



“Rane Group
H1 FY'23 Earnings Conference Call”

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Moderator: Good day, ladies and gentlemen, and welcome to the H1 FY'23 Earnings Conference Call of Rane Group.

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 calls, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Diwakar Pingle from Ernst & Young. Thank you, and over to you Mr. Pingle.

Diwakar Pingle: Good afternoon friends. Welcome to the H1 FY'23 Earnings Call of Rane Group. To take you through the results and answer your questions today, we have the management team from 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) & Group CFO; Mr. Siva Chandrasekaran – Executive Vice President, Secretarial & Legal Services, and Mr. M. A. P Sridhar Kumar – Executive Vice President (Finance) & CFO of Rane Holdings Limited.

Please note that we have sent you the Press Release and also the Presentation link of the Deck. In case any of you have not received the presentation, it will be there on the website or in the BSE site of Rane. Or you could write to us at EY and we would be happy to send the detailed earnings presentation over to you.

Before I start, I would like to say that everything that is said on this call that reflects any outlook for the future, or which can be construed as a forward-looking statement must be viewed in conjunction of the risks and uncertainties that we face. These uncertainties or risks included but not limited to what we mentioned in the prospectors or subsequent in 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: Good afternoon, ladies and gentlemen. I hope all of you had a good Diwali, last week. Thank you for dialing in. I would like to welcome you all to this teleconference. You have seen our H1 FY'23 performance highlights posted on our website. I would like to provide a few comments on the industry before we move to the Company performance.

The demand environment in the auto industry remained favorable in H1 FY'23. We saw some easing of supply chain challenges and plateauing of some of the commodity prices in India. However, semiconductor chips shortage seems to still be a bottleneck in Europe and U.S., where some of our customers had to adjust their production accordingly. Some commodity prices like valve steel continue to show an upward trend.

Passenger Vehicle segment has reported the best ever figures in the first six months of this year. The share of utility vehicles, which has been increased in the last few years has now come to almost 49% thanks to some new launches in FY'23.

The Commercial Vehicle segment registered a good growth during this period, particularly in the M&HCV segment the growth was very high in Q1 because of the base effect and somewhat softened in Q2. However the increased focus on infrastructure spending and better utilization of the fleet is expected to help the segment grow for the rest of the year.

Farm Tractors has reported best ever production in the first half of this fiscal. This was due to the fact that 2022 was the fourth year at a stretch that the country has had a normal or good monsoon season.

Two-wheelers segment experienced good growth in India, however the exports saw a decline. This segment especially at the entry level needs to be watched closely as we understand there are some signs of increase in inventory in the pipeline. The penetration of electric two-wheelers is about 4% during this period.

The IMF Growth Forecast for India, though marginally reduced on a couple of occasions, continues to be a healthy 6.8%. The global headwinds however needs to be seen for any negative impacts on our economy.

With these comments, I will hand it over to Harish, for his comments and review of the H1 performance of the Rane Group. Thank you.

Harish Lakshman:

Good afternoon everyone.

At the group aggregate level, total revenue increased by 33% with strong demand across both domestic and international customers.

The EBITDA margin of Rane Holding on consolidated level, increased by 155 bps, supported by higher volume and improved operational performance. Higher commodity prices however limited the profitability improvement. I will now share some details around each of our businesses.

Rane Madras

We secured Rs. 105 crores per annum orders from various domestic and international customers for steering products.

With the operational improvements and higher capacity utilization, we expect to achieve financial turnaround of the Light Metal-Castings India business. The Light Metal-Castings

business in America has been able to sustain the operational performance improvements. However, the demand environment in U.S. is challenging.

Rane Engine Valve

Rane Engine Valve generates about 44% of its revenue from EV insulated segment and customers. We continue to keep a close watch with the development of electrification and try and maximize our EV insulated sales.

We continue to progress on the financial turnaround of the business, broadly addressing the following:

- Higher capacity realization and new business ramp up
- Increasing the mix of exports and EV insulated segments
- Manufacturing cost reduction.

Strong growth with price recovery from customers and improved operational performance resulted in margin expansion.

Rane Brake Linings

In our OE business, RBL is the market leader in passenger vehicle segments, and has dominant presence in the aftermarket. And we continue to maintain these positions. The EBITDA margin, however got impacted marginally due to mainly the commodity prices and unfavorable product mix.

Joint Venture with ZF Rane

ZF Rane got an approval under the PLI scheme to localize both airbag inflators as well as seatbelt webbing. We continue to introduce latest technology products from our joint venture partner's portfolio. We also won orders for about Rs. 240 crores for our occupant safety products, and Rs. 150 crores for steering products.

Steering business benefited from the recovery of the Commercial Vehicle segment and especially the increased demand from the M&HCV customers. Strong offtake from both domestic and export customers continue for the occupant safety business.

Rane NSK,

Our manual steering column business benefited on account of the upcycle in the commercial vehicle segment.

Our electric power steering business faced slower demand from Maruti, mainly due to the served models, having semiconductor shortage. The adverse product mix and increase in logistics costs impacted the profitability of this business.

As Mr. Ganesh said we continue to remain cautiously optimistic about the demand environment and the opportunities ahead, the geopolitical situation and effect of monetary tightening remains the major headwinds.

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 Viraj Mehta from Equirus Capital. Please go ahead.

Viraj Mehta: My first question is regarding our U.S. operations. We continue to lose money in U.S. What is the strategic thinking in terms of the group? By what time and I know you have been discussing internally about it. So, by what time do we think either we can break even or we will pull the plug on this operation?

Harish Lakshman: I think as we had indicated somewhere towards late last year that we are committed to this business for another period of two years. And we did see positive development in the U.S., our order booking as well as the U.S. economy at that point in time. And we continue to remain, state the same. Our position is, we will take stock during '23 all our strategic options. Now, of course, the recent challenging situation in the U.S. economy is only complicating the situation. But having said that there is no change, so somewhere during the course of 2023, we will take a view on what our strategic options are.

Viraj Mehta: If I look at latest steel prices and I don't know about specialty steel but HRC prices, we have seen significant correction from the peak in terms of the prices that we see. But we do not see that kind of improvement in our margins, especially how low the margins were for some of our companies. By when do you think we will essentially get the benefit of some of these lower commodities, will it be by Q3, will it be by Q4?

Harish Lakshman: I mean, if you see, actually even as of today, the steel price is higher than what it was 12 months ago. So, while there has been some increase, we are yet to feel the impact of the decrease in a significant way. We are also hopeful that the commodity prices will start coming down. So, I mean if the commodity prices continue to come down rapidly, then I think in another one to two quarters, we will start seeing the impact.

- Viraj Mehta:** Sure, and can you talk a little bit about NSK both in terms of operational performance, we saw much lower margins in NSK this quarter, which is very different from all the other four companies that we operate, which saw improvement to some extent. NSK saw margins going down. And also obviously the second question is regarding, do we see any more of the write-offs that we may or last year was the last write-off that we saw?
- Harish Lakshman:** As far as the first question, I think I had mentioned it in my opening remarks that unfortunately for Rane NSK, the served models that we supplied to Maruti Suzuki, those models had more semiconductor shortage. So, as a result our top-line got impacted more than, otherwise what would have happened. So, it's not in-line with the market. So, as a result of that there has been a margin squeeze.
- As far as the warranty issue is concerned, I think whatever provisions that was there earlier, when we did the incremental provision about what 6, 9 months ago, the anticipation was that will be the highest. As of today that continues to be the situation, during the year depending on how the next six months progress, we will come back. But it is difficult to give a clear answer, how it will continue.
- Viraj Mehta:** And we have generated around Rs. 88 crore of operating cash flow, assuming the run rate continues probably we will do Rs. 180 odd crore of operating cash flow. What will be our CAPEX for this year, vis-à-vis that kind of cash flow?
- Harish Lakshman:** So, Rs. 37 crores is our CAPEX plan for the year for RNSS.
- Viraj Mehta:** So, is it fair to assume that rest of the money will be used to reduce the debt?
- Harish Lakshman:** Yes.
- Viraj Mehta:** Thank You so much sir, and best of luck.
- Moderator:** Thank you. The next question is from the line of Abhishek Getam from Alpha Invesco. Please go ahead.
- Abhishek Getam:** So, I just wanted to know on the ZF Rane sales in H1, how much was occupant safety? And after that, how much was domestic occupant safety?
- Harish Lakshman:** If you are asking for Q2 data or first 6 months.
- Abhishek Getam:** First 6 months will be good.

- Harish Lakshman:** Yes, 6 months is Rs. 436 crores is for the occupant safety. And the steering is about Rs. 402 crores.
- Abhishek Getam:** Okay, and out of this Rs. 436, how much was the domestic?
- Harish Lakshman:** Yes, out of the Rs. 436, domestic was Rs. 172 crores.
- Abhishek Getam:** And so the new orders, which we are receiving in OSD in ZF Rane, is mostly from domestic orders?
- Harish Lakshman:** No combination of both, largely domestic but some exports is also there.
- Abhishek Getam:** The next question was on NSK. So, in my conclusion I think we had total provisioning made over last 2, 3 years is almost Rs. 475 crores. So, how much does at H2 stand utilized out of the Rs. 475 crores provision?
- Harish Lakshman:** The total provision, my understanding is about Rs. 490 crores. And so, about Rs. 50 crores is remaining.
- Abhishek Getam:** On the LMCA, the understanding is, we have seen a revenue jump in H2, but is it mostly because of Dollar appreciation? Or how has been the tonnage you have been making in the casting business, what is the volume growth compared to the value growth in LMCA?
- Harish Lakshman:** See, the volume growth compared to last year has been much better because last year was also a COVID year. But however, the semiconductor shortage in the U.S. market has impacted our own plan. So, we are not in-line with our plans, because largely because of the semiconductor shortage. And of course, the last one or two months' development of what's happening in the U.S. economy is adding to the concern.
- Abhishek Getam:** And this year on LMCA, so can we break it in Rs. 200 crores LMCA?
- Harish Lakshman:** LMCI, India?
- Abhishek Getam:** LMCA in the U.S., can you break in at Rs. 200 crores? I think the earlier guidance was I think \$40 million to \$45 million.
- Harish Lakshman:** Yes, it has to be in that range about close to \$40 million. Of course, it's also a function of the aluminum price, because that plays a big role. But in today's aluminum price, yes, it's about \$40.
- Moderator:** Thank you. We have the next question from the line of Akshat Hariya from Multi-Act PMS. Please go ahead.

- Akshat Hariya:** My question was with regards to our NSK JV, so if you look at the revenue growth, which we have done in the JV is about 15%, and when we compare that to the revenue growth of our largest customer, their production volume growth for the first half has been about 34% to 35%. So, could you please let us know some specific models which have been facing the semiconductor issue because of which we are significantly lower than the customer's volume growth?
- Harish Lakshman:** So, there are certain specific models which is Baleno, Swift and Celerio where the production was not in-line with their plans, but some other vehicles were, some of them which we are not there, they did higher sales.
- Akshat Hariya:** Okay, so these models would, like these three models are like 100% single sourced with us.
- Harish Lakshman:** Yes.
- Akshat Hariya:** And Maruti has launched some new models, especially in the SUV segment, Brezza and Vitara, and they have relaunched Brezza and launched the Grand Vitara. So, how have been our wins, are we present in any of these platforms?
- Harish Lakshman:** We are happy to say that we are in those platforms.
- Akshat Hariya:** And they are single sourced over here?
- Harish Lakshman:** Yes.
- Akshat Hariya:** Thanks for answering my questions.
- Moderator:** Thank you. We have the next question from the line of Krishna Kumar Srinivasan from Lion Hill Capital. Please go ahead.
- Krishna Kumar Srinivasan:** Good afternoon sir, and congrats on some of the improved numbers across the board. On NSK Rane, you just mentioned that you got some businesses on the models that the previous participant asked. But in the presentation, we don't see any order wins mentioned in the electric power steering side for Rane NSK Rs. 75 crores for manual steering. So, could you just clarify this?
- Harish Lakshman:** Yes, so what we report, when we say we won an order for Rs. 100 crores here, these are purchase orders that we receive in our company. But most of these go into production either 12 to 24 months from now. So, what you are seeing today, the Grand Vitara and the Toyota Hyryder, we won the order more than one and a half years ago. So, we usually report that.

Krishna Kumar Srinivasan: So, since we don't have probably the old numbers with us. So, if you look at it on a comparative basis, is the order book momentum getting better from model wins, basically, are we getting better? Or in both Rane NSK and ZF Rane, are we getting better?

Harish Lakshman: As far as Rane NSK is concerned, definitely, the order book is slightly better. I mean, for sure it is not decreasing, it is slightly increasing. So, that's how I would put it. So, even, in the subsequent quarters also there are some more orders that are likely to come through. So, there is no concern on the order booking of Rane NSK. And I again, repeat that the warranty issue has not impacted the future business with Maruti Suzuki.

As far as ZF is concerned, yes the order booking continues to remain quite robust, especially on the safety systems side. And as you know, the order booking is driven not only by the continued export orders, but also by the recent legislation of the government for six airbags, from October '23, that has resulted in order expansion.

Krishna Kumar Srinivasan: On the American diecasting business you are mentioning that revenue numbers based on aluminum prices, but just to get a sense of, what's the overall capacity there and where are we in terms of run rate utilization level, broadly speaking.

Harish Lakshman: Yes, approximately on the casting side the capacity utilization would be close to about 70% now. And machining would be closer to about 80% to 85%.

Krishna Kumar Srinivasan: Thank you very much for the responses sir. All the best

Moderator: Thank you. We have the next question from the line of Prashant Rishi from Cascade Capital. Please go ahead.

Prashant Rishi: In the Q2 update for Rane Brake Lining Limited, it is mentioned that the sales to OE customer grew by 25% year-on-year while sales to aftermarket customers grew only by 1%. Just wanted to understand why such a huge difference between the growth in those two segments?

Harish Lakshman: Just hold on one second. I am not clear what the confusion is, we grew by 30% on the OE side and we grew aftermarket by almost 31% during H1 to H1.

Prashant Rishi: Rane Brake Lining only the Q2 FY'23?

Harish Lakshman: Of Q2 to Q2 again, so, clearly in Q2 in aftermarket, the northern zone, north zone sales has become a little, what do you say the material has not moved as much as we anticipated during Q2.

Prashant Rishi: So, going forward, it will probably jump back to the normal levels or is there a significant slowdown, we are seeing in the aftermarket?

- Harish Lakshman:** Anticipation is, it should start improving.
- Prashant Rishi:** Ok all right. Thank you sir.
- Moderator:** Thank you. We have the next question from the line of Sunil M. Kothari from Unique PMS. Please go ahead.
- Sunil M. Kothari:** Thanks for the opportunity sir. The improved presentation is good and one suggestion is to include the outlook slide that we had in previous presentation. Broadly, what I would like to understand from you during last two, three years, we must have tried and developed internally so many new products, so many maybe new customers, new segments. So, if you can qualitatively talk on the internal our efforts and development, we have done without naming maybe customer or products, but what the scope, what type of acceptance we are getting for those new things, which we are trying to develop. So, some qualitative talk on that.
- And second, related to that only, basically, we are hearing a lot about consolidation of supply base at a global level and domestic level also. And there is a clear tilt towards a bigger supplier and capable supplier from unorganized and small players. So, what we are observing of this last two, three years and people are talking about China Plus One, now people are wanting more from, European customer want more from India and rather than China. So, many things global level also changing. So, some qualitative remarks and detail on this will be really helpful.
- Harish Lakshman:** Yes, definitely, Sunil I will try and answer the question. So, as far as the first question is concerned, I will talk about two companies where a lot of activities are going on. One of course in Rane Madras as you are already aware, the hydraulics portfolio is steadily growing. Our penetration with the hydraulics products in the Tractor segment continues to increase. And we are confident that our share will continue to rise in the coming years, in the hydraulics. As you know, in the mechanical, we are already strong number one.
- We are also adding one more product line into the hydraulics range, which is in the advanced stages of trials and introduction. So, I think there is a lot of activity going on that segment. And of course, the other one is the whole China Plus One export pipeline for Rane Madras is looking very good. Already from last year to this year as you know, we have launched several new programs that are into production, but the RFQ pipeline and the businesses that we are winning is also very optimistic.
- The other company where again lot of activity is going on as in ZF Rane, I think here also, of course, on the airbag side, in addition to winning new businesses, thanks to the initiatives on our localization and fortunately the PLI scheme launched by the government. There is going to be a lot of investment going towards localization. So, which should also help our margins in the coming years because we are, as we said, we are localizing our inflators as well as some our seatbelt, webbing etc. So, there is a lot of expansion going on towards these products.

And in terms of overall growth, I think clearly for Rane Group as I have articulated earlier, we do have significant plans for growth. Of course, for us the last three years has not been easy at all in addition to COVID that everyone suffered, we also had the Rane NSK warranty issue as well as our America investment not working out, go into plan. So, we are waiting to solve these two before we make any significant capital commitment in new areas.

And also I want to caution that in Rane Group even today 93% of our sales is EV agnostic, it doesn't matter whether the vehicle is IC engine or electric, all our products will be there. So, 93% is protected. So, we don't want to be forced to take any decision. So, if today 50% to 60% of our sales was coming from IC engine, maybe we would have not taken certain decisions. So, we are waiting, there is a lot of work going on and adding more portfolios, it could be through more global opportunities that we pursue as well as you said, consolidation in the domestic industry. So, we are evaluating all those options.

Sunil M. Kothari:

Yes, opportunities seem to be good and we are now well prepared due to whatever challenges we faced. So, just a message to convey you, we have lost almost at a PBT level Rs. 40 crore in American operations during first half. And we are trying our best, but unfortunately, that is not moving in the way it should have been. And we are using our top talent, our energy and our strategic talent also. So, as an investor of your long-term investor, what I would like to convey, even if you want to take some strategic decision, maybe in near future, maybe selloff of that office and or closing out and taking some weight off maybe \$15 million to \$20 million, that also will be as a investor ready to support. So, just like to convey a message to Mr. Ganesh and to our Board, please, investor are very aware about this type of situation, in any organization, in any industry and any business. So, please, if you feel right, please take a decision, and cut it off, because we have so much opportunity domestically with Indian operations. So, that is my message and my request.

Harish Lakshman:

Definitely Sunil, we understand your sentiments and appreciate what you expressed. I think for sure, we will take definitely the appropriate decision. Last three, four years has not been easy. And obviously we wanted to put best of efforts. But as you have correctly said various challenges, now even currently, the U.S. economy, the war was not anticipated, the impact on economy is also making it challenging. So, during '23, I am sure we will take the appropriate decision.

Sunil M.Kothari:

Thanks a lot and wishing you good luck.

Moderator:

Thank you. The next question is from the line of Jigar Shroff from Financial Research Technologies. Please go ahead.

Jigar Shroff:

Thank you for taking my question sir and congratulations on good results. I have two questions. One is, in the last conference call, you mentioned that you were to negotiate with our Japanese

partners regarding the warranty claims with NSK Japan, but due to the COVID situation, I mean it got delayed, you could not visit Japan, so any update on that? So, that was the first question.

And secondly, any update you would like to share in terms of consolidation of merging all companies in consolidation, which you said you were looking into it, any updates on that, thank you?

Harish Lakshman: To answer the first one, yes, Japan has opened up, and visits have taken place. But the matter is not yet concluded, the discussions are still going on. As I said, it's not only a joint venture partner, but discussions are also going on with our customers. So, as I had articulated in the past, it's a complex issue, so as and when we reach a conclusion, we will definitely share with all our investors.

As far as the second subjects is concerned, again, the answer is that, we continue to evaluate this continuously, and at the appropriate time, when we believe we are ready, we will share our plans with the investors.

Jigar Shroff: But the management is seriously looking into it, right in terms of consolidation?

Harish Lakshman: Yes, we have all, I mean we have been looking at it for a while now. So, we continue to look at it. Yes, absolutely. We recognize that for a group of our size we have so many listed companies, it's something that we clearly recognize and that we need to act on it.

Jigar Shroff: Ok sir, Thank you so much. All the best.

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

Manish Goyal: Thank you so much sir. So a couple of questions first continuing on Rane NSK, I believe, last call we had at that point of time, we had used around Rs. 400 crores to Rs. 410 crores out of Rs. 490 crores on the provisions done. And now we are just left with Rs. 50 crores. So, maybe if you can give us a perspective as to incrementally what are the kind of recalls we are seeing or replacements we are seeing. And going forward, what should we expect?

Harish Lakshman: Manish as I indicated earlier also, yes, there is only Rs. 50 crore remaining. I must tell you that the warranty situation has definitely improved compared to where we were some time ago. Now, however, it is difficult to predict whether this Rs. 50 crores will be sufficient or more will be needed. But that is also a function of the ongoing negotiation with our customer and joint venture partner etc. So, therefore, I am not able to give a clear picture as to how the future will be. But as of now, in the first half, after discussing with our auditors, joint venture auditors, there is no incremental provision that is needed.

Manish Goyal: So, like probably can we take it positively in terms of that, probably in future, we may not see any significant provisions.

Harish Lakshman: That's what, I am not able to say that but I don't want to say there is a positive or a negative, Manish, there are too many complexities to give a clear picture at this stage. One thing is all the problems are the engineering actions that we have taken, and the results we are beginning to see in the field, it is reducing. So, that is one definite positive.

Manish Goyal: So, you had already indicated that remedial actions have been taken and you don't see warranty requirements from the new products or from the probably the corrected version of it right.

Harish Lakshman: Correct.

Manish Goyal: Coming back to I just want to support what Sunil has mentioned on our U.S. subsidiary, in terms of from our side and a lot many investors have been requesting you on that front. Maybe say it probably 6, 8, 12 months back, when you would have taken a decision as you want to probably remain committed for the business for two years. And at that point of time, you did see order booking improving, but after that probably in last six months, or probably eight months now that after the Board has started things have deteriorated significantly. So, would it be prudent to kind of still wait for another one and a half year to probably evaluate, because we don't see any significant improvement despite aluminum prices have fallen in last three months. So, directionally why is it that probably, what is stopping you to probably take the hard decisions?

Harish Lakshman: No, I think Manish, exactly a year ago or a year and a half ago, when we informed our investors that we are going to stay committed, that was based on a certain order book that was there. And at that point in time, there was nobody had talked about semiconductor shortage. And nobody had also talked about the current slowing down in the U.S. economy.

I think definitely nothing has changed in the order book, whatever orders we won, that continue to remain intact. Some of them have gotten delayed due to the semiconductor shortage and for some the volume has also dropped due to the semiconductor shortage. So, even as I said, even this quarter, we should have done much better, but for the semiconductor shortage.

So, I think clearly, these unforeseen and out of control events of ours are again, not helping improve the situation. So, as I indicated, sometime during '23, we will take certain decisions. Whatever decisions we take, whether we continue, whether we sell, whether we wind down these are again, involves a lot of preparatory work. So, unless, we are clear on which path we want to take and what it is we won't be in a position to share.

Manish Goyal: Yes, I appreciate that Harish because as a minority shareholder of Rane Madras, we have seen significant dilution of equity in last probably three times we have done preferential issue to support our U.S. subsidiary where we have already invested Rs. 240 crores, and still the ask rate is

continuing. So, that is how probably as a minority we have liked are suffering a lot, because of this. One is equity dilution and then second is on the outlook, still not clear.

Harish Lakshman: Understood, Manish, understood.

Manish Goyal: And last question, on your strategic pillars of growth, particularly I would want to understand on increased focus on aftermarket what you have mentioned. So, which are the companies which we will be focusing and how do you see that revenue contribution over a period of next three to four years from aftermarket?

Harish Lakshman: Yes, so, as far as aftermarket is concerned, yes, there is a renewed focus, and I think one of the things that we have done in the last 12 months is to synergize the coordination between all the group companies and try to focus on more of a one Rane brand. Traditionally, in the aftermarket Rane Brake Lining is seen as their own strong player. Rane Madras in their own field it's seen as a strong player, so Rane Engine Valves, etc. So, now we are synergizing across the three, including in terms of management, etc. So, that synergizing is underway. And we are clearly beginning to see benefits of that. So, I think going forward, we expect the synergy benefits to help grow the business faster, and we are also taking more aggressive targets.

Manish Goyal: Any number would you like to put on revenue contribution to the overall group sales, like in exports, you already have been talking about 25% to 30% live, in aftermarket any --?

Harish Lakshman: Today, we're at about 11%. We have not set a percentage of sales target, but we have some other internal targets. We are at a group level I think for the year we are close to about Rs. 560 crores. So, we are looking at you know doubling that in the next four years.

Manish Goyal: Thanks sir. I will come back in the queue. Thank you so much

Moderator: Thank you. The next question is from the line of Abhishek Getam from Alfa Invesco. Please go ahead.

Abhishek Getam: Thanks for the opportunity. Yes, I just wanted to ask on Engine Valve, out of the total revenue in Q2, how much was from stationary engines and engine valves for Q2? Because I think in this presentation we have clubbed two-wheeler and stationary.

Harish Lakshman: Your question is only regarding stationary engines or non-automotive because even railways, and in defense certain things are non-automotive.

Abhishek Getam: Okay, sure. Any numbers?

Harish Lakshman: So, it's about 10%.

Abhishek Getam: 10% of the total?

- Harish Lakshman:** Yes.
- Abhishek Getam:** But I think historically, what we have done is we had a 28% share, roughly 20% to 25%, 28% share from stationary engines right in engine valves
- Harish Lakshman:** The 10% that I talked about is only domestic, if I add export, it will be another 16%.
- Abhishek Getam:** 26% in total.
- Harish Lakshman:** Yes.
- Abhishek Getam:** Ok understood. In previous calls, and in Annual Report, we do talk about R&D, been driven in engine valves and that's what we are focusing on in engine valves in for different fuels is I mean ethanol or something like that. So, how is that progress been or any commentary, anything you want to share it?
- Harish Lakshman:** So, we are continuously working on some, I mean, obviously even CNG we are already there in some of the CNG engines in the country. We are also working on all the flex fuel valve prototypes as well as even future for hydrogen, is something that we have started working on. I think all these capabilities are definitely incremental for REVL. So, we are confident that our R&D engineers and whatever budgets we are spending can develop these technologies.
- Abhishek Getam:** So, for this year, I think we marked Rs. 10 crores for R&D in engine valves
- Harish Lakshman:** I don't remember the exact number, but definitely there is some CAPEX towards R&D this year.
- Abhishek Getam:** What is the sort of the expectation on the R&D they are doing or the way to monetized this? Or how do you see the market for this?
- Harish Lakshman:** That's what, so I think we are, in addition to whatever R&D we are spending for continued increase in exports, for example, hollow valve is another technology in valves, we are investing in R&D for hollow valves. We have also got some business already. And in addition to that, all these different alternate fuels also. So, this is a continuous process, based on this, we have customers that we are targeting and sales that we are targeting. So, we don't just try and say how can we monetize the R&D investment, but we look at it more to fund our growth. And hopefully with this R&D investment that we continue to make, a 10% to 12% CAGR, for the valve business is definitely a possibility.
- Abhishek Getam:** Revenue growth of 10% to 15% CAGR?
- Harish Lakshman:** Yes. Well, I mean, it also depends on how much the domestic market moves. Yes.

- Abhishek Getam:** So, I think, you mentioned, there are some specific brand wise programs also there. So, is it like for special OEMs, we are doing any R&D specific programs is there something like that also?
- Harish Lakshman:** Yes, depending on what customer requirements are, if there is a specific R&D project for a customer we do that.
- Abhishek Getam:** And that might end up in a mandate to production operations.
- L. Ganesh:** Correct.
- Abhishek Getam:** Ok, thank you That's it.
- Moderator:** Thank you. We have the next question from the line of Akshat Hariya from Multi Act PMS. Please go ahead.
- Akshat Hariya:** In the previous answer, you mentioned that we are the sole supplier to these new models of Grand Vitara and Brezza. So, just wanted to clarify that we would be sole supplier for the entire steering system or would it be like a for gears or for columns or something like that?
- Harish Lakshman:** Yes, my comment is for the electric steering the gear is sourced separately.
- Akshat Hariya:** But for the electric column we are there, 100%?
- Harish Lakshman:** Yes.
- Akshat Hariya:** And with regards to the semiconductor shortage issue, which is having a bearing on our growth in NSK, this specific models also that we mentioned have seen decent growth of higher than 35% in H1 versus H1'22, Baleno and Celerio. So, would there also be an inventory lead lag impact in this or any change in share of business, which we are seeing.
- Harish Lakshman:** No I am not able to comment on that. See, you must also look at, we should not only look at sales, we should look at the quantity as well as the pricing. There are also some contractual price reductions that we pass one every year to certain customers. So, that sometimes the top-line growth will not be commensurate with the volume growth. So, that impact has also been there.
- Akshat Hariya:** So, our volume growth would be better, but we have seen some price reductions, because of the pass on, which is there in the contract.
- Harish Lakshman:** That has also contributed a little bit, yes.
- Akshat Hariya:** Ok sir, understood thank you!

Moderator: Thank you. We have the next question from the line of Jyoti Singh from Arihant Capital Markets Limited. Please go ahead

Jyoti Singh: Thanks for the opportunity. My question is like we are single source for Maruti. So, which are the parts that we are providing to Maruti in that we are single source?

Harish Lakshman: So, when we are single sourced, we are for certain platforms, generally, in most of the cases, Maruti for one particular platform, they will have one steering supplier, and for another, another steering supplier. So, I don't know if that answers your question. But if your question is for all products across the group, it's very difficult to answer, because we supply engine valve, seat belts, the rack and pinion steering, brake pads. So, it's very difficult to give a general answer.

Jyoti Singh: What are the margin we target going forward for FY'23 and '24?

Harish Lakshman: We generally don't give forward-looking statements, because it's very difficult to predict with all the changes in the environment.

Jyoti Singh: And also, what's our outlook on the chip shortage issue as we were facing that, so are we seeing issue resolving going forward?

Harish Lakshman: Yes, so as far as the domestic Indian market is concerned, definitely last quarter, and this coming quarter, Q3 from, based on what we hear from our customers is the situation has improved. But I don't think the same can be said, for some of our European and American export business. There, we are still losing sales, potential sales, because of the chip shortage. But what we hear from our customers is definitely 2023, things would improve.

Jyoti Singh: And last question on the energy cost price side, as we are seeing sudden jump in the energy cost, so are we facing any issue because of that?

Harish Lakshman: No, actually lot of our plants are in Telangana and Tamil Nadu, in both these states, the government has increased the electricity charges. But having said that, we continue to use a lot of renewable power, we are big consumers of both solar and windmill. In fact, at a group level, we are almost 32% is renewable across the country. And so I am not able to understand your comment on whether there is any significant increase in energy charge, whatever the state government related charge that definitely is there.

Jyoti Singh: Ok thank you sir.

Moderator: Thank you. We have the next question from the line of Pratik Kothari from Unique Portfolio Managers. Please go ahead.

Pratik Kothari: Thank you and Good afternoon sir. Just one question on the U.S. subsidiary, again the diecasting business, given the order book that we have now, given the changes that we have made

operationally over last few years, and assuming a lot of temporary headwinds that we are facing that subsides these semiconductors be it issues with after effects of war 6 to 12 months out, how should this subsidiary look like, financially and also operationally?

Harish Lakshman: So, as I said, it all depends on how much the semiconductor shortage, problem goes away. If the problem is totally eliminated, there can be a substantial jump in our case. As I said earlier, we have capacities, and we have orders also in hand. Now, how the customers are going to ramp up etc. is uncertain. So, therefore, we are not able to give a clear picture. But theoretically, if all the orders we had in hand and the customers were achieving 100% of those orders that they have given us we should be in a much better position. In fact, there will be no cash loss, which is what we were hoping for two years ago, or one and a half years ago, when we shared with our investors.

Pratik Kothari: Given you say no cash loss that also mean, we should be touching about \$40 million of revenue.

Harish Lakshman: Yes, correct. Again with a caveat on today's aluminum prices.

Pratik Kothari: Fair enough. Thank you and all the best

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

Sunil M. Kothari: Thanks for the opportunity again sir. What efforts we are internally taking to reach maybe a double-digit margin. I am not asking any timeline, but Rane Madras now size is also quarterly we have cross standalone, Rs 500 crore to Rs. 550 crores plus. And we are getting good business, new business, new developments. So, what the possibility and what efforts are we taking to cross double digit EBITDA margin for Rane Madras?

Harish Lakshman: Yes, so I mean, there is definitely a lot of work going on, Sunil, there are two things, you know, one, I mean, as everyone knows, the export profitability tends to be better compared to domestic. So, without of course, but domestic is a very important market from a technology standpoint and leadership standpoint. So, without losing focus on domestic, we are continuing to enhance our export mix. So, that should help the margins. Over and above that, there are many cost reduction initiatives the management takes up on an annual basis. So, clearly there is a lot of work going on to have a sustainable double digit EBITDA margin.

Sunil M. Kothari: Same question for Rane Brake, having 35, almost one-third, more than one-third aftermarket, we are below 10%. So, what is the aberration on this is just temporary phase, how do you see that?

Harish Lakshman: This is largely due to the commodity increases that we have not been able to recover from our customers or pass on to our customers, for example, in the case of aftermarket etc. So, that is the

main driver. Of course, various cost reduction measures are also underway over there. But ultimately commodity prices, we are not able to fully offset in that business.

Sunil M.Kothari: Thank you sir

Moderator: Thank you. We have the next question from the line of Khush Shah from Electrum PMS. Please go ahead.

Khush Shah: Thank you for the opportunity. My question was regarding the recent Maruti recall of around 9,900 odd units which had a defect in the brake assembly related component. So, (1) are we involved in it? And (2) how will it impact us going ahead?

Harish Lakshman: We are not involved in it. So, I don't know the details.

Khush Shah: Ok sir thank you

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

L. Ganesh: Thank you very much, ladies and gentlemen. So, we hope to continue this improvement journey and some of the issues that have been bothering the group for the last three years. I hope by '23, we will come to some resolution on both. And then the growth will help us to accelerate the performance of the group in terms of profitability and return to investors. I really look forward to much better year in '23. Thank you very much for your patience. And thank you for your participation.

Moderator: Thank you. On behalf of Rane Group that concludes this conference. Thank you for joining us and you may now disconnect your lines.