

"Rane Holdings Limited Q2 FY24 Earnings Conference Call"

November 10, 2023





MANAGEMENT: MR. HARISH LAKSHMAN – VICE CHAIRMAN, RANE

HOLDINGS LIMITED

MR. P. A. PADMANABHAN – PRESIDENT (FINANCE)

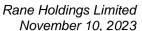
AND GROUP CFO, RANE HOLDINGS LIMITED.

MR. SIVA CHANDRASEKARAN – SENIOR EXECUTIVE, VICE PRESIDENT (SECRETARIAL & LEGAL SERVICES),

RANE HOLDINGS LIMITED.

MR. M. A. P. SRIDHAR KUMAR – EXECUTIVE VICE PRESIDENT (FINANCE) AND CFO, RANE HOLDINGS

LIMITED





Moderator:

Ladies and gentlemen, good day and welcome to Rane Holdings Limited Q2 FY24 earnings conference call.

As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded.

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

Diwakar Pingle:

Good afternoon friends. Welcome to the Q2 FY24 Earnings Call of the Rane Group. To take you through the results and answer your questions today, we have the management team from the Rane Group represented by Mr. Harish Lakshman – Vice Chairman (Rane Holdings Limited); Mr. P. A. Padmanabhan – President (Finance) and Group CFO; Mr. Siva Chandrasekaran – Senior Executive Vice President (Secretarial & Legal Services); and Mr. M.A.P. Sridhar Kumar Executive Vice President (Finance) and CFO of Rane Holdings Limited.

Please note that we have 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 at it on our website or even on the BSE site of Rane or you could write to us and we will be happy to send the detailed earnings presentation to you.

Before we start, I'd 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 with risks and uncertainties that we face. These uncertainties and risks are included but not limited to what we have mentioned in the prospectus and subsequently in the annual reports which you can find on our website.

With that said, now I'll hand over to Harish for his opening remarks. Over to you, Harish.

Harish Lakshman:

Good afternoon ladies and gentlemen. Thank you for dialing in. I'd like to welcome you all to this investor call of Rane Group. I'd like to start with a few comments on the industry. The automotive industry experienced robust revenue growth and improved profitability in Q2 of the financial year '23-24. The passenger vehicle segment witnessed a 6% growth, driven by strong performance of new models in the SUV segment. The commercial vehicles segment continued the upcycle supported by strong growth in the M&HCV segment. The farm tractor segment unfortunately experienced a 10% drop year on year due to the decreased monsoon activity and subdued market sentiment. The demand from international markets remained favorable across all the product categories.



Coming to the group's performance, our group aggregate revenue came in at Rs. 1,897 crores, which is a 16% growth on a year-on-year basis. The positive demand environment in India with growth across all the major vehicle segments and strong offtake from international customers continues to improve our sales. The EBITDA margin of Rane Holdings, consolidated, increased by 25 bps supported by higher volume and improved operational performance.

I'll now provide some details around each of our businesses. In Rane (Madras), the steering division experienced a slower growth rate, primarily attributed to reduced volume of models which are being served by us in the Indian market. The light metal casting India business successfully started production and ramped up volume on a major export program for a leading EV maker in the US. During the quarter, we won new business worth about Rs. 110 crores per annum from various domestic and international customers. With the divestment of our American business, the management continues to focus on increasing our export mix of both our businesses in India. Sales to international customers grew by 31% driven by strong offtake for both steering and light metal casting products.

Coming to engine valves, REVL continues to sustain the financial performance through strong execution on the robust demand. Export sales grew by 25%, and we also won a Rs. 5-crore order from a domestic CV customer for CNG application. Our brake lining business, RBL, capitalized on the favorable demand environment to drive top line growth. There is a strong traction on the two-wheelers segment where RBL is focusing on disc pad application. Though it is a small portion of the overall sales, RBL is working on expanding our international aftermarket business.

Coming to our joint ventures, the first one is the ZF joint venture. The improved demand for commercial vehicles has been a key driver for growth for the steering division. We won new orders worth Rs. 23 crores for steering gear products from various CV customers, and this included a Rs. 3-crore order for EV application. Our occupant safety business continues to benefit on account of increasing preference for safer cars and also the export business. The revenue from the occupant safety business grew by 27% this quarter. In our NSK joint venture, the column EPS product benefited by favorable demand on served models on the UV segment that we supply to Maruti. The manual steering column product had strong growth with the support of new product launches. We won new business worth Rs. 175 crores per annum for EPS from domestic customers for UV model.

Despite the overhang of economic and geopolitical challenges, I think globally, India remains fairly resilient. Favorable demographics and public & private spending is definitely aiding the growth. However, higher inflation and interest rates and drastic escalation of geopolitical situation could derail the momentum. So, we remain cautiously positive given our order book position. We continue to prioritize operational improvements and cost savings to balance out any risk on growth.



I am also happy to share that with the sale of our telematics business, Rane T4U, and our US investment, LMCA, and the turnaround of both REVL and Rane NSK; all the businesses in our group have become profitable. I am cautiously optimistic that we can further improve our margins as we go forward.

With these remarks, I'll now open for any questions that you may have.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a

moment while the question queue assembles.

We'll take the first question from the line of Vakharia from NV Alpha Fund. Please go ahead.

Nisarg Vakharia: Since this is the last quarter for consolidation of the US business which has been sold and Rane

(Madras) Limited, what will be the consolidated debt from the next quarter on the balance sheet?

Harish Lakshman: The total borrowing is around Rs. 650 crores both long term as well as short term including

working capital expenses.

Nisarg Vakharia: This is almost 3x debt to EBITDA. We are at about Rs. 200 crores EBITDA run rate and we

have Rs. 650 crores of debt. How do we plan to reduce this debt? And what sort of operating

cash flows do you foresee to reduce this debt in the next 1 to 1-1/2 years?

Harish Lakshman: I think I have stated this in the last call itself. With the improved business scenario, obviously,

the business will be generating some cash to repay the debt. We are also evaluating any other solutions that may be available to reduce the debt. As and when we decide something, we will

share.

Nisarg Vakharia: Two questions in context to that. One is that the solution involves some sort of an equity raise

or will it be through monetizing some assets like land sale or something? And secondly, you also announced an investment in Mexico. What is the quantum of the investment and some

economics of that investment if you could explain to us?

Harish Lakshman: To answer your first question, nothing has been decided. We are still evaluating all options. As

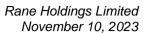
Mexico. This is for the steering and linkage business, because some of our customers would like to see a small assembly operation over there. First of all, it's going to be a very small investment. The investment amounts are not yet finalized. We had to incorporate the company to enable us

far as the second one is concerned, we have just announced the setting up of a company in

to win the business with customers, which we have done. Now, we are in the process of putting together the business plan. As and when we have the business in hand and we are ready to kick

off the investments, we will be sharing with the investors.

Moderator: The next question is from the line of Sunil M. Kothari from Unique PMS. Please go ahead.



Rane
Expanding Horizons

Sunil M. Kothari:

First, congratulations on ultimately getting out from the division which had hurt us a lot financially and your time and your capabilities. Harish, my question is a little bit again on this plant in Mexico? I understand it's a very small investment assembly line. If you can elaborate a little bit more because we have decided that it must be a sizable opportunity. We never think about very small something looking at our size. If you can talk about why they want our plant there? What is the type of scope over maybe 3-5 years? Something in detail will be really helpful.

Harish Lakshman:

Obviously if you see our ball joint business which has started to grow significantly. Even now, the geographies are spread across both the US as well as Europe. Now, as you know, recently there has been what they call the USMCA that has been signed between the US, Mexico, and Canada, which basically favors a little bit more local manufacturing in North America compared to buying from other parts of the world. So, any company that has a footprint in Mexico, the opportunity for growth is more, and therefore, our customers have also been asking us to look at that as an option. Obviously, we have not had a positive experience with our investment in the US. Of course, that was an acquisition, that too acquisition of a distressed asset. Here, we are doing greenfield. And the hope is we will start with one business, and by the time we launch that business using this footprint that we are creating, we will be able to win more business. At this point in time, we don't have the full picture. We are still talking to other customers. Obviously, there is one customer who has committed to give us an order and we will be making the investments, I expect, somewhere in Q4 of this financial year. At that time, we will be sharing more but we are still in the finalization stage.

Sunil M. Kothari:

My second question is, Harish, from 2021, our exports were below 400 and looking at the numbers, our growth rate; current year also, we are growing at 30%; we will be crossing Rs. 750 crores in the next quarter. During the last 3-4 years, we have done a remarkable job. Same is our casting division. I am talking about local casting division. That has grown from Rs. 80 crores to Rs. 220 crores. We are now at a very high operating capacity utilization. But unfortunately, for whatever reason, we are not able to get a very respectable margin. I am not asking about any number, but below 10% is not at all... I think the way you take effort, the way you grow business, the way you create new products and develop the market and create a sizable revenue from those businesses, but that is not reflected. One is, why is so low our standalone margin? And second, where is the scope and which cost factor you feel focusing on or maybe you are rigorously trying to improve upon which takes us to some respectable margin?

Harish Lakshman:

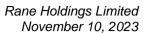
When you say margin, you are talking at a PBT level?

Sunil M. Kothari:

EBITDA level which is below 10%.

Harish Lakshman:

I think clearly there is significant profitability pressure on the businesses and the domestic business which is almost, I would say, more than 55% to 60% of our sales, and domestic OE business. Then you have exports and then you have aftermarket. In the domestic business, the profitability pressure continues to be immense. While the export is growing at 25% to 30%, we





are hopeful that kind of growth will continue. The domestic business is also growing. Our ability to have better margins in the domestic has always been a challenge. Of course, there are always efficiency improvements that we can bring about in our operations, and we continue to push the teams to achieve that. But over and above that, having a slightly better mix between export, aftermarket, and domestic will also help. We are definitely working towards improving the margin and I am hopeful that we can improve, but as I've said multiple times, for the steering business, the EBITDA margins that we have, visibility is only in the 11% to 12% range given the overall mix, domestic competitiveness, etc.

Sunil M. Kothari:

Sir, the last question is, we have provided some Rs. 18 crores last quarter related to Maruti some one-time or whatever. Those issues have been resolved or any further if you can update on that?

Harish Lakshman:

Yes, definitely the issue has been resolved and there is no concern on future production. As you might have seen in the media also, Maruti did a recall and there is a limited volume. To be frank, unlike the NSK JV situation, there need not be concern here because the total quantity has been established, and of course, the replacement in the field is going on. I expect everything to get resolved in the next 2 to 3 months' time frame.

Sunil M. Kothari:

Sir, last question. During the last 5-6 years, I understand the promoter, top management, everybody was behind this firefighting US matter, NSK matter, all these things. Hopefully, we are out from those. What is your gut feeling? How energized people are? How do you feel after these 5-6 years of challenging time?

Harish Lakshman:

As I said in my opening comments, after many years across the group, not only in RML, we had 4 businesses that have been consistently losing money. One was our US; second was our of course very small but still Telematics; third was engine valves; and fourth, of course, the large one was Rane NSK. All four either we have exited the business or we have managed to turn around the business. So, clearly, there is a lot of positive mindset in the overall business. I think all the major problems, what I would say, in the group, have been resolved. Now, of course, can we do better on the margins? Definitely. And this also I commented. The entire management is now focusing on how we can improve our margins and start doing consistently double-digit EBITDA margins? That is the goal we are all working towards.

Moderator:

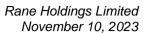
We'll take the next question from the line of Ashwin Agarwal from Akash Ganga Investments. Please go ahead.

Ashwin Agarwal:

Congratulations Harish Lakshman, and the team. Finally, you have been able to sell the US business. Harish, my question is, you said to the earlier participant that export has been growing by 25% to 30% for Rane Madras and you foresee the same growth rate ahead. So, this growth rate should continue at 25% to 30%?

Harish Lakshman:

The export you are asking or overall?





Ashwin Agarwal: Overall for the group and not Rane Madras.

Harish Lakshman: Overall for the group, of course, last year we grew 26% to 27%. It is not possible to repeat that.

At a group level, we are hopeful of growing double digit, 12% to 13%. Coming to Rane Madras, I think the export is definitely growing and we are seeing this kind of growth rate continuing. As I said, only in the domestic side, there has been some pressure, but overall, I think there will be a reasonably good growth. But to repeat last year's will be a challenge. As far as next year is concerned, we will have to wait and see how the market is and post elections. I am talking '24-

25. It's still too early to say. Depending on the outcome of the elections etc.

Ashwin Agarwal: Exports for Rane Madras will grow by 25% to 30%?

Harish Lakshman: Yes.

Ashwin Agarwal: What is the share of this exports in terms of geography? What would be to North America? What

would be to Europe?

Harish Lakshman: I don't have the exact number, but I would say about 60% is to North America.

Ashwin Agarwal: Could you also tell us any new order wins and this Mexico order how large can it be in Q4 which

you are expecting to finalize?

Harish Lakshman: We still don't have the numbers as yet. The discussions are going on with the customer. As and

when we have the clarity, we will share. As I said, we are not going to start doing the business in '24. Probably the revenue generation will happen only in the year 2025. We have created the company. Some initial work has started. We are in the meantime negotiating all the details with

the customer, and once everything is concluded, we will be sharing with the investors.

Ashwin Agarwal: And it would be a sizable opportunity for us?

Harish Lakshman: The first one will be a small one, but hopefully we will build on it.

Ashwin Agarwal: You indicated that you would be looking at 11% to 12% margins on a blended basis for Rane

Madras and for other companies as well. By when can you reach this number of 11% for Rane

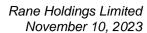
Madras on an EBITDA level?

Harish Lakshman: If you can ensure the market continues to grow at 12% to 13%, then I expect in the next 18

months, we can achieve it.

Ashwin Agarwal: You can reach that number, right?

Harish Lakshman: If you can ensure all the people continue to keep buying cars at the rate of 12% year on year.





Ashwin Agarwal:

Sir, now the biggest headache, light metal casting, is behind you; and once you took the decision, you were able to sell it off in a very quick span of time. I know you have given us an overview, but how do you look at the opportunity for Rane Madras? And as per the present capacity, what would be the optimum revenue generation for the company and what are the CAPEX plans?

Harish Lakshman:

Overall we are optimistic about all the 3 product lines; rack & pinion, our linkage business as well as the casting business. We are seeing enough opportunity both in the export market as well as the domestic market. I would say that the capacity utilizations today are at a very high level, upwards of 80%. Of course, some CAPEX investments will continue to funnel this growth including, of course, this Mexico project. Obviously, there will be some investments that are going to happen later this year as well as going into next year because, as I said, the capacity utilization is at the peak levels.

Ashwin Agarwal:

Lastly, this Mexico will be a take-or-pay with the customer? If you are setting up a small facility, it will be a take-or-pay kind of an agreement that he has to take minimum of so and so value? Or how it would be structured?

Harish Lakshman:

Not yet. All the discussions are still going on.

Ashwin Agarwal:

Because we just want to ensure it should not be even if it's a minor facility or a small investment that we have made an investment and it is not being able to be utilized.

Harish Lakshman:

Yes, we understand.

Moderator:

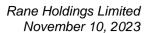
The next question is from the line of Manish Goyal from Thinkqwise Wealth Managers. Please go ahead.

Manish Goyal:

Sir, as we are discussing Rane Madras, I have a couple of more questions. First one, like you mentioned, we are looking to increase capacity. So, what kind of CAPEX we entail in current year and next year for Rane Madras and what kind of capacity increase we are looking for, as you mentioned, across the 3 categories? That was the first question. And the second question is that how is the competition intensity growing like? You did mention that it's very difficult to make margins on OEM revenue. And while JTEKT recently in their call mentioned that they are also looking to increase capacity by 50% in rack & pinion, is it that the competition intensity is increasing? And are we seeing any new players coming into this particular product?

Harish Lakshman:

No, I am not aware of this JTEKT increasing capacity. But of course, with all the growth in the market and Maruti having announced their plans to go up to 4 million vehicles, obviously, there are additional investments that are happening, I guess, across all auto component players. So, we are also continuing to expand our capacities. As I said, we are at peak capacity utilization for most of our product lines. In terms of CAPEX, Rane Madras traditionally invests anywhere from Rs. 70 crores to Rs. 90 crores on a year-on-year basis depending on market conditions and what





our order book is. I expect the investments to continue only at that level. Now, because of Mexico, it may be a little bit more but not very different.

Manish Goyal: Mexico, if we intend to do, in the near term, what can be CAPEX over there, sir?

Harish Lakshman: We have not yet decided the amount. Still, the discussions are going on with the customers.

Based on the order size, etc., we will decide.

Manish Goyal: Sir, in terms of exports, are we seeing any potential disruptions due to conflict in Europe and the

Middle East? In terms of the optimism we have, what we have built up in terms of revenue share growing to almost 35%, do you have a fair degree of visibility in terms of firm orders and

commitments from our tier-1 customers?

Harish Lakshman: Obviously, there are some concerns, including the recent Middle East issue. Right now, while

none of our immediate business sales have got impacted, depending on how the crisis is and how it can spread across other geographies, that is something we need to just wait and watch and be

careful. But right now, we are not seeing any change.

Manish Goyal: Sir, I have a couple of questions on our 2 JVs. First on Rane NSK. There is no warranty

incremental provision, and in the last call, you did confirm that no more incremental provisions

will come up. I just want to reconfirm with you that there are no more provisions expected.

Harish Lakshman: The way the current things stand and looking at the warranty numbers that they are getting month

on month from Maruti in the last 2-3 months, I see no reason to change.

Manish Goyal: I believe we have done a provision of Rs. 555 crores to Rs. 560 crores till date. How much is

utilized out of that and how much is pending, sir?

Harish Lakshman: Close to Rs. 50 crores is remaining.

Manish Goyal: There is a possibility that we may write back also if nothing more comes up?

Harish Lakshman: I think that is very unlikely.

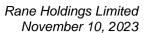
Manish Goyal: Sir, in this quarter, we did see some uptick in margin in Rane NSK but still quite low as compared

forward at EBITDA level and then also at the net level? Because, Rane NSK also has, I believe, Rs. 300 crores plus debt to fund the losses. I just want to get a sense on Rane NSK's business outlook and margin outlook. Also continuing, probably there was an interview of Mr. Ganesh in August month in Business Line, where we had probably announced that Rane Group and NSK of Japan have agreed to sign design & technology development to drive future growth and then

to historical levels. Probably we have seen 13% to 14% margin. How do we see that going

there is a road map which is being laid out to probably indigenize a lot of components and grow

the business as well. And it was also mentioned that we are in the process of getting one large





order from a large European OEM. So, maybe if you can give us a perspective about Rane NSK because, again, if the problems are behind, the energy would be focused more on growth, if you can please share.

Harish Lakshman:

You have asked a lot of questions, Manish. I'll try to answer. As far as margin is concerned, while obviously the business has become profitable and the profitability will improve, but as I had indicated in the last call, in the short term – and I am talking short term, next 12 to 24 months – I do not see the margins going back to the old levels because some of the new businesses that we had booked about 3-4 years ago with NSK and which is going into production now, the profitability is not as good. While we are doing our best to improve the profitability, I definitely don't see the margins going back to those levels in the short term. Obviously, in the medium term and long term, our objective is to get it back to that level. As far as the NSK collaboration is concerned, obviously there are multiple conversations that are going on with them on the future, with the warranty issue, how we can work together, increasing localization, etc. These are just regular conversations that are happening between long-term partners. Hopefully, we will come up with a strategy which will improve this business and get accelerated growth.

Manish Goval:

In the past, probably we had also announced that for manual columns, we were looking to make India as a technology center and probably look for exports. Nothing much is happening on that side, sir?

Harish Lakshman:

The conversations are going on. We are yet to win any big order so far. But definitely the column capability, especially for the commercial vehicle column capability, there is a lot of capability that has been developed in the joint venture, and the idea is to use that to enhance exports, but no major results are announced. A lot of work is going on but nothing concretes as yet.

Manish Goyal:

I'll come to ZF Rane. 1) Probably the latest results show that the EBITDA margins have come down a little bit, but the PAT margins have come down significantly. I just want to understand that. 2) If you can just share with us about the new facilities which were recently started for airbags and seat belts, along with the backward integration of webbing for the seat belts and the inflator and the textiles for airbags, which is part of the PLI scheme. What kind of investments we have done and planning to do and what kind of asset turns or revenues we can see? 3) And also a connected question is again on the exports. Will this facility also look for a higher export share? And maybe I'll ask the numbers after that in terms of revenue breakup.

Harish Lakshman:

As far as the profitability is concerned, obviously with all the growth that is happening and the addition of the 2 new plants, there have been more expenses during these last few quarters. But obviously the realization of those expenses in terms of incremental revenue or margin improvement is yet to happen. That is why you see the drop. But obviously, all the expenses that we are incurring is towards these new facilities that you talked about, which is the webbing plant as well as the inflator plant. The webbing plant has just started production last month, and the inflator plant is starting production next month. Both plants will gradually be ramping up, and





the impact of these 2 investments is mainly going to help improve the margins because both of these are localization initiatives under the PLI scheme. Therefore, this will help improve the margins. Of course, there are multiple conversations that have also happened with our partners to also use these facilities for exports. And while there is no major order that has been secured, I can tell you that definitely I am optimistic about the opportunities that are coming up.

Manish Goyal: Last call 6 months back, you had mentioned that as a group if we are looking at investment of

Rs. 1,000 crores over a period of next 2-3 years, ZF Rane would account for a larger share. Maybe if you can give us perspective of how much we have invested and how much we intend

to and what kind of capacity it gets created, even on the airbags and seatbelts?

Harish Lakshman: Definitely. I don't have the exact breakup, but the significant portion of the investment is towards

this occupant safety division to fund both the capacity growth as well as the investments we are making in inflator and webbing. I don't have the exact breakup with me, but approximately Rs.

1,000 crores is the amount that we are looking at.

Manish Goyal: Rs. 1,000 crores is at the group level, right?

Harish Lakshman: Correct.

Manish Goyal: Sir, maybe if you can share the revenue breakup in terms of steering business and the occupant

safety; and within occupant safety, the airbags and the seatbelts, and even the domestic and

exports.

Harish Lakshman: For this quarter, steering was 237.

Manish Goyal: What was the comparative number, sir? 237 versus last year quarter 2?

Harish Lakshman: 196. And the occupant business was 298 for this quarter and comparative quarter was 234.

Manish Goyal: And maybe if you can share the airbag and seatbelt numbers.

Harish Lakshman: Seatbelt was 113. The airbag and cushion business put together is 180.

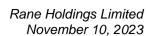
Manish Goyal: And exports numbers, sir? What was your domestic and exports overall and for the occupant

safety?

Harish Lakshman: Exports overall was 180, out of which close to 168 was occupant safety.

Moderator: We'll take the next question from the line of Krishnakumar from Lion Hill Capital. Please go

ahead.





Krishnakumar:

Congratulations on a set of improved numbers. Most of the questions have been asked by Manish. Just to take it further on, the companies like Rane Engine or Rane Madras or Rane Brakes, is there a possibility to kind of use real estate within the city to relocate plants and kind of deleverage ourselves? Is that something in active consideration? That is the first question, sir.

Harish Lakshman:

Your question is about relocating and realizing real estate, right?

Krishnakumar:

Yes, sir. Most of them are within the city. As the city is expanding, is there a potential opportunity available when we do the modernization, CAPEX, etc., to relocate facilities and unlock real estate value?

Harish Lakshman:

There's no immediate plan, but obviously in a 10-year process.... If you see like Velachery for example, there's no more manufacturing. It's only our engineering center and corporate office that is there. Like that, gradually we may do, but there's no immediate plan right now.

Krishnakumar:

The second question on Rane Brakes particularly, we don't seem to be as strong on the commercial vehicle space and the exports. Are there any historic reasons for that? Do we have any restriction on exports because of Nisshinbo being a shareholder and technology partner with us?

Harish Lakshman:

On commercial vehicles, your question is about the domestic market, correct?

Krishnakumar:

Yes, sir.

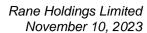
Harish Lakshman:

Commercial vehicles, yes. At one point in time, maybe 10-15 years ago, Rane Brake Lining was actually the leader in the commercial vehicles segment. But then, as the market moved to some of the asbestos free, we lost a lot of share because at that time, we didn't have the right products for that particular vehicle segment. But since then, we have developed the products and we are now slowly increasing our commercial vehicle sales. I am confident that in the next 2-3 years, we will see our share increase in the CV segment.

As far as export is concerned, there is no major restriction that we have with Nisshinbo. For various reasons, RBL has never focused on the export market in the past. Now, of course, there is a lot of effort going on in building the export business. In the past, we also found that competing with some of the Chinese companies in Europe and the US was becoming very difficult. But now we are seeing some opportunities, especially given the China-plus-One, etc. So, we are hopeful of building that portfolio also in the coming years.

Krishnakumar:

From a margin perspective if you look at the ZF business, though the industry is on a good upswing, etc., we seem to be in still single-digit margins. Do you think we can get to the double digit, 12% to 13% margin profile in a 2-year time frame in this company particularly?





Harish Lakshman:

If you see the steering business, definitely it's possible. We are already doing perhaps double digit if not very close. It can definitely be in double digits. But the occupant safety business, I don't see that going towards double-digit business. Having said that, the sales to asset on the occupant safety business is very high. Multiple of 6:1 or 7:1. Therefore, the ROCE will be reasonably decent. But improving margins to double digit on the occupant safety, I am not seeing visibility for that.

Krishnakumar:

On the airbags division particularly, with some of the local manufacturing, we should get into mid-teens kind of margins over a 3-year profile. Is that something reasonable to expect with the value addition coming through on the inflator and other parts in the airbag business?

Harish Lakshman:

Definitely the margins will improve including this inflator localization. That will add to the margin, but as I said, not to double digit level.

Krishnakumar:

Lastly, from a VRS perspective, we have been doing prudent management of labor etc. Are we now optimized across companies or is it more an ongoing effort? How should we look at it on a near-term, a couple of years' basis?

Harish Lakshman:

You are talking of permanent labor, is it?

Krishnakumar:

Yes, sir, VRS scheme.

Harish Lakshman:

Obviously, some of the older plants, there will always be some legacy challenges with an aging workforce, etc. As and when we feel the time is appropriate, we do offer some VRS schemes to some of them. It happens usually in some of the older plants that have been there for 30-40 years, if not more. That is a continuous ongoing process. Every year, the businesses will decide how much to set aside for VRS and when to offer, etc.

Moderator:

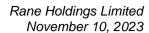
The next question is from the line of Rajakumar Vaidyanathan, an individual investor. Please go ahead.

Rajakumar Vaidyanathan: Sir, 2-3 questions. The first one is on the JV Rane NSK. Like the prior participant asked about the ZF Rane, I just want to know what is driving the PAT growth. Despite a 2% growth in EBITDA, the PAT has gone up by 112%.

Harish Lakshman:

The reason for that is there was some one-off scrap sales in this quarter, which increased the PAT.

Rajakumar Vaidyanathan: I saw that it is Rs. 3 crores, but still the PAT has gone up by Rs. 5 crores. So, there should be more than this scrap sales, right?





Harish Lakshman: There is also another amount of deferred tax asset that has been created. That is the reason for

the PAT growth. Over and above this one-time scrap sale, there was some deferred tax asset that

was created.

Rajakumar Vaidyanathan: Can we expect PAT to reflect the EBITDA growth going forward, both for ZF Rane and Rane

NSK? Because, otherwise, it becomes very difficult to follow how these 2 JVs will perform.

Harish Lakshman: We will definitely continue to provide the information on a quarterly basis. I am not clear on the

question.

Rajakumar Vaidyanathan: I am saying we are not able to estimate the numbers based on the expected growth. The PAT is

kind of volatile. So, I just want to know will it stabilize in the forthcoming quarters or will we

see a similar kind of trend?

Harish Lakshman: It's very difficult to say. Definitely the margins will improve. At the PAT level, sometimes there

are these one-off accounting adjustments, etc., or even some one-off scrap sales that may happen. That could continue to happen even for the next couple of quarters. To that extent, you may see

some variations.

Rajakumar Vaidyanathan: That distorts the numbers, sir. When you report in your financials, you only report in 1 line. It

becomes very difficult for an investor to understand how this is because it's yo-yoing every

quarter.

Harish Lakshman: We will review this. We will just discuss it internally.

Rajakumar Vaidyanathan: The next question is with the passenger vehicle buildup, the recent report in the newspaper. I

wanted to know how the H2 is stocking up for the group. Do you see any slowdown?

Harish Lakshman: I must say this carefully. So far, the answer is no. We are not seeing any slowdown across all

segments. All the customers are continuing to maintain their guidance and the forecast that they have been talking about. Therefore, we have no concerns, but at the same time, as I said, we just want to be cautiously optimistic because I think the real strength will be known post the festival period when we start looking at the second half of November sales and the first week of December. That will be a key metric. But having said that, at the customer level, there is a very

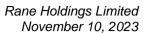
good confidence that up to Q4, this growth will continue.

Rajakumar Vaidyanathan: Any update on the merger? I think in the last 2 calls; you were saying that you were working on

it. So, anything to share?

Harish Lakshman: Nothing to share. As I said, we keep evaluating this, and obviously at the appropriate time, we

will definitely come back to our investors.





Rajakumar Vaidyanathan: The last question is on the DTA that was recognized in the Netherlands subsidiary. I just want

to know, is there any underlying business? Because, after the sale of the LMCA business in the US, there should not be any other investment left in the Netherlands. On what basis will we be

able to offset the DTA in the future?

Harish Lakshman: I have not understood your question. Of course, we are going to continue to hold the Netherlands

entity for some more time. As you know, there is some deferred payment from the buyer of LMCA. Obviously, those payments will be made to that entity. The DTA that we are claiming is irrespective of the Netherlands subsidiary. The write-off of the investment we have made

through the Netherlands.

Rajakumar Vaidyanathan: Will we see cash or it's more of an accounting entry?

Harish Lakshman: Currently it's an accounting entry.

Rajakumar Vaidyanathan: But it will result in a cash inflow at some point?

Harish Lakshman: Correct, yes.

Moderator: The next question is from the line of Sagar from Financial Research Technologies. Please go

ahead.

Sagar: Most of the questions have been answered. Just one question. Sir, in the previous calls, you did

mention that we may get some compensation from our technology partner, NSK Japan, relating

to the warranty claims. Any update on that?

Harish Lakshman: As I said earlier in the call also, those discussions are going on with NSK as well as with Maruti.

It's, again, a complex discussion, but definitely discussions are going on. As and when something

is concluded, we will share with the investors.

Sagar: Sir, you think it should be done by the end of this financial year or is it difficult to put a time

frame?

Harish Lakshman: Yes, I am not able to give a clear guidance because we are not in full control of the conversations.

There are multiple parties involved.

Moderator: Ladies and gentlemen, that was the last question. I would now like to hand the conference over

to the management for closing comments. Over to you, sir.

Harish Lakshman: Thank you all for your time and your questions. Obviously, we'll continue to work on improving

our margins and maintain this level of growth if not slightly better growth. Let's hope that the

market also supports us in these initiatives.





We wish you all a Happy Diwali.

Moderator: Ladies and gentlemen, on behalf of Rane Holdings Limited, that concludes this conference. We

thank you for joining us, and you may now disconnect your lines.