well as in overseas market, through our supplies to both North America and Europe. Actually, our sales to pure electric vehicle, even as we speak this year on an annualized basis, will be in excess of about Rs. 300 crores.

Naresh Ranka: Okay, so thank you so much for that figure. So, that will be made primarily from which groups, which company?



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- Harish Lakshman:** Most of it comes from Rane Madras, and some from our joint venture ZF joint venture.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.
- L. Ganesh:** Thank you very much for your time and we hope that the kind of headwinds that we are talking about globally will come to some kind of a settlement and India as Harish mentioned, seems to be in a good position and we hope India will perform much better in all the other economies and we will, when we meet again, we will be able to give you better performance in the next upcoming quarters. Thank you very much.
- Moderator:** Thank you. On behalf of Rane Group, that concludes this conference. Thank you for joining us and you may now disconnect your lines.