



“Rane Group
Q4 and FY 23 Results Conference Call”
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MODERATOR: **MR. DIWAKAR PINGLE - ERNST & YOUNG LLP**

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 and Full Year FY'23 Earnings Conference Call of Rane Group. As a reminder, all participant lines will be in 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 star then zero 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 LLP. Thank you, and over to you, sir.

Diwakar Pingle: Thank you very much, Zico. Good afternoon, friends. Welcome to the Q4 and 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, 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, who's the Executive Vice President, Secretarial and Legal Services; and Mr. M.A.P Sridhar Kumar, Executive Vice President, Finance and CFO of Rane Holdings Limited.

Please note that we sent you the press release and the presentation link of the deck. In case any of you have not received the presentation, you could look it at the website with the Rane Group or even the BSE site of Rane. Or in the alternative, you can also write to us and we'll be happy to send the detailed deck over to you.

Before we start, I'd like to say that everything that is said in this call that reflects any outlook for the future or which can be construed as forward-looking statements, must be viewed in conjunction with the risks and uncertainties that we see. These uncertainties and risks are included, but not limited to what we mentioned in the prospectus and subsequently in the annual reports, which you can find on our website.

With that said, I'll hand over the call to Mr. Ganesh. Ganesh, sir, over to you.

Ganesh Lakshminarayan: Thank you, Diwakar. Good afternoon, ladies and gentlemen. Thank you for dialing in. I'd like to welcome you all to this teleconference. You would have seen in Q4 FY '23 performance highlights of the group companies posted on our website. Just a few comments on the industry. The demand environment remained favorably and automotive industry experienced growth across all vehicle segment in this year FY '23 and Q4 FY '23.

Passenger Vehicle segment achieved a new peak volume driven by the launch of new models, continued supply improvement and robust demand for EVs. While during the year, there were some shortages of semiconductors for customers like MSIL overall, I think the volume growth was very healthy.

Commercial Vehicle segment continued the up-cycle, with the demand supported by infrastructure spending and better fleet utilization in the industry. The demand for buses bounced back with the opening of schools, colleges, and work-from-home kind of gradually transitioning to physical working. The farm tractor segment also raised the new peak volume in FY '23 and

Q4 saw a strong growth. This was a bit of a surprise because we didn't anticipate that. And 2-wheeler again ended the year with the growth, although in the first 6 to 8 months, there was some sluggishness in the entry-level segment.

The global economic activity, there is some uncertainty, as you all know, high inflation, tighter monetary policy for U.S. and EU, and several challenges faced, recent turmoil in the banking sector in the U.S., hurting the economy. Rates seem to be elevated and remain elevated maybe for some more time before declining. And in Europe, inflation remains sticky. Cost of living, cost of especially energy and fuel has gone up significantly. And there are some issues like labor shortages and some labor action in some countries like France. So these are all the concerns that we see around us.

The tension between U.S. and China has still not subsided and that is also causing some trade concerns. The war between Russia and Ukraine, of course, is a major negative. Given these challenges, the Indian economy has played well and continue to be one of the fastest-growing major economy. Despite a somewhat slower growth of 6.8% in FY '23, but has shown tremendous resilience to the global activities and environment. So going forward, we think that this momentum will continue in FY 2023-24 also, we are quite positive about the Indian economy.

With these few words, I hand it over to Harish now.

Harish Lakshman:

Thank you, Mr. Ganesh. Good afternoon, everyone. Happy to share that the Rane Group, aggregate revenue for the last financial year came at INR6,864 crores. This is the highest ever our group has achieved. The positive demand environment sustained throughout Q4 and helped the group posting 18% overall growth, with 49% growth coming from our international customers. The EBITDA margin for RHL consolidated increased 272 bps supported by higher volumes and improved operational performance.

I will now provide some details around the business. During this quarter, for Rane Madras, we won new business worth INR145 crores from various domestic and international customers for steering products. During the year, as you know, in the plants, we had acquired Yagachi Technologies. I'm happy to share that the plant that we acquired has now been vacated, and we have successfully transferred and integrated that plant within our Varanavasi plant.

Exports grew 56% for our light metal casting India division. We are still working on operational improvements and also launching new programs for SOP in FY '24. Coming to the light metal castings America, as you may have heard, we have decided to evaluate options to divest the business. We are working with an investment banker and work is going on. As and when we have a specific update, we will keep you posted. It is unfortunate that even after 6 years, we could not turn around the business and this has significantly impacted RMLs financials. However, we are confident that we can improve the financial position and reduce the debt.

Coming to Rane Engine Valve, I'm happy to report the financial turnaround of REVL, driven by strong top line growth and improved operational performance. The capacity utilization in all the plants improved significantly in order to meet the increased demand across client segments. We

are undertaking several projects with key customers on hydrogen as a fuel for IC engines. In the upcoming years, the company would be strategically focusing on enhancing sales to EV insulated segments and ramping up on new business to sustain the financial performance.

Coming to Rane Brake Lining, during the quarter, we had a good strong growth in the aftermarket business. The EBITDA margin, however, is impacted marginally due to unfavorable forex and increase in other expenses towards specific initiatives taken up during the quarter towards energy and yield improvement projects. .

Coming to our joint venture ZF Rane automotive, the steering business continues to benefit from the upcycle in the commercial vehicle compare. We also won some new order of about INR30 crores for the steering products. The Occupant Safety division is benefiting from evolving safety regulation in India and won order worth INR360 crores for Occupant Safety products from several domestic OE customers. The insulator and webbing plant infrastructure has also been made ready. And both plants are undergoing trials and production validation. During the quarter, the cushion plant was also expanded.

Coming to our NSK joint venture, the Manual Steering Column business benefited on account of the upcycle in the CV segment. The EPS business faced slower demand on some of the served models due to the semiconductor shortage. The adverse mix and increase in material cost impacted the profitability.

As some of you may be aware, unfortunately, we had to make some additional provision during the last financial year for the warranty. However, we are very confident that there will be no further provisions in the future. We are in continuous discussions with NSK to reduce the financial burden due to this issue. We will keep you all updated as and when there's specific progress.

Looking to the future, we are continuing to focus on the following. Number one, enhancing the exports. In FY '23, the exports grew by 38%, and we are continuing to put a lot of effort in increasing our exports and we remain optimistic about the opportunities. Number two, we have reorganized our aftermarket business to create a group structure to facilitate synergy and drive group initiatives, which is going to help us grow the sales to aftermarket at a faster clip compared to the growth in the past few years.

Number three, while more than 90% of our group sales are agnostic to whether vehicle is an IC vehicle or an electric vehicle, we are steadily winning new business, both in the domestic and export markets in pure EV. I'm also happy to share that we are looking to invest about INR1,000 crores across all the businesses for the next 3 years, hoping that the market continues the positive growth trend.

As we look ahead in FY '24, the demand environment continues to remain favorable. The global economic scenario faces headwinds on inflation, slower growth and geopolitical situation. Though India remains relatively shield, but spill-overs of the global scenario cannot be ruled out. India's GDP growth is expected to moderate to around 6% in FY '24. Though our order book position across businesses remain strong, we prefer to navigate this macro environment

scenario cautiously, prioritizing operational improvement and cost reduction measures to balance out any risk on growth.

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

- Moderator:** The first question is from the line of Viraj from Equirus PMS.
- Viraj:** Congratulation for a good operational performance. Sir, my first question is obviously regarding the write-off provisioning that we have taken. The provisioning for this year, is it close to INR85 crores, right?
- Harish Lakshman:** Sorry, which company you're talking about NSK or Rane Madras?
- Viraj:** NSK.
- Harish Lakshman:** NSK. So the warranty provision you're asking?
- Viraj:** Yes.
- Harish Lakshman:** I think INR74 crores.
- Viraj:** INR74 crores. And what does this total amount -- now since last 4 years, what does this amount total to?
- Harish Lakshman:** On the warranty issue, the total is now INR564 crores.
- Viraj:** So sir, can you just -- because, we have gone through this iteration even last year. I mean what is the total -- like is it safe to assume that this is only for older cars sold before FY18 or are the newer cars also facing the same issue where we are seeing provisioning?
- Harish Lakshman:** It is only the older cars.
- Viraj:** So there is no new problem which has arrived?
- Harish Lakshman:** No.
- Viraj:** Okay. Sir, my second question is regarding -- if I look at the operational performance of our subsidiaries and our JVs, we see significant improvement in the EBITDA margin across businesses for the full year and specially this quarter. So if you were to look at just the aggregate group numbers, we are now at like 11% margin. With the steel and with the raw material where it is, and you've been very optimistic about the growth this year, do you think these kind of margins are kind of sustainable? Or will we slip off a percent here and there?
- Harish Lakshman:** I mean the way we currently see things, we see the commodity prices also levelling at this level. So hopefully, we should be able to maintain the margin, is our view.
- Viraj:** So you're saying Q4 margins are sustainable for FY '24?
- Harish Lakshman:** No. Q4 is always that -- what was the Q4 number?

- Viraj:** 11.1% at the group aggregate level.
- Harish Lakshman:** Okay. Yes. So I mean, obviously, for us always the four quarters are not equally split. Q1 is always lower and then Q2 and then of course, Q4. So for the full year, yes, we believe that the margins can be maintained. But for whether Q1, I'm not sure. You understand what I'm saying? That's because the sales of Q1 will never be the same as Q4 of last year.
- Viraj:** Right. But I think at a gross margin level, we are still very comfortable. We're not going back to 5%, 6% margins that you used to do 6 quarters back?
- Harish Lakshman:** Almost.
- Viraj:** Right. And sir, on INR1,000 crores total capex that you mentioned, can you split it up relatively across the 5 companies? A little bit of color will be very helpful.
- Harish Lakshman:** Obviously, a lot of capex is going on in the Occupant Safety business, that is where the most amount of capex is going on because of the continued investments in both inflator and webbing as well as the capacity expansion we are doing for the 6 airbag legislation and export. I don't have the exact split, but I'm getting that will be almost 45% to 50% of the total.
- Moderator:** Sorry to interrupt Mr. Viraj may we request that you return to the question queue for follow-up questions as there are several participants waiting for their turn. Our next question is on the line of Ashwin Agarwal from Akash Ganga Private Limited.
- Ashwin Agarwal:** It is sad, but we are pleased that for the Rane Madras at least the management has decided to look at options to divest the subsidiary, because as you rightly said in 6 years, INR300 crores were almost spent. Sir, can you give any timeline or any idea by when you will be able to divest and whether there has been any interest and is liquidation also an option for us?
- Harish Lakshman:** So as we have announced, we're keeping all options open. Obviously, our intent is to divest this as soon as possible. Unfortunately, I'm not able to give you a clear timeline because it involves potential buyers. But I can tell you that the entire team is working to get this done as soon as possible. So I'm not able to tell anything more than that. As far as liquidation is concerned, while that is an option, we believe that there is enough interest to sell the company on an as-is basis. So let's keep -- easier and faster.
- Ashwin Agarwal:** So that is very good. And so can we assume that no further infusion would happen from our side in terms of money?
- Harish Lakshman:** Well, there will be some infusion till the divestment is completed but it will not be anything significant. It will obviously be some lawyer fees and investment bankers' fees and somethings like that.
- Correction:** *There might be some advance repayment of term loan, etc., which will be known at the time of finalisation of the sale.*
- Ashwin Agarwal:** Got it. Got it. Sir, lastly, if you can give us an outlook of suspension, ball joints and Rack & Pinion, we were looking and talking to various clients for exports, and we did the good exports,

and we are gaining traction. So our relationship with Nexteer and can we develop one more such relationships to enhance our exports?

Harish Lakshman: Yes. We are making very good progress. We have now got orders from not only Nexteer, but 2 more global steering suppliers. We have got orders during the last 6 months. So there is significant progress being made.

Ashwin Agarwal: And which are these companies? And what could be the order size?

Harish Lakshman: Both Bosch as well as ZF are the customers. I don't remember the exact size of the orders. But it is past that INR145 crores that I had mentioned in my opening comments.

Ashwin Agarwal: Okay. So these are for Rack & Pinion as well as suspension?

Harish Lakshman: No -- ball joints -- They're all ball joints.

Ashwin Agarwal: Okay. And these are for the European market?

Harish Lakshman: ZF for Europe, I forget Bosch -- I think both are Europe.

Ashwin Agarwal: Sir, lastly, in Rane Madras, can we grow at the rate of 18% to 20% on a stand-alone basis?

Harish Lakshman: Obviously, with 70% of the sales of Rane Madras is coming from the domestic market, a lot of the fortunes are linked to that. While exports, we had a fantastic year last year and the outlook also remains very optimistic, it all depends on how the domestic market grows.

Moderator: Mr. Ashwin Agarwal, may we request you to rejoin the question queue for follow-up questions. Our next question is from the line of Pratik Kothari from Unique Portfolio Managers.

Pratik Kothari: First of all, congratulations to the team and the Board for finally deciding but I believe it's necessary. So my first question is on the debt. I know we have about INR500 crores on stand-alone balance sheet, INR650 crores on the consolidated. And you did allude to in your opening remarks. So just over the next 2 -3 years, what kind of debt reduction that you will be looking at other than obviously the fact that you would generate from the business? Any equity raise, any noncore asset sales?

Harish Lakshman: No, none of those. I don't have to -- I'm not able to answer your first question with a clear number. The debt reduction will happen. It's a continuous process. Some debt will get done in 3 months, some 6, some even 15 months. But yes, there is no initiative to do any of the other 2 things that you mentioned.

Pratik Kothari: But what would be the debt equity or debt EBITDA number that we usually would be comfortable with? I mean, maybe 3-5 years out?

Harish Lakshman: So clearly, internally, we track debt to capital employed. And ideally, we would like to be at about 50%. But right now, we are on the 65% range. So the intent is to get back to those levels.

Pratik Kothari:

Okay. Fair enough. Sir, my second question is anecdotally we do hear about lot of multinational and domestic auto components peers talking about increasing thrust on Indian manufacturing or sourcing from here due to various reasons, especially large, capable, reliable suppliers are benefiting out of this. And I believe Rane Madras is one of those. So how are we positioning there? And internally, what are we doing to capture these opportunities, which are all ongoing?

Harish Lakshman:

Yes. So clearly, this is a very important initiative for us. I think even in my opening speech I'd mentioned that continues to be a focus area. And we have expanded our offices and resources both in North America and in Europe. So we have sales people continuously knocking on doors to some of the large OEMs as well as large Tier 1s, both in North America and in Europe. And of course, there's a lot of engagements going on with the IPO what we call it as international processing offices here. So there is a lot of work and reviews that take place, and we remain optimistic.

Pratik Kothari:

Fair enough. Sir, my last question is on gross margin. I mean 4-5 years back, we used to be at 45%, we are at 35% now. Some part of it would be because of castings, which is the domestic casting, which is also a lower growth margin business. But assuming the raw material stabilizers, where should this number settle at?

Harish Lakshman:

We don't track gross margins. So I'm not able to respond. As I have always maintained -- for Rane Madras at a consolidated level, we always aspire to be upwards of 10% no matter what the condition is. And if we can cross 12%, we believe that we're running the company very efficiently.

Moderator:

Our next question is from the line of Chetan Gindodia from AlfAccurate.

Chetan Gindodia:

Sir, with respect to the Rane Madras subsidiary divestment, wanted to understand the INR200 crores of extraordinary loss that we have taken. So is this considering that the value that we are expecting to realize? Or is it like the complete investment that has been written off? And later on, whatever is realized will be taken as gain?

Harish Lakshman:

So this is an impairment provision that we've made as per accounting standards, the value of the investments carried in the balance sheet at the end of every year is valued. And if there is a gap between the carrying value and actual value, it has to be impaired. So this INR200-odd crores that you see is an impairment. So depending on what we do next year and what offer we get, etc., that will be squared off against the investment that are there in the books in the opening of FY '23.

Chetan Gindodia:

Okay. Got it, sir. And sir, this INR145 crores of orders that we have received, so this will get added to -- like this are set to commence from next year itself?

Harish Lakshman:

No, no. Some will be in '24, some will be in '25. So it will be over the next 2 to 3 years.

Chetan Gindodia:

Okay. Got it. And just lastly, there has been a very sharp increase in stand-alone Rane Madras depreciation. So what is the reason for this? Where have we added capacity? And what kind of revenue ramp up are you expecting?

- Harish Lakshman:** One second, I'm not able to connect to the numbers you've said. You are talking of depreciation in FY 2022-23 over the previous year?
- Chetan Gindodia:** I'm talking of Q4 INR23 crores depreciation in Rane Madras stand-alone.
- Harish Lakshman:** Correct.
- Chetan Gindodia:** So there has been a sharp increase over the last 2 quarters. So wanted to understand what led this?
- Harish Lakshman:** Yes, yes. So it will -- it is probably a combination of multiple capex investments that were made including the Yagachi plant, which has moved into the existing Varnavasi plant, there was additional building that was added that went into production in Q4. So it's probably some of that and other capex that we were investing during the year.
- Moderator:** The next question is from the line of Aditya Makharia from HDFC Securities.
- Aditya Makharia:** I wanted to know what is our market share of NSK with Maruti? And how that favoured over the last 3 years?
- Harish Lakshman:** If you look at the EPS business, which is almost -- more than 95% of Maruti's production, we will have about 50% of that.
- Aditya Makharia:** Okay. And the second thing, sir, you mentioned about the Occupant Safety norm for 6 airbags, but I believe that is getting pushed beyond October. So just wanted your thoughts on that. There was some recent modification by SIAM, the government body and there was no mention of this coming in October.
- Harish Lakshman:** No as of now we are all -- till the last minute, we will never know, depending on what lobbying is going on. But as of now, we are all working towards October. I mean even if it gets pushed, it might be a couple of months. But although I'm not aware. We are all working towards October.
- Aditya Makharia:** Okay. And the other thing sir you had mentioned in your earlier call that you're going to simplify our group structure, you're taking positive steps towards that and you will announce it. So I'm just wondering, are you looking at some sort of reorganization of the holdings? Or just any thoughts if you can share around this?
- Harish Lakshman:** As I've always mentioned, we keep internally reviewing this. So no decision has been made or anything, so the appropriate time, we'll come back.
- Moderator:** Our next question is from the line of Abhishek Getam from Alpha Invesco.
- Abhishek Getam:** So first question was on NSK. We've seen a sharp depreciation in EBITDA margin this time. So usually, we are around 10%, 9%, right? So what led to that in this Q4 and what would be the further trajectory for NSK business?
- Harish Lakshman:** Yes. So there are concerns in that business, while, of course, the order book per se for the next 3, 4 years is solid. But of course, over and above the warranty issue that impacted us, even at an

operational level, there are some concerns with sustaining the profitability that was there in the past. And this is largely due to the competition in the market and the prices for some of the new businesses. So we are struggling to maintain the margins that we enjoyed in the past. So while the teams are working very hard towards improving the margins, I see some challenges from the next few years' standpoint, repeating the same kind of margins we used to see in the past.

Abhishek Getam: Okay. So we might be around 6% to 7% range for some.

Harish Lakshman: Yes. I mean I don't know the exact number, but yes, it will be lower.

Abhishek Getam: Okay. So we have almost incurred now around INR600 crores provisioning, so how much is utilized out of that?

Harish Lakshman: Okay. Out of INR564 crores, INR490 crores has been utilized.

Abhishek Getam: Okay. Okay.

Harish Lakshman: Yes. So clearly, you can also see that it is coming down. So that is one positive thing I also want to share with everyone. The amount of debits we get every month, there has been a gradual reduction.

Abhishek Getam: Okay. So another thing is for last 3 years, we've seen the provisioning comes in usual Q4. Is there a certain pattern in that? Or how is it working?

Harish Lakshman: It's true. To be frank, a lot of it is to do with the auditors and the management discussions that happen in Q4 during finalization.

Abhishek Getam: Okay. Okay. Sir, another next question was on LMCA. So we've taken a write-down on investment value. But from RML balance, we also have a guarantee to achieve in RBL, right, so almost INR132 crores.

Harish Lakshman: Correct.

Abhishek Getam: So how will be that factored in case of divestment?

Harish Lakshman: Yes. So I mean it's very clear. So given Rane Group's background, obviously, we will honor all our commitments to all the stakeholders, including our bankers. So depending on how the transaction fructifies, and if the transaction doesn't cover all the bankers' requirements, Rane Madras will honor it.

Moderator: Our next question is from the line of Rajkumar Vaidyanathan, Individual Investor.

Rajkumar Vaidyanathan: First of all, congratulations for turning around your Rane Engine Valve. I think it's been kind of prominent issue for many years. So I hope that the same translated for NSK -- Rane NSK as well. So I have 2 questions. So first one is on Rane NSK, I see that they have incurred INR114 crores post-tax loss. Even if I back the warranty, even the operating, still is about INR60 crores. So despite having a profit in EBITDA, what is driving the loss in NSK, if you can give some color?

Harish Lakshman: I'm just trying to get some clarification. So mainly because there was a deferred tax write-off that was done, that was there in the book, I mean, again, the root cause is because of this warranty issue.

Rajkumar Vaidyanathan: Okay. Is it possible to give the PBT number for Q4 for NSK?

Harish Lakshman: PBT before the warranty expense was minus INR2 crores.

Rajkumar Vaidyanathan: Okay. So still it's -- okay. Still it's less than what it was in the past, right?

Harish Lakshman: Sorry, can you repeat the question?

Rajkumar Vaidyanathan: No. My question is even if we back out the warranty, still the performance has deteriorated. So I just want to know, is it something one-off? Do you expect things to turn around? Or the warranty issue will go off, but the operational issue will continue.

Harish Lakshman: The operational issue, as I said, while of course, the loss, there has been a challenge in Q4 for some other operational reasons. But generally, as I said, the margin we are struggling to getting back to the old margin levels. Lot of it is to do with the pricing for some of the new programs, and also since the prices have settled, there's also some cost inflation. So while some are working with the customer to recover, the inherent profitability of some of the new businesses is lower. So that is the challenge that we will have to overcome, but that will take a little longer time, maybe a year or two.

Rajkumar Vaidyanathan: Second question is for the debt reduction in Rane Madras. Are we looking at selling off any of the excess real estate holdings, given that the markets have turned on the real estate side?

Harish Lakshman: No, not at this point in time.

Rajkumar Vaidyanathan: Okay. And how about any future funding for NSK, given that the networth is almost eroded?

Harish Lakshman: Yes. So we are still addressing -- we're looking at various options. So I don't have a clear answer at this point in time.

Moderator: Our next question is from the line of Manish Goyal from Thinqwise Wealth Managers.

Manish Goyal: First of all, thank you so much for taking the decision -- hard decision on Rane Madras. And on Rane NSK, sir, just in your opening remarks, you had mentioned that the provision what we have taken is probably the last one and not much provision will be required. And we are in discussion with Rane NSK. So maybe if you can just clarify this more. Because probably last year, also, we heard similar comments.

Harish Lakshman: Yes, Manish. I mean, unfortunately, I know that I pretty much repeated what I said last year. This has been a very slow and painful process. As I said, which has also been repeated in the previous call, the issue has been so complex because there are almost 5 entities involved. One is Maruti Suzuki India, and there is SMC, Suzuki Motor Corporation Japan and there is NSK Japan and then there's Rane NSK and then there is Rane Holdings and the nature of the problem has

also been complex. So when we try and identify the root cause and then try and establish which of these entities you can ascribe this root cause. It's getting very complex.

But no matter what, Rane Holdings is putting best of efforts to arrive at that solution and that's taking a long time -- including -- to be frank with you, our ability to visit Japan also was not possible till last June, July. Only after that, Japan has opened up. So meetings have happened, some conversations are going on. So I don't have anything concrete now, but one thing is for sure, we believe that this INR564 crores will be crystallized, it won't go beyond and how to address this, we are working.

Manish Goyal:

Okay, fair point. And sir, also in one of our growth drivers, you have mentioned that we'll focus on new technology and production. So maybe if you can give us some perspective into like what kind of products we are looking for? And also, like you also mentioned about EV -- you'll be getting EV business. So if you can -- because off late, we see that not many companies are getting large long-term contracts in EV businesses. So for us, how is it shaping up? And maybe on new technology and products, if you can highlight?

And also, I'll add on one more thing before the operator disconnects me. In fact, I would appreciate that if you can provide full year numbers for ZF Rane and Rane NSK because now we don't get quarterly presentations and it's half yearly. So -- and again, this year, this presentation is only quarterly numbers. So we don't get full year numbers for both the JV. So I would appreciate if you can help.

Harish Lakshman:

Yes, I'll answer first ZF. So whether what is the full year numbers? So the ZF full year numbers for FY '23 was INR 1,785 crores and out of the Occupant -- just hold on one second, the Occupant Safety was INR937 crores and the -- sorry, the Occupant Safety is INR937 crores, and the steering is INR848 crores. So that is the total revenue. And Manish, we have noted your point about this quarterly information not being available. We'll review this internally, what we can do over this.

Manish Goyal:

And maybe on my first question, sir, on the new products and technologies. Hello?

Harish Lakshman:

One second, Manish, yes.

Manish Goyal:

Sure.

Harish Lakshman:

So, as far as the new products are concerned, I mean, we are essentially talking about whatever we have announced -- it seems like doing inflator as an additional new product in ZF Rane and then the -- some of the hydraulics products we started in Rane Madras, etc. Over and above that any new products, we have not decided on anything. So as and when we decide, we will announce those. As far as EV is concerned, yes, in fact, we are not articulating clearly what is the order book, but there is a significant amount of EV business that we are winning, especially in North American market. In fact, a lot of the Rane Madras as well as the die casting business, new orders that we have won, most of them are for EV customers, the end vehicle, whether it's a Ford vehicle or a GM or a Tesla, all of them are all EV vehicles. So there is a significant traction there. But going forward, maybe in the future, we will then start splitting this out so that

you can see EV and non-EV. But as you know, for us, all our Rane Madras and ZF and Brake Lining other than Rane Engine Valve, everything is vehicle-agnostic.

Moderator: Our next question is from the line of Pankash Prasool from HNI Investor

Pankash Prasool: My first question is why not Rane NSK provisioning we are making on the quarterly basis? It will always be better than you are giving in the annual just like an atomic bomb. So this much provision we had made. So is it possible for you to -- whatever the provisioning we are making, can you do it on a quarterly basis?

Harish Lakshman: Yes. But going forward, we will not have anything, we take your point. But as I said, this is a discussion between, again, auditors -- Japan auditors and India, etc., based on performance during the year. But as I articulated, we believe that there will be no further provisions.

Pankash Prasool: Okay. So -- and my second question is the technology partner is NSK, right? So this is a kind of a fault in the design, then why they are not taking the full hit, because warranty is from NSK. If there is a problem with the design, then the ownership lies with the -- whoever made the design. Why Rane NSK is making all the provision?

Harish Lakshman: Yes. So as I mentioned in the past, this is a complex issue. I have never publicly said it is a design issue. And there are multiple factors. Maybe design is one contribution, maybe manufacturing is another contributing. It is a combination of factors. So as I've said many times in the past, we are trying to break it down as to how much is due to design, how much is due to manufacturing. Because if it is manufacturing, Rane NSK is only responsible. So it has been a complex exercise that we are continuing to work on.

Pankash Prasool: Okay. Next, my question is on the Rane Madras. So we had already taken an impairment of almost INR223 crores in the Rane Madras light casting USA, right?

Harish Lakshman: Yes.

Pankash Prasool: And so what is the likelihood consideration for their sale? Will it be even negligible or what?

Harish Lakshman: We don't know it yet. So as and when we have an update, we'll keep the shareholders informed.

Pankash Prasool: And our acquisition cost was, I think, \$8 million or something like that?

Harish Lakshman: No. Actually, the stock purchase was \$1. And if I recollect, we have assumed the liabilities for about \$8 million.

Pankash Prasool: Okay. Okay. So total, almost INR273 crores we have spent on that light metal casting. It is a very wrong decision, I will say. And we could have taken this hit last year only because everybody has suggested you let us get out of this. But I don't know why we went to America and do all those things.

Harish Lakshman: Yes.

Pankash Prasool: It is very painful for the shareholders to look at -- look like this, NSK then metal casting.

- Harish Lakshman:** Of course, as a majority shareholder, it is most painful for us.
- Pankash Prasool:** Including you, you are the biggest shareholder, you must be also feeling the heat. I'm not denying that you are not feeling the heat. But please let us take some informed decision. And accordingly, this would work. And please get something from NSK Japan because there is something in technology and design problem must be there. So let us reward us, and we are a long-term investor and we will keep remain invested in the company. We have trust in you.
- Harish Lakshman:** Thank you.
- Moderator:** Our next question is from the line of K. Mohan, Individual Investor.
- K. Mohan:** Yes. I have been a long-term investor and a long-term player in the automotive market. To me, what is surprising is that INR564 crores represent -- even if you take INR20,000 per car, we are talking of more than 300,000 cars, which have had a problem with the warranty. Is my figure somewhere close to the mark? Or is it 0.5 million, 0.25 million? Any idea how much you're spending per car for replacement, is it INR30,000? INR20,000?
- Harish Lakshman:** Yes, just hold on. Yes. So you're right, this is approximately in the 300,000 vehicle range. And as I've shared in the past, we -- as a percentage of the sales, it's almost close to -- for certain models of Maruti, it is going as high as 10%, 11% of the total production.
- K. Mohan:** Yes. So if this all happened in -- hopefully, all this happened within 6 months or maybe a year. So they are talking of really roughly 6 months of Maruti sales which is impacted by this. It's a huge number. So..
- Harish Lakshman:** Two years of production.
- K. Mohan:** Yes. Two years of Maruti production. So 2 years of Maruti's production, probably, you're right, 15%, 20% of Maruti's production before the problem has come to light and then before we have taken corrective action. What is worrying me is 2 things. One is that we are a Deming company, and therefore, when we put out the product in the market, we do extensive trials and we do extensive road test, etc., and say, okay, there is no problem, we put it in the market. Now it has happened in the past, 0.5 million cars, maybe 300,000 cars have been affected. But with the company, with a turnover of INR7,000, INR8,000 crores, all of the automotive, my worry is that if it is passed through the chinks of a Deming company, what is the guarantee that something similar will not happen in any other company?
- And I'm sure nobody can give a guarantee. But unless the root cause has been found out and in time, this is a very serious -- very threatening issue for a shareholder to realize that such a thing can bring about the collapse of the company. And I don't know whether we have discussed this with NSK and what is their reaction to this. It's such a large number, it's not palatable. Anyway, this is my reaction. And as a shareholder, I'm very, very grieved and pained.
- Harish Lakshman:** Yes, I totally agree with you. I mean it's been very, very painful for us as well. This kind of a number for such a high-performing company and as you have observed and a few others observed, the networth has been almost completely eroded. Unfortunately, all the debits can only

legally happen through this entity. Now how this gets distributed, as I said, it's complex. We're still working with our partner, NSK.

K. Mohan: Can it happen again?

Harish Lakshman: So that's a good question. So I mean, obviously, a lot of work goes on in product development and validation. And I think you are from the industry, you know how robust the automotive systems are. But I think once every 10 years, something like this flips through the system. And this has been a huge learning for us. So I think many improvement initiatives have been identified both in the NPD process, design process, as well as in the manufacturing process to ensure these things don't happen. So it's been a huge learning, very expensive learning.

K. Mohan: But still, it worries me to say that after 5 years, we are still saying that we're trying to find out the root cause, where it happened, in design or manufacturing. If that has not been found, like you say, we have not done that, then remind -- if it's a design problem, you can do nothing about it. It is NSK to take the call. If it's a manufacturing problem, then it needs to be addressed at the manufacturing level, at the grassroots level or shop floor level. So therefore, the statement saying that we are still investigating who is responsible how much, that is a worrying statement.

Harish Lakshman: Let me clarify Mr. Mohan. So first, root cause has been addressed. And there were multiple causes for it, and the causes were a combination of design and manufacturing. So now that the causes have been identified, we are trying to attribute -- we're trying to transfer this financial number into which cause and what the mathematics work out to. I think that is where the complexity is. But I can tell you that the issue has been addressed.

K. Mohan: Okay. No, I have very high respect for the Rane management, and I've known the management for close to 50 years. And I know that they're a very large company -- I worked with very large companies. Very large companies have equally good repute, there have been warranty issues. But not to this extent, to the extent of INR50 crores, INR100 crores.

But in India -- I'm talking about Indian companies. I'm not talking about General Motors and people like that. But this is something which is very large and it's very, very sad thing that's happened to you. As I said, I've very high respect for your professionalism and for your manufacturing standards, you're a Deming company for 5 years now, 7 years now, I don't know how long?

So anyway, I will conclude with my anguish and hope that, like last year, I made a comment saying that I hope there would be some plough back. There will be some write-back of the provisions made. Obviously, I'm very optimistic. But this year, you are saying that there will be no further provisions and I hope that, that is the final nail in the coffin of this warranty issue. Thank you.

Harish Lakshman: Thank you.

Moderator: Our next question is from the line of Omkar Deshpande from Axis Finance.

- Omkar Deshpande:** Yes, I just wanted to ask two things. One is that when we are saying that we are growing for a capex of INR1,000 crores, any idea of what the split of equity to debt would be?
- Harish Lakshman:** No, it's very difficult to answer that question because the capex get spent at the individual entity. And some entities -- some companies have zero debt, so there is -- just through internal accruals. Some there is combination. Difficult to give a single answer. I don't have the numbers because it is at the entity level.
- Omkar Deshpande:** Okay. And my second thing was there has also been an impairment of investments in Rt4u. So would that continue in further years also? Or like this was one of the last cases for that thing I don't think because this has been going on for 2, 3 years now.
- Harish Lakshman:** Yes. So I mean as of now, this is the impairment value that was arrived at. I think the carrying cost now is only about INR9 crores in the Rane Holdings book. So we are still reviewing the business, and we will take a decision during the course of this year.
- Moderator:** Our next question is from the line of Rajkumar Vaidyanathan, Individual Investor.
- Rajkumar Vaidyanathan:** Just one question, sir, on the Rane Madras stand-alone, I just want to know with the sale of this U.S. subsidiary, will the stand-alone numbers, whatever you reported, that will kind of remain steady state? Or will there be any cost that will come from the U.S.? Because you -- I think in one of the previous calls, you mentioned that we are leveraging the U.S. entity for some sales-related work.
- Harish Lakshman:** I'm not clear on your question. Are you asking the impact it'll have on the stand-alone post the transaction? Is that what you're asking?
- Rajkumar Vaidyanathan:** No, no. I'm asking are there any costs that will flow from U.S. to Rane Madras stand-alone, because now the subsidy will be sold out, because you would need some portion -- some people to stay in the U.S. to support the Rane Madras operations, right?
- Harish Lakshman:** I'm not able to understand the question. So there are some employees who are...
- Rajkumar Vaidyanathan:** Because they are -- I think in one of the previous call you mentioned that you are getting the lead -- sales, leads, everything, for the domestic operations of Rane Madras through the U.S. subsidiaries in the past.
- Harish Lakshman:** Yes, that is separate. That is for the rest of the Indian businesses. Those salespeople who are sitting in U.S. and Europe, they work to grow the Indian business, not the U.S. casting business.
- Rajkumar Vaidyanathan:** So those costs are sitting in Rane Madras stand-alone numbers, or it is sitting in the U.S. subsidiary?
- Harish Lakshman:** Our costs are actually shared. It is actually sitting in Rane Holdings. But equally -- I mean, not equally, it is proportionately shared by Rane Madras, Rane Engine Valve, Rane Brake Lining.

Rajkumar Vaidyanathan: Actually, my question is whatever was the stand-alone numbers, that steady state, we can ease that. That will be the kind of number to go forward, right? There will not be any further dilution in the numbers?

Harish Lakshman: Yes, yes. I mean other than the impact of this U.S. investment. Obviously, you can see that we impaired INR220 crores that picked at stand-alone. So similarly, there could be some numbers like that. But the operating margin, there's no change.

Moderator: Our next question is from the line of Viraj: from Equirus PMS.

Viraj: Sir, just a last couple of questions. Sir, on the INR500 crores capex that you said for the safety division in ZF, what is the kind of revenue you think you can do?

Harish Lakshman: Sir, sorry, can you repeat that?

Viraj: For the inflator capex, you talked about INR500 crores capex over 3 years. Once that is done, what is the mass revenue you can do from that capacity?

Harish Lakshman: So the inflator, it's very difficult to link it to revenue, because inflator actually is a localization under PLI scheme. So not necessarily the top line will grow as a result of inflator, but the margin will improve. But having said that, the Occupant Safety business is going to have a very healthy growth rate because of the continued export growth for airbags as well as the legislation coming in India. I mean it will be a double-digit 13%, 14% kind of year-on-year growth.

Viraj: Okay. And sir, for the INR500 crores capex and for the INR1,000 crores capex, is there an IRR number or an ROC number that we work with? Because when we put up such a large number of capex.

Harish Lakshman: Yes. So the IRR, definitely, we look at it for each investment we make. Our investments are generally linked to a particular business, project, particular vehicle platform, etcetera, and it depends on the customer, whether it's an export business or domestic business. So various criteria are used. But yes, obviously, we look for a very healthy IRR return. And overall, we try to achieve at least a 20% return on capital employed in all our businesses.

Viraj: Right. And sir, just last one thing on dividend. At an RHL level, as an RHL investor, is there a dividend -- obviously, we did not give dividend 2 years back. Last year, we did INR12, this year, we announced INR17. Is there a policy that we follow that how much dividend we get from the subsidiaries and from the JVs? Or what's the mind or thought process you have as far as distribution of capital is concerned?

Harish Lakshman: So obviously, we can't prefix numbers because it depends on how the business is performing.

Viraj: As in percentage or something, or depends on capex, etcetera.

Harish Lakshman: Correct. So if you -- if it is an ideal world in Rane Holdings, if we can declare 50% dividend, we would like to do that every year. But it again depends on the business conditions, the payout. 50% is the payout.

- Viraj:** Rane Holdings consolidated or stand-alone?
- Harish Lakshman:** Stand-alone.
- Viraj:** Stand-alone profits.
- Harish Lakshman:** Yes.
- Moderator:** Our next question is from the line of V.P. Rajesh from Banyan Capital Advisors.
- V.P. Rajesh:** I'm new to the company. So I was just trying to understand that as far as for the provisioning the NSK warranty is concerned, that is about INR500 crores plus. And then we have sort of taken a write-off of INR300 crores for the die cast business in the U.S. Is that correct? So total of INR800 cores?
- Harish Lakshman:** Yes. Over the last many years. The NSK INR560 crores is over the last 4 years.
- V.P. Rajesh:** Right. And my second question was regarding the structure of the group here. Is there any thought that now these sorts of external issues, etcetera, will resolve, would you simply this, given various entities you have and having multiple entities consolidated, everything into one at some point in time?
- Harish Lakshman:** As I've said even earlier today in the call, we keep reviewing this, and we will see the subject. And as and when we have an update, we'll keep you posted.
- Moderator:** That was the last question of our question-and-answer session. I would now like to hand the conference over to the management for closing comments.
- Ganesh Lakshminarayan:** Thank you very much, ladies and gentlemen, and we hope we were able to answer all your questions and some clarity on the warranty to the best of our ability. But we're really hoping that this will be the end of it and we don't have to address this in the future. And we are looking forward to a good year in FY 2023-24. Thank you.
- Moderator:** Thank you. On behalf of Rane Group, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.