"Rane Group Q4 FY'24 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Rane Group Q4 FY'24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Binay Sarda from Ernst & Young. Thank you and over to you, sir.

Binay Sarda: Thank you, Muskan. Good afternoon, friends. Welcome to the Investor Call of the Rane Group to Discuss the Performance.

To answer your question today, We have the Management Team from Rane Group represented by Mr. Harish Lakshman – Chairman, Rane Group, Mr. P A Padmanabhan – President, Finance and Group CFO, Mr. Siva Chandrasekaran – Senior Executive Vice President of 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 have sent you the press release, and also we have sent you the presentation link of the deck. In case if you have not received the presentation, you could look at it on our website or even the BSE site of Rane or you could write to us and we'll be happy to send the detailed earnings presentation over to you.

Before we 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 with the risks and uncertainties that we face. These uncertainties and risks are included but not limited to what we mentioned in the prospectus and subsequently filed in the annual reports, which you can find also in our website.

With that said, now I'll hand over the call to Mr. Harish Lakshman. Over to you, sir

Harish Lakshman: Thank you, Binay. Good afternoon, ladies and gentlemen and thank you for dialing in. I would like to welcome you all to this teleconference. It's a pleasure to connect with you on this platform as the Chairman of the Group for the first time.

You would have seen the Q4 FY'24 Performance Highlights of the group companies which we posted on our website. I would like to start off by providing a few comments on the industry.

The automotive industry had a mixed performance in the Final Quarter of the Financial Year ‘24. The PV segment, while experiencing record high sales was propelled by improved vehicle availability and significant contributions from the SUV segment. However, there was a drop in the M&HCV segment and the pre-buy in the Q4 Financial Year '23 compared to what we did not see in FY'24 resulted in muted performance of the CV segment.

There was a drop in the sales of farm tractors compared to the previous quarter due to the erratic weather conditions which adversely affected agricultural output and income.

The two wheeler segment had robust growth, helped by improved demand in key overseas markets.

Coming to our Group Performance:

The Rane group had aggregate sales of about 7,200 crores with 8% growth over the previous year. I am happy to share that this is our highest ever group aggregate sales for any financial year.

The revenue from the domestic OE customers grew by 9%, and revenue from international customers increased by 4%, and the slower growth was also on account of the divestment of our US subsidiary, LMCA.

On organic basis the exports have actually grown by 15%. The EBITDA margin of RHL consolidated decreased by 38 basis points in FY'24.

I would like to now talk a little bit about each of our businesses. On Rane Madras, the demand for the steering and linkage business was impacted mainly due to the drop in passenger car, particularly the entry level models and also the farm tractor segment.

Export sales grew by 10% despite a drop in the offtake of the off-road vehicle segment in the US.

The light metal castings India witnessed a growth in exports of about 18% with ramp up of volumes in some new businesses.

We also won new business worth more than 500 crores across products and customers during this year. Unfortunately, the EBITDA margin declined due to the lower absorption of fixed cost due to sales drop as well as certain one-off provision.

In REVL, I am happy to announce that we achieved the highest ever sales for the company, driven by robust sales growth and enhanced operational performance. We grew the business at 14% in FY'24 with strong growth across all market segments, domestic, aftermarket as well as exports. The turnaround and sustenance plans started a couple of years back is yielding results in operational efficiency, capacity realization, export growth and better cost management.

For the year, the EBITDA margin improved by 157 basis points. The company has devised strategies to expand share in the domestic market with certain identified customers in the automotive segment and also focus on EV-insulated sales, which includes the application like power generation, stationary engine, marine, locomotive, etc.,

The company has revised its vision to enhance product portfolio with some non-ICE components which has similar manufacturing process.

Coming to Rane Brake Lining:

I am happy to share that RBL also has achieved the highest sales for the quarter and for the fiscal year. FY'24 sales grew by 10% with support of strong sales to the two wheeler segments. The aftermarket customers grew by 6% and export sales grew by 33%. For the year, the EBITDA margin improved by 105 bps mainly due to lower material prices and favorable FOREX. Operational improvement initiatives and energy savings initiatives help to mitigate inflationary pressure on other operational costs.

Coming to our joint venture with ZF:

As you are aware, ZF Rane Automotive India Private Limited acquired 100% of the steering wheel manufacturer, TRW Sun Steering Wheels Private Limited. This acquisition places our company in a strong position to provide comprehensive solutions covering occupant safety and system integration services to domestic customers.

Despite the sluggish M&HCV market in Q4, the steering business grew by 12% during the year. The occupant safety business is benefiting from the evolving safety regulation in India and the revenue grew by 20%, supported by strong offtake from domestic customers. And this growth does not include the TSSW acquisition. The EBITDA margin for the joint venture improved by 33 bps during the year.

Vertical integration of inflators and webbing plants will help improve competitiveness in the Indian market and both the plants are fully ready and nearing production.

Coming to Rane NSK joint venture:

RNSS, had a 14% growth for the year. The EPS business registered a good growth, driven by strong offtake in the served model. The company won new business worth 550 crores across various customers. EBITDA margin was unfortunately impacted due to the unfavorable mix. As explained in past calls, some of the new businesses have a much lower profitability compared to on the earlier program. So, the management is working on improving this. Given the return trends on the quality issue, there was no further warranty provision and we see a closure on this issue.

Coming to the Outlook, FY'24 has been an eventful year for the group. Given our efforts to rebalance the product portfolio, we achieved the divestment of both our telematics business, RaneT4U and our castings business in the US.

The merger announcement of the operating entities of the group to create a larger company will serve as a strong platform for future growth. And the acquisition of the TRW Sun Steering Wheels business, enhance our occupant safety product portfolio to provide comprehensive solutions.

As we look ahead in FY'25, we remain reasonably positive on the prospect given our order book position. We plan to invest about 1,000 crores over the next three years in terms of CAPEX. We continue to prioritize operational improvements and cost savings.

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

Moderator: We will now begin the question-and-answer session. The first question is from the line of Sunil Kothari from Unique PMS. Please go ahead.

Sunil Kothari: My first question is if you can talk something more about qualitative benefits of this merger. Basically, as you announce you have taken the decision of merging these three operating entities in a one company on the basis of investor expectation and suggestions. So, normally, as an investor we always expect better performance, better profitability and better return. So, what type of benefits in terms of integration, maybe some merging of some factories, what type of advantage and benefits we'll have over the next two or three years, if you can talk a little bit more will be really helpful to guide us about our investment for next many years?

Harish Lakshman: Thank you, Sunil for your wishes and your question. As you said, I can only talk in general language about the benefits of the merger. We are not yet ready to put any specific numbers to it, because we are still working on them, but clearly the idea behind the merger as you know I think this has been asked by many investors over many years and internally also for a very long time, we have been discussing this and waiting for the right time to do it. I think the idea is to clearly create one large company which will serve as the platform for future growth in addition to whatever growth we see in existing product line. But in the process of merger, obviously, there are going to be some straight benefits, some that are very direct, for example, from three listed companies to one listed company, straight away being a listed company costs come down, compliance cost comes down, board positions and board related costs start coming down. So, straight away there are benefits like that. Then there are second benefits like the combined balance sheet will be stronger than the individual balance sheet. Therefore, ability to raise capital at lower costs, talking predominantly debt, ability to leverage on debt, tax benefits as you know a company like Rane Engine Valve made losses for many years and there are accumulated losses, so there are ability to accelerate set off for taxes etc., So, there are those kind of synergies. Then the third bucket is a little bit more long-term in terms of, can we combine certain operations, can we combine certain support functions that provide support to various businesses by consolidating. There will be more further benefits. So, we are splitting these cost-related benefits into these three buckets and we are still working on the numbers. I am sure at the appropriate time we will share with our investors what the savings will be, that will happen immediately over time across these three buckets. Over and above this, of course, the idea is to be able to leverage this single balance sheet and drive further growth, cross-selling between customers. So, today, for example, Rane Madras, I am talking both the steering and casting division, has got close to 700 crores of export, whereas a brake lining has only 35 crores of export. So, straightaway we can leverage the customer base by enhancing this. Similarly, Rane Madras can leverage on the aftermarket strength of Rane brake lining. So, there are also these kinds of synergies which may be very difficult to numberize, but there will be a very clear benefit by the ability to what I call cross sell some of these products. So, these are many positive things that we see from the merger. Of course, just for everyone's benefit, the merger process is still underway. I think it's as everyone knows, it has to go through the stock exchanges and then the NCLT, etc., So, all the preparatory work is still going on, and obviously it's going to take several more months for the merger to be complete. So, hopefully once that process is completed, the market will better appreciate this new merged entity.

Sunil Kothari: One very interesting observation from my side is at Rane, we being a very conservative group, we never feel good about paying very high interest burden and all. And if you take all these three collective combined entities, our interest burden is currently Rs. 60 - Rs. 65 crores per annum. And in my first question, you didn't mention about any extra resources. So, I would like to just draw your attention, say, our Velachery plant which we vacated, we may have some corporate office or something like that there, but just 200, 300 meters away from this Velachery our factory of Rane Madras, the DLF has sold 4.5-acre land to Murugappa group at Rs. 735 crores. So, I feel that area is now getting a reasonable value and we were expecting since last five, seven years there. And we have this little bit staying balance sheet and we are paying very high interest. So, would you like to take this type of stuff, this is like you have taken during last year or two because these are the unused or maybe extra resources which may be useful to improve the business balance sheet time, grow in a confident manner, so your thoughts will be really helpful?

Harish Lakshman: I mean, there are no clear thoughts as of now, Sunil. From what I hear, Chola has purchased this land to build their own corporate office. So, we also are having our corporate office in Velachery. And of course as far as the debt is concerned, as I explained very clearly, I want to assure the investors there is a lot of focus on reducing debt and we must look at the post-merged balance sheet and how the debt level is for this new Rane Madras and based on that we will be taking action. But I can assure you the intent is to reduce the debt. So, what actions we will be taking, I am not able to share at this point in time.

Sunil Kothari: Will you be open to use any extra resources whatever Rane group will have if required to strengthen the balance sheet and business?

Harish Lakshman: Yes, yes, absolutely, absolutely.

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

Pratik Kothari: Sir, my first question is on this warranty claim, I mean, it's a tough topic for us for the past few years, first again NSK, then Rane Madras, now again at Engine Valves. I am sure you'll be more disappointed than anyone else. But your comments on what is it that we are doing? How are we solving it? What is it that we have done? Because time and again we are seeing something that I mean the quantum might be different, I mean, it's very small in engine valves this quarter or this year, but time and again we are seeing this repeat, so some comments what are we doing to solve it?

Harish Lakshman: It's always a challenge. A lot of effort goes into making sure our product quality and robustness is right. As far as of course the Rane NSK that has been a very, very painful journey. And of course, as I mentioned in my opening remarks, we believe that it is behind us and no more provisions, etc., under that issue will come up. But it's unfortunate, yes, during last year, not only Rane Engine valve, Rane Madras also had an unexpected warranty claim that hit us, of course much, much smaller magnitude, but still, it is costing the company. So, there is a lot more focus on our product development and manufacturing process and of course in sometimes when there is also export business the risk does go up to that extent more because any sort of warranty in an overseas market turns out to be even more expensive. So, the only answer is making sure our quality, both product development quality as well as manufacturing quality continues to improve and there is a lot of focus all of us are putting into that area.

Pratik Kothari: Second question is on export. I believe for the past maybe 10, 15 quarters we were growing at a very, very healthy clip, I mean, 30%, 40% year-on-year. Surprising in the last two quarters and in Q3 it was flat, this quarter we were down 10%. I mean this sudden change and anything has materially changed outside then how should we look at exports going forward?

Harish Lakshman: So, I just want to put it in perspective. As I mentioned in my opening comments, the international, what we call international sales included our castings business in US. So, for the year, while the growth has tapered is also because of the sale of our US investment. Actually on a year-on-year basis, the export has grown by about 15% for the year. Now, on a Q4 basis, I think again you will see that number lower again because of the US investment would have been in last year's Q4, it is not there this year.

Pratik Kothari: The third question is on other expenses I mean either quarter-on-quarter, year-on-year this is specifically to Rane Madras, our sales has been substantially lower, but other expenses moved have substantially from 20%. 25%. So, any one-off anything which is sitting there, Rs. 90 crores becoming Rs. 110 crores.

Harish Lakshman: Yes, yes, there was certain one-off provisions that have to be made and these are only provisions at this point in time. We will have better clarity in the coming months on whether they can be realized or not.

Pratik Kothari: Any quantum? What is it regarding?

Harish Lakshman: So, it has got something to do with our sale of the US business. The quantum is approximately Rs. 12 crores out of that where there is some deferment in the payment that is to be received. If you recollect when we sold the US investment for close to $ 4.9 million, there were some deferred payments so there is some delay in that, but as of now we don't see any risk to receiving the amount. There is just some delay. But we went ahead and decided to make a provision.

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

Manish Goyal: I have a few questions. Kindly bear with me. So, in particularly when Pratik was asking a question on the exports business but whereas probably whatever you report in your presentation and the quarterly press release, so I believe those numbers are always for standalone and in Q4 we are seeing a 11% decline in the exports business which probably in the last two, three quarters on a declining term. So, I am just wondering that if you have been getting so many export orders for the last few quarters, why run rate has been probably on a downward curve and how do you see it going forward?

Harish Lakshman: I think I misunderstood that question when he had asked. So, that is only on Q4 basis, Q4 to Q4, there was a decline and that's mainly because of some slowdown in that of which I mentioned again in my opening remarks about this off highway vehicles segment in the US that we export to. So, there is no concern on the export front, but at the same time the rate at which we grew in the last 24 months, if you look at Rane Madras, the last two years, the export jumped significantly. In fact, if I remember last year, we grew actually 40% in export, but that was because of launching of many new programs. So, during this last six months as well as during the next 12 months, there are no major new programs we are launching at that level. So, to duplicate the last to what a significant growth we saw in that in last two years will not happen in the next 12 months, but it will still continue to grow. There is no doubt that exports are going to continue to grow. But the rate of growth may not match last two years, but we are still in discussions for many new programs that are going into production in 2026, some in 2027, some will jump again when we introduce some new large Programs.

Manish Goyal: Particularly for ZF sir, so if you can just give more perspective on the acquisition of the TRW Sun. Basically what we read was that it is a steering wheel company. And so how it is complementary to us and what is the size, what is the cost of acquisition? That was one question. And then also related to ZF Rane again, that sir, we have set up a facility in subsidiary. You did mention in opening remarks that both the plant inflator and webbing has started. So, what is the kind of CAPEX we have done? I believe this is under the PLI benefit or maybe benefits we can see in terms of margin improvement and also like how would you be reporting it going forward because now you have two subsidiaries at ZF?

Harish Lakshman: So, I'll try and answer all the questions. So, as far as this acquisition is concerned, while the company is still called TRW Sun Steering Wheels, it was owned by ZF by 49% and 51% was held by some other Indian promoters, and this joint venture has been there for many years. And this is actually the actual steering wheel that we have inside the car and where the driver is holding on to. And you know, the airbag, especially the driver airbag is inside this steering wheel. So, today our joint venture with ZF Rane, while we make driver airbag, we actually many times supply the air bag to a steering wheel manufacturer and then it's integrated into the steering wheel and then supplied to the OEM, not in all cases, but in many cases. And this product is already there in ZF portfolio. So, there was an opportunity to exit the other Indian promoter in that company. So, after a lot of discussion with ZF, we decided that our joint venture will make the acquisition and we will integrate it into our seat belt and airbag business. And globally also for ZF, the steering wheel, seat belt and airbag is all consolidated into one division of ZF. So, from a pure product strategy and a market standpoint, this is a very good acquisition. I think in terms of the acquisition price, we paid Rs. 139 crores for this business. The business has about Rs. 140 crores turnover and the EBITDA is at about 8.2%. And the idea now is that post this acquisition, Rane will be fully managing this and hopefully we can grow this with ZF even faster than they have been able to with the other Indian promoters. So, broadly this is the strategy behind the acquisition. Now, coming to the second point, yes, under the PLI scheme, for both the plants, investments have been made. So, over the last two years, on the occupant safety side, we invested about Rs. 260 crores going in for both inflator as well as the webbing plant as well as some capacity expansion in seat belt and airbag. So, the main purpose of this investment is for margin improvement because both the initiatives are backward integration. We were importing these two products -- the webbing and the inflator -- and now we are going to localize them. Webbing production has already started. Inflator is going to start very soon. So, this will improve the margin. My guess is close to about 1.5% improvement in margin, obviously not from next quarter, but let's say a year from now, we will be seeing about 1.5% improvement in the margins in this business. As far as your third question on how we will be presenting the numbers, obviously we will be presenting only the consolidated numbers. But what we share with our investors, since this acquisition just got completed, we are still talking with that management. We have to first focus on integrating the management of that business into ours. So, we are still doing a few things post acquisition, integration. So, very soon we will have a clear idea on how we will communicate this with our investors.

Manish Goyal: One question is on Rane NSK. So, this quarter, particularly, press release mentioned that we have a large order of Rs.250 crores. So, sir would just like to get a perspective like when we say new order wins, would it mean that this will be incremental revenues for us or probably as time passes over next two to three years as this new program starts, we probably lose some old business as well, so how should we read into it? And you did mention that for full year you have got Rs. 550 crores new orders in NSK. So, then my second question to this is that by when do you think that we can probably see the margin improvement in NSK?

Harish Lakshman: So, these are new businesses. Of course, they go into production one in 2026, one in 2027. So, the impact of this in terms of our sales, etc., we will see only in the later years. But these are incremental businesses, they are not a model replacement business. So, that is the answer to the first question. Second, unfortunately, as I said, this margin pressure over and above coming from the warranty is definitely a concern, we are working on several margin improvement initiatives to see what we can do. I think trying to show the same level of operating profit what I am talking without warranty, what we've had in the last 2-3 years, it will take another couple of years to get back to those kind of profitability levels, but clearly beyond the two-year time frame, we are seeing a lot of opportunities to enhance the margin in that business.

Moderator: The next question is from the line of Ankur Jain, an individual investor. Please go ahead.

Ankur Jain: I have a question regarding Rane Madras. When can we expect some margin improvement?

Harish Lakshman: See, we are all waiting to see how the market is post first quarter. There is a general view that post elections market will improve especially the farm tractor segment as well as the commercial vehicles segment. As you know, Rane Madras has a significant dependence on these two segments. So, hopefully the market picks up, we should see some improvement even during this year.

Ankur Jain: I have another question regarding the TRW Sun acquisition. The Rs. 139 crores you mentioned, is it Rane share or TRW match the same amount?

Harish Lakshman: No, what we did was we purchased 100% of the shares of that company. So, it's for the total company for 100% of the shares, in which ZF owns 49%.

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

R Vaidyanathan: So, the first question is on ZF Rane. The presentation says the EBITDA margin improvement is due to one-off deal. So, if you could please quantify what is the amount of this?

Harish Lakshman: The amount was Rs. 11.5 crores were the one-off.

R Vaidyanathan: So, for next quarter onwards, it will go back to the 10.5%, which we did in Q4 FY'23, right?

Harish Lakshman: Yes.

R Vaidyanathan: That's the steady state margin? So, the second question is this Rs. 1,000 crores CAPEX that you mentioned that you will be investing in the next few years, I just want to know how much would be to JV ventures and how much will be to the RML, the merged group?

Harish Lakshman: 55% will be from JV and 45% from the merged RML.

R Vaidyanathan: Next question is what is the closing warranty provision we have in Rane NSK and any chance that amount getting reversed?

Harish Lakshman: So, I think there is close to about Rs. 28 crores of balance remaining, and as I mentioned in my opening comments, the way the warranties have been coming in the last six months, we don't see the need for further provision.

R Vaidyanathan: But this entire amount will get consummated?

Harish Lakshman: Yes.

R Vaidyanathan: Any update on the compensation because in the previous calls we have been mentioning that we are talking about getting some compensation from NSK given that they are getting the royalty payments?

Harish Lakshman: As I said, it's a complex issue with multiple entities, so various conversations are going on. So, as and when those conversations are completed, we'll share with the investor.

R Vaidyanathan: What is your outlook for the tractor segment given that the NBA has given a good monsoon outlook? So, do you see any green shoots appearing there?

Harish Lakshman: So, we don't have any additional insights. We are going by what Mahindra and Tafe and ITL, some of our main major customers, we go by what they are saying. The general expectation is that this year also is not going to be a great year. So, we are forecasting actually a 0% growth in the tractor segment this year. That is the outlook that we have looking at based on what we hear from our customers.

Moderator: The next question is from the line of Abhishek Jain from Invest Wealth. Please go ahead.

Abhishek Jain: I've got a couple of questions. One among them is that we are investing in AutoTech fund. Do we have any synergy with the investee companies like we are doing some business with them or those are some high tech startups that we intend to acquire going forward?

Harish Lakshman: So, this is through Rane Holdings. This is a VC fund that we invested almost five years ago and this VC fund invest in some startups, mainly in the North American market, and this fund is also based out of Silicon Valley. So, other than the investment that we have and us being a limited partner in that fund, there is no other specific business dealings with them. Of course, we obviously have a business relationship with them for some evaluation of some new technologies, etc., we might have some phone calls with them and get their views and things like that, but nothing more than that.

Abhishek Jain: These days, India is emerging as a manufacturing hub with the government providing tremendous opportunity and incentives. So, many engineering companies as well as groups have successfully diversified into other sunrise sectors like defense, aerospace, electronics and all. Do we have any vision of getting diversifying into other product segment other than auto?

Harish Lakshman: Currently, I would say no. I mean it's not that we will never look at it, but right now our focus is to capitalize on the growth opportunities we have at hand, consolidate our business, reduce debt. I think these are the main focus from the next one or two years' perspective and even when I look at the next 3-4 year perspective, there's plenty of opportunities within our own product lines as well as maybe new product lines in the automotive segment. So, I think that's where the focus is right now. But if you ask me from a 10-year perspective, yes, it's possible that we also look at certain non-automotive investment.

Abhishek Jain: The provision that we have provided in NSK for warranty that's I think over Rs. 500 - Rs. 550 crores. So, basically these are just a provision, not the company has made cash losses till now?

Harish Lakshman: No. We made a provision and as I explained earlier, most of the cash has been disbursed as well. So, there's only about Rs.28 crores of provision left.

Abhishek Jain: And how much cash did we disburse in warranty in NSK?

Harish Lakshman: That's what, out of that Rs. 500-odd Crores that you mentioned, only Rs. 28 Crores is remaining.

Abhishek Jain: Rs.472-plus crores has already been disbursed?

Harish Lakshman: Yes.

Abhishek Jain: And another thing is that, sir, in the precision die casting company or the Rane light metal, we have incurred losses of over 400 crores, correct. But given the acquisition time the enterprise value of this precision die casting that we acquired was 9 million dollars, of which 2 million dollars was the equity. All Right? So, the thing is that we have provided the losses. When I see the financials of Rane Madras, the standalone entity has shown almost Rs.400 crores of losses but whereas in the consolidated entity the losses are substantially down. So, what is the reason behind the two in standalone and consolidated showing so much of difference in losses?

Harish Lakshman: We don't have an exact answer at this point, in the sense that we were earlier making impairment provisions etc., right. So, when we finally did the transaction, there will be some of those adjustments.

Abhishek Jain: No, that's okay. I don't mention. What I wanted to ask was that there is a substantial difference in the loss shown in the consolidated entity and the standalone entity. So, what is the difference in the two and how much cash losses did we make in that investment? Out of this Rs. 400 crores that's Rs. 400 crores were the cash plus or the cash profit was way lower than that, if that is possible to figure out?

Padmanabhan PA: First, regarding the consol and the standalone difference, the consolidated accounts of RML year-on-year already takes into account the entire losses of the overseas subsidiary. And so it is showing it's taking into account a larger loss, whereas in the standalone we provide only for impairment, which could be a portion of that. Because of this reason, when we finally divest, only the balance amount of loss is taken to the consolidation, whereas the standalone has to take into account the entire balance. So, because of that, there will be a difference between the standalone and the consolidation.

Abhishek Jain: And how much would have been the cash losses? Because what I understand is that in NSK and in Rane Madras, whether the company has made Rs. 1,000 crores of cash losses?

Harish Lakshman: Yes, approximately. Of course there are two separate entities as you know, but yes.

Padmanabhan PA: And the JV is only 49% out of that Rs. 560 crores.

Harish Lakshman: 49% belongs to Rane Holdings, 51% is NSK.

Padmanabhan PA: So, that way it won't look to Rs. 1,000 Crores because out of the Rs. 560 Crores only 49% is carried by Rane. And in case of RML, of course the amount will be full amount.

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

Manish Goyal: Just want to clarify this Rs. 11.5 crores one-off gain in ZF is due to on what account sir?

Harish Lakshman: Based on some government requirements, some land had to be sold for some highway purpose.

Manish Goyal: Sir, at Rane Madras, if you can share how is the progress on setting up the Mexico facility and have we probably able to get more orders which were there in the pipeline which you had mentioned last time?

Harish Lakshman: So, work is underway. I think as I explained earlier, revenue generation is going to start only next year August. So, things are going as per plan. So, the customer audits have happened, they're all going well. I would say at this time everything is heading in the right direction in terms of Mexico operations. But again the revenue generation is going to start only in second half of 2025. The team is continuing to work on new businesses and of course as and when we secure another order for the Mexico plant, we will be sharing with our investors.

Manish Goyal: Just to clarify, the second half of calendar year, you are trying to say?

Harish Lakshman: Correct.

Manish Goyal: This is a bit broader question in terms of the four pillars what we have mentioned in our presentation at the start of it. So, just like to get some perspective on any new things which we are probably working like, one of the pillars is new technology and product introduction. So, maybe if it would be possible to share some perspective in any of the companies and also particularly for aftermarket probably why is it that Rane brake being such a strong player in past has not been seeing growth in the aftermarket, what are the challenges and how do we intend to grow exports in Rane as well?

Harish Lakshman: I think the second question you have to repeat, Manish, can you just repeat again, I didn't understand the question.

Manish Goyal: So, it was related to growth in the aftermarket, which is one of the four pillars again. And in particularly for Rane brake, which probably has a larger share of aftermarket revenues in the revenue, which is more than 30%, but somehow, it's been not growing much, so would want to know what's the reason? And then related to Rane brake, another question as to how do we intend to grow our exports, are we probably getting any support from our technology partner?

Harish Lakshman: As far as the first one is concerned, the four pillars, of course, definitely we are looking at new technology and product introductions and of course the last year two good examples is the inflator and webbing, which is more a margin improvement investment rather than a growth and of course, other than that, we are also adding some new incremental products in terms of the hydraulic business that we did in Rane Madras, so, those kind of things. But as I said from a next two year perspective, our current focus is on consolidating our businesses, creating the single balance sheet and preparing this new Rane Madras, which can then start adding further new products and especially with all the things going on in EV, for us 92% of our sales, we are still agnostic. So, there is no need for us to panic and start making some investments for the future. A lot of work is going on in assessing new opportunities, but we want to make sure, we will also reduce our debt levels also as I mentioned. So, we want to bring all those things down before we start making some investments in new products. Coming to Rane brake lining, see, the aftermarket has also been especially where product lines have exposure more to M&HCV and passenger car and not so much the two wheeler. The market has been a little dull in the last 12 to 15 months, which is why the overall aftermarket business including for Rane brake lining growth has been not satisfactory. We would have also liked to have seen better growth. But having said that, the merger now allows us to consolidate all of our aftermarket business under one company that suddenly the aftermarket business, we start looking at it as a Rs. 600 – Rs. 700 crores business and our ability to synergize …again I mentioned earlier synergize across all our aftermarket products and enhanced growth we are seeing a lot of potential from the next. 2-3 years perspective.

Moderator: The next question is from the line of Krishnaswami Mohan, an individual investor. Please go ahead.

K Mohan: Congratulations to Mr. Harish for taking over as Chairman and also my sincere appreciation for Mr. Ganesh for his valuable contribution and leadership provided to the group. The first question is regarding dividend distribution, there is significant jump towards dividend payout i.e. 50% from 17% to 25%. Thanks for that. So, the question is, is there any policy on dividend distribution? Do you say, I'll distribute 25%, 30%, 40%, some percentage of the net profit as dividend is the second question? #3, is the status of the Mexico plant you already answered but do you have just one customer order there or do you have at least two or three customers, and if it is possible to divulge the name of the customer and also the name of the product that you are going to export out of Mexico. And as already said there's not going to be a significant value addition in Mexico, but to what percentage, maybe 10% 15%. So, these are some of my two or three questions and observations.

Harish Lakshman: As far as the dividend question is concerned, your question is relating to Rane Holdings, yes, generally in Rane Holdings, we target to declare which is about close to 50% of our PAT on a standalone basis. We have been consistently doing that in the last three years. Of course, before that was COVID, but it's not a clearly stated policy, but our aspiration is to do a 50% payout of our PAT on a standalone basis. Coming to your question on Mexico, yes, we have won only one order so far, one reasonable sized order and this is for ball joints. As you know, as we have been steadily enhancing our ball joint exports from India and one of our customers express the strong desire to have a plan in Mexico. As you know with this new US MCA, which is the old NAFTA agreement, there is a lot of incentive in doing some value addition. In terms of value addition percentage, I don't have the exact number, but basically we are doing and I am sure you know this product well, so we are basically doing a little bit of machining and the full assembly of the ball joints in Mexico. So, it's mainly assembly and just machining of two of the components. All the forging and other parts, etc., currently will come out of India, but gradually, we intend to localize further in Mexico.

K Mohan: Another question is relating to our exports, especially to the US. Now that very recently US has imposed additional duties of steel and aluminum on imports from China and we've been hearing this China Plus One is going to take off, US is going to import more from India, we are getting more opportunities. Do you see a significant effect of this, not only talk that there is going to be greater imports by the United States vis-à-vis China, is that happening or is it more talk or more expectation?

Harish Lakshman: I would definitely say that our RFQ pipeline has gone up in the last 18 months. When I look at the pipeline compared to previous years across product lines, not only Rane Madras, even Rane Engine Valves and Rane Brake Lining, the RFQ pipeline is increasing and we think clearly that because of the China Plus One benefits and there are examples of one or two smaller businesses that we have won where the customers moved away from a Chinese source. So, I do believe that this China Plus One is a is a real opportunity. How much we can convert and how much US customers will end up moving away from China, is still to be seen. I think this whole trade war with China is still evolving and where it is going to end, we'll have to wait and see. But I think definitely there will be a positive shift.

K Mohan: And continuing on the same way in the last, let's say, three to four years, do we see any significant advantage in terms of commercially cost advantage of India vis-à-vis China in terms of labor cost or material cost or anything else, has that happened or is it still at the same level of, let's say, differences between China and India, do you see any advantages that through to India in the last four years because of increasing Chinese labor costs vis-à-vis for India has also gone up, but do you see any significant advantage for us?

Harish Lakshman: Yes, I understand your question, but my honest answer at this point in time is we are not yet seeing where India is getting to be more competitive. That is not standing out clearly even recently in one of the orders for one of our product lines, we lost to a Chinese competition. The customer was based in Europe. As everyone knows the cost efficiency of China is still something that is opaque. We don't know how much of it is genuine efficiency and how much of it is support. We are still not able to fully understand that. So, I am not able to clearly say that we are seeing in some of the recent quotations, India is getting more competitive than China, we are not able to see that.

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

R Vaidyanathan: The question is you mentioned in your remarks that the passenger vehicle market is moving towards the premiumization and preference to SUV vehicle. Given our exposure to the entry level segment in RML, just want to know what is the long-term impact for RML entity, because of the change in market preference?

Harish Lakshman: There is no concern, I would say. The concern is our current book of business is more skewed towards the lower level entry card. So, unfortunately last year we have not done as well because our portfolio is skewed towards a lower entry level. But from our product, technology capability standpoint, really for us, we are across the spectrum. So, we are as capable in the SUV segment or not. So, some of the future businesses that we have booking is in the SUV segment. So unfortunately, it's just the current mix that is hurting. From a long-term perspective, there's no concern.

R Vaidyanathan: If I see RML standalone operating profit margin, you used to do about 10% if I see the last 4-5 quarters, now that has dropped to 5% and I understand there is provision for some of the deferred compensation about Rs. 10 – Rs. 11 crores you mentioned. So, I just want to know, is it fair to expect that the coming quarters, the margin will go back to the 10% that you used to make in the prior quarter?

Harish Lakshman: No, it's going to be a little slow processing because last year Q4 was also very good, and as I said, both the tractor segment and M&HV segment has significantly slowed down. Those two segments need to start picking up for RML margins to also improve, I am. saying over and above whatever cost reduction initiatives the company is working on, but we need to see an uptick in the demand in those two segments as well.

R Vaidyanathan: So, you don't think that the margins will improve from current levels till the other two segments grow.

Harish Lakshman: From a short term perspective, yes, I mean there will be the adjustment for that one-off that I mentioned. So, to that extent it will go up

R Vaidyanathan: On the same point, so this deferred compensation provision that you have made, is it because we have not met some of the governance for the agreement or is there any, any other reason?

Harish Lakshman: No, nothing from our side. It is just that the buyer has requested for some extra time.

R Vaidyanathan: And what is the timeline for receiving this amount as per the original agreement?

Harish Lakshman: It's still under discussion. We should have received one half of that pending amount by March and therefore there is a delay. So, we are still negotiating that with the buyer.

R Vaidyanathan: Any cash infusion required for NSK Rane given that the performance continues to deteriorate and also any outlook for this NSK Rane JV, because you mentioned that it will take about two years to go back to the 3-4 years that margin to come. I just want to know what is the path for NSK for the next two years if you would give some color?

Harish Lakshman: Definitely, we are also not happy with the performance of the business and we are working on various options on how to improve the margins. But even to your specific question, is there any equity inclusion plan? As of now, no. But as and when there are some things we will share with the investors.

R Vaidyanathan: And on the margin outlook, sir, what is the outlook, because you said in two years the margins will improve, so what is the growth path, is it like 50% improvement we will see in year one and so on?

Harish Lakshman: The next two years will continue to be a challenge. We are working on cost reduction initiative, some maybe price improvement, but the ultimate solution will be to also start booking new businesses that will go into production in future with better margins. And as I announced in my opening comments as well as what we put in the investor presentation, we have booked some new businesses of Rs.550 crores. Obviously, the margins so that are better, but they need to kick into production which will start only in 2026.

R Vaidyanathan: So, you are saying only the scale will give you the operating leverage into the margin?

Harish Lakshman: I mean some further operation efficiency is possible but largely yes.

R Vaidyanathan: The last question is in the previous call also I asked this question. So, you said you will institutionalize the shareholding of Rane Madras, given the merger, you will have now significant scale to present to the institutional investors. So, I just want any focus made on that?

Harish Lakshman: Obviously, our objective is to first get the merger done and then hopefully as we are closing towards the merger date, I think they're still at least 4-5 months if not more, I expect the institutional investors, etc., will start picking up closer to that time. I think everyone will first want to see the actual merger happen before the interest goes up.

Moderator: The next question is from the line of Aman Shah from Cheetah Investments. Please go ahead.

Aman Shah: My first question is the Rs. 1,000 crores CAPEX that we'll be planning for next three years, what is our typical return on invested capital that we are seeing on this CAPEX?

Harish Lakshman: I'll answer from a return on capital employed. We target 20% plus on all the businesses where we want to make our investments. Of course, not all we are able to achieve, in some cases we do take investments and go ahead decisions even when it is in the 15% range, so it varies, product-to-product. So, I won't be able to give you a clear specific answer of that Rs. 1,000 crores how much will be at what percentage. But broadly everything will be in the 15% to 20%-plus.

Aman Shah: On margins, exports and aftermarket are a bit better margins than domestic OEM. Can you give a qualitative differential of magnitude between these export and aftermarket versus domestic OEM?

Harish Lakshman: Your statement is absolutely correct, the aftermarket and export margins are better. But again, it's very difficult to generalize. It depends on the product to which customer we are supplying also the export order and whether the export order is to aftermarket or OE. So, it’s very difficult to give a number.

Aman Shah: So, the last is the tax losses that you would have created in running NSK. How much is cumulative tax loss that will be available for us to take advantage in future years?

Harish Lakshman: Yes, there will be losses that are accumulated in Rane NSK. As and when we make future profits, we'll be setting up. So, I didn't understand your question.

Aman Shah: So, cumulatively, how much tax loss will be available or maybe I'll just cumulate the last four years accounting losses?

Harish Lakshman: I think about Rs. 150 crore is available.

Aman Shah: As a tax credit?

Harish Lakshman: Yes.

Moderator: As that was the last question for the day, I now hand the conference over to the management for closing comments. Over to you, sir.

Harish Lakshman: I would like to thank everyone for your time and all the questions. Hope we were able to answer them to the extent all of you were expecting. Of course we will continue to do our best and hopefully the markets will also support us in the coming quarters. Thank you, everyone.

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