

Rane (Madras) Limited –
20th Annual General Meeting – Transcript

(14:00:00): Start of the event

Host (00:17): Good afternoon sir. We are live so you can start your proceedings please.

CS (00:47): I'm Siva, group company secretary of Rane (Madras) Limited ~~Good afternoon all,~~ We welcome the members to this 20th Annual General Meeting of Rane (Madras) which is being conducted through video conferencing in compliance with the Companies Act, 2013 and circulars issued by MCA. The notice of this AGM & Annual Report for the financial year 2023-24 were sent by email to all members whose email IDs are registered and also public notices have been issued in English and Tamil newspapers as per MCA & SEBI circulars. The transcript of the proceedings of the meeting would be made available on the website of the Company. Members who have pre-registered as speaker shareholders would be allowed to speak when indicated by the Chairman. Members are requested to keep their questions very brief and not to exceed two to three minutes per speaker in the interest of time. I request CDSL to confirm whether the quorum is present. Can you tell me the number.

Host (01:44): Sir, currently we have 48 shareholders who have joined. So we have required quorum present.

CS (01:47): That constitutes requisite quorum. I confirm to the Chairman, that the members forming the requisite quorum, the other Board members and the Auditors have logged in. Now, I handover the proceedings to the Chairman.

HL (02:19): Good afternoon, everyone. I, Harish Lakshman, Chairman, welcome you all and confirm that the AGM has been duly convened and constituted with the presence of requisite quorum of members. I call the meeting to order. The authorizations in favour of the corporate representatives have been duly received. Prescribed statutory registers and necessary documents in connection with this AGM are available for inspection till the conclusion of the AGM. I would also like to inform the members that other members of the Board, Mr. N Ramesh Rajan, Chairman of Audit Committee & Nomination and Remuneration Committee, Mr. L Ganesh, Non Executive Director & Non-Independent Director, Mr. Pradip Kumar Bishnoi, Independent Director, Mr. Vikram Taranath Hosangady, Non-Executive & Non-Independent Director, Ms. Vasudha Sundararaman, Independent Director is unable to join us due to personal exigencies.

I place on record the presence of representatives from M/s. B S R & Co., Statutory Auditors, Secretarial Auditors - M/s. S Krishnamurthy & Co, Internal Auditors – M/s. Deloitte Touche Tohmatsu India LLP, Practising Company Secretary, Scrutinizer – M/s. AK Jain & Associates.

On behalf of the Board, I once again welcome you all to this 20th annual general meeting of your company. It is a pleasure to address this AGM as the chairman of the group for the 1st time. The group has been successfully built bit by bit over the past several decades and committed to preserving the value that define the company while fostering a culture of excellence. It is my privilege to lead us into the exciting future that lies ahead. I'd like to make a few remarks from the state of our ~~state~~ of the industry, your company's performance in FY 24 and the near term outlook.

The global economic growth is estimated to have slowed to 3.1 % in 2023, mainly due to the negative impact of monetary policy, tightening to curb, inflationary pressures across the world. There were significant contraction in both manufacturing activity and international Trade amidst sluggish global demand largely influenced by tighter credit conditions that weighed on housing markets, investments, and overall economic activity. Indian economy displayed remarkable resilience despite tighter monetary policy and global headwinds and emerged as the fastest growing large economy witnessing a growth of 7.8 % in FY 24, the global automotive industry reflected a complex interplay of innovation, resilience and adapt adaptation to a changing world and witnessed strong growth led by resilient demand and improving supply chain conditions.

With the industry continue to pivot towards electrification, traditional internal combustion engine vehicles also witnessed strong growth across all major geographies.

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The Indian automobile industry recorded a satisfactory performance in FY 24 and displayed positive momentum, increased offtake in EVS and safety trends. Stabilization in commodity prices, improving chip availability, robust economic activity and new model launches resulted in satisfactory growth in the industry.

Now coming to your company's performance on a standalone basis, the revenue from the sale of products increased to 2105.7 crores in FY 24, from 2086.4 crores in FY 23. The EBITDA decreased to 182.75 crores in FY 24 from 228.42 cross in FY 23.

On the steering and linkage business, the demand for steering and linkage business was impacted mainly due to drop in sales of the entry passenger car models and the farm track and the de growth of the farm tracker segment in India. The export sales continued being growth momentum.

The company's focus on new technologies continued during the year with good progress on the development of several new products which will pay the way for future growth aspirations. Your company, also established automotive Components Mexico during the year as the wholly owned subsidiary of Rane (Madras) Limited in the state of Aguascalientes, Mexico to cater to the customers in the North American region. This plant will start its commercial production in mid of 2025. The company continued to win several customer accolades.

On the light metal castings division, the light metal casting products had a strong growth of 14.3 % during last year in largely in the exports due to ramp up of volumes in new businesses.

We have also added capacities to meet the demand for some of the new programs. The light metal Castings America LMCA divestment was completed on September 14, 2023.

Coming to the outlook, the Indian automotive industry is poised for significant growth driven by a multitude of factors that could potentially maintain its position as the fastest growing economy led by a robust demand environment.

However, the global automotive segment could face minor challenges in the form of sluggish customer spending, amidst tighter credit conditions, high car prices, and weak economic globe, weak global economic growth. Nevertheless, the industry's ability to innovate and adapt will be pivotal as it continues to evolve ensuring its resilience and sustained growth in the long run. Thank you for your attention and I welcome you once again to this AGM.

Now with the permission of the members, the AGM notice be taken as read in view of the unmodified reports issued by the statutory auditors and the secretary auditors for the financial year 23-24, the reports are not being read.

The businesses proposed to be transacted at this AGM are as follows.

Under Ordinary Business:

1. Consideration and adoption of Audited Financial Statement of the Company for year ended March 31, 2024, together with reports of Board of Directors and the Auditor thereon.
2. Appointment of Director in the place of Mr. Ganesh Lakshminarayan, who retires by rotation and being eligible, offers himself for re-appointment.

Before we turn to the voting, I now invite any questions from members who have pre-registered as speakers on the audited financial statements and other business agenda of the AGM. The host may unmute the speakers one by one. Speakers are requested to state their name and for your number for identification. Thank you.

Host (10:17): Currently speaker Mr. Krishna Kumar sir has joined.

Krishna Kumar (10:27): Good Afternoon sir, Respected Mr. Harish Lakshman, Mr L Ganesh and the board memebers first of all, congrats on improving performance and various decisions taken last year towards wealth creation for shareholders. Sir, now that we have divested the unit in the

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America and we have the base business in India. So can you talk a little bit about you know the growth from India perspective, the business here, , what kind of growth that we are seeing for the next one or two years in terms of market conditions and competition and what kind of scope for margin improvement exists in the business at this point in time.

Thirdly, in terms of the business, generally it is understood it's a very competitive business and very organised player definitely has its own cost structure and overheads and has a lower profitability than mid-scale operations so are we going to invest more into the castings and foundry business in India? How do we, work towards improving profitability there sir? If you can share some thoughts there. Would be helpful.

Lastly, in terms of the auto parts business that is 77 crores revenue mentioned, is it the aftermarket sales of genuine OE parts that we have started? Is that covered under that division sir? If you could highlight that, would be useful and thank you very much and wish you all the best for the future.

Host (12:28): Next speaker is Mr. Sunil Kothari.

Sunil Kothari (12:41): Hello. Good afternoon sir. Are you getting my voice sir?

HL (12:50): Yes, we are.

Sunil Kothari (12:50): Thank you

Sunil Kothari (12:52): Congratulations and welcome Mr. Harish as chairman to drive from here onwards run a group and run another specifically, and my lot of thanks and good wishes to Mr. Ganesh who has done really remarkable job up to now also. Sir, I have already forwarded my questions and my views. I'm sure you'll be giving a little detailed answer to that. Other than that, I just wanted to say something. One is related to one good move we have done it, Rane holding by acquiring NSK's stake, and very interestingly is that we have sold some old land to get that stake and to pay for that, which I see is a very positive move ultimately to grow the business from the paid or maybe unused assets which is commendable in my opinion. So congratulations for that.

Sir, I have two, three points of note to my question regarding this annual report, which is one is this light metal casting division we have done, I mean remarkably done, we are doing good.

Our confidence level is also very high as per annual report. So what type of growth and margin improvement do we see maybe a current year and onwards? If you can throw some little bit more light on that. Second, a little bit exports growth is slowing down. Q1 also numbers tell about not much growth in exports, so how what is the outlook for exports in for current year and how you see over next two, three years we are increasing our presence in Mexico, we are adding so many products. We got some work order also.

Another one is on. We have paid last year some professional charges are roughly 20 crores compared to previous 15 crores. So I'm sure this must be related to our US subsidiary divestment, a new investment in Mexico, those professional and legal charges. So will it now subside and will be going down as we move ahead in current year? So one more thing I just wanted to ask about this quarter one performance. We generally are hearing that farm tractors are really doing well in this current years' Q1. But our commentary in first quarter results says that farm tractor hasn't performed that well. So your comment on that segment will be really helpful. And last thing is some days back stock exchanges have given us a communication regarding what to do further about this merger and all these things. One of the things very interesting I found is communication to investor and shareholders regarding the cost benefit analysis of this merger will be really helpful, so if you can throw some light on that now or maybe in for future communication will be really helpful. You know sir since long we are your stakeholders and we have very high trust on your ability, your ethical practices and corporate governance.

But in terms of profitability growth, we are lacking since last 3,4,5 years so on, some statement on that some confidence enhancing will be really useful. My good wish is to everyone, thanks a lot.

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HL (16:40): Any other questions?

Host (16:46): Other speaker not joined.

HL (16:52): I will attempt to answer the questions. I'd like to thank both Mr. Krishna Kumar as well as Mr. Sunil Kothari for their well wishes and all their kind comments about the company and the performance of the group.

HL (17:10): I will try to answer, you know some of the questions were common so I will answer all, as far as the India growth is concerned that Krishna Kumar had raised of definitely the rate of growth has slowed down across all segments and we are clearly seeing that in, you know medium and heavy commercial vehicles started almost two quarters ago. Tractor on the whole has had a negative growth last year and we are yet to see the momentum picking up and the passenger car segment has also slowed down. So overall there is a slowdown in growth, but the good news is there is still positive growth. So, we believe that, you know, things should start picking up again. And as I said in my opening comments from a medium term perspective, three to five-year perspective, we are quite optimistic of the opportunities of the Indian growth market.

On the question on margin improvement, you know our product mix in terms of our export portfolio, the aftermarket, as well as the various cost reduction initiatives that the company undertakes. It is unfortunate that last year, as a whole, the aftermarket in India, there was a significant slowdown and also in export while we have grown significantly in the last three years because of various new product launches etc. During last year, the rate of growth was not as much because there were no new product additions and some existing products that were in production had an end of life. So a combination of some of these things impacted the EBITDA. Now, as we look forward, we are now confident that with the kind of order booking that we are seeing for export customers as well as the revival, we are optimistic about the revival of the aftermarket. And in addition, the aggressive cost reduction measures being taken by the company will improve our EBITDA margins. As I have always maintained in our, you know, multiple investor calls, our aspiration is for this business portfolio to have an inhibitor margin of, 12%. There are times when we have been hitting that number or close to that number, but we are not able to consistently do, but I can assure you we are all working towards that.

On the castings business, again both Krishna Kumar and Sunil Kothari asked about what is the growth for the business and also what is our investment strategy and the margin. See the business, we have invested significant amounts of money over the last ten years and that investment is yet to bear fruit. Due to a combination of market driven setbacks, like for example about four or five years ago when, when general motors decided to stop making passenger cars and focus only on utility, a lot of our investments were towards passenger car. So there were some external reasons like that. And of course clearly, you know, our operational performance is also not as per our own internal targets we had set for ourselves. These two reasons, you know, impacted the profitability of the business and the investments that we have made have not been able to generate the necessary returns. So our focus over the next couple of years is to ensure that the investments that we have made, the capacities are fully booked, and I'm happy to tell you that, you know, over and above the 14% growth that we saw, there is going to be further growth in the coming year where the capacity utilization further increases. So that itself should improve the overall EBITDA margin.

Over and above, there is aggressive work going on further removing the operational inefficiencies and we are making steady progress. So a combination of these two, I'm hopeful that we will see margin improvement in the coming years. As far as further investments, I think that given the amount of money we have invested in the last, seven to ten years, we just want to ensure that, you know, that business generates the necessary shareholder returns before we look at further aggressive investments.

Yes, absolutely. You're right that there is a lot of growth opportunities in this business with the light weighting and aluminium content going up in vehicles and especially if the market moves towards EV, the aluminium content goes up even more. So there is opportunity for us.

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But this is a capital intensive business. So we will, you know, wait for some returns to happen before we look at the next phase of investments. The other questions that Mr. Sunil Kothari had, I'll just answer one more question.

Regarding the after-market, the 77 crores, yes, about more than five, six years ago, you know, Rane group, we started adding some new products to our after-market over and above the traditional parts of making linkages or Rane break lining friction material and engine valves. So this was an initiative that started. So that business today has been built to about 75 to 80 crores. These are new products that Rane introduced in the after-market business. So essentially it is that you know, going forward, we are hoping to continue to expand that portfolio in addition to you know growing the traditional after-market products of linkage and our other group company products.

Coming to Mr. Sunil Kothari's questions on which he had already circulated earlier which he did not ask today in the in the call, but I will answer them. One is the, you know, what is the clear roadmap for debt reduction and how.

As you're aware, the debt, started growing up in Madras ever since, you know, the investments in US, turned south and we started bleeding a lot of cash and of course that was followed by the COVID which made it even worse, so I think while we are happy that we were able to take the decision to divest the business, that itself will stop putting the burden on Rane (Madras). So, so clearly the, debt levels will not go up anymore and now the rest of the business that is housed in Rane (Madras) is already generating cash, so the, that though that itself should start help prepaying our debt over and above this, you know, obviously the, the impending merger with the Rane Engine Valve and Rane Brake Lining will also further strengthen the balance sheet.

Over and above this, once the merger is completed, there might be some more avenues to reduce the debt that, you know, we are currently exploring. So I'm confident that in the next 24 months and especially post the merger, there will be a few more things that we might be able to do to bring down the debt. The other, the question he also asked a question similar to Krishna Kumar on the margin, which I, I think I have answered, you know, how we are targeting to move from 9% to 12%.

On after-market, there was a question that whether China is giving us Competition and what is our strategy and efforts to capture and grow this segment. I think while China has always been a, a threat in many products in the aftermarket, we still believe that the impact is limited. It is not that they will just come in and take over the market. Yes, the Chinese products do take away some share, but the slowdown in the aftermarket is mainly due to the growth that did not happen last year, and this is not something unique to Rane. I think the entire auto component industry, other than companies catering to the two wheeler segment, if you take the companies mainly catering to the passenger car, utility and commercial vehicle segment, across all companies, there was a slowdown in the aftermarket. So we believe that the market, is, will, will come back during this year and we are hopeful that you know we will be able to grow again aggressively and we are also internally in the group consolidating all the after-market business under one management team for not only linkage products of Rane (Madras) but also the friction business of the Rane Brake Lining and engine components from Rane engine valve, of course post the merger, anyway, everything will be housed in the same legal entity. So we believe that by working together as one aftermarket team, we will be able to cross synergize across these product lines and leverage the power of the Rane brand even more in the future. And this also tries to answer one of the questions of Mr. Sunil Kothari on the, cost benefit of the synergies, we do expect the after-market consolidation also to be one of the important initiatives which will help synergize across these companies.

There was also a question from Mr. Sunil Kothari on the hydraulic product. What are the challenges and, and what are the opportunities for growth and size. The hydraulic business, you know, as again we have been trying to grow this business in the last 10 - 12 years and good progress has been made in the last couple of years. As you're probably aware, the bulk of the opportunity is in the farm tractor segment.

As the tractor segment continues to move towards hydraulic steering systems, which is the market leader in the mechanical steering, is working on capitalizing a part of the hydraulic system. Now while today I'm happy to say that we have all the products that our customers want.

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It is also a fact that we are faced with the competition that are really world class and global companies like Danfoss and then there was a company called Eaton which is also acquired by Danfoss. So there are some, and there are some other one or two other competitors who are also global companies. So the competition has been quite intense, and, you know, while we have made progress, I would say that the progress is not as we would have liked it to have been only because the competition is that much stronger. But just to put things in perspective, I think the overall size of this market.

The hydraulics market in the front tractor segment is around 400 crores. And, you know, today we are at about 17 - 18 % of that market while we, we are confident of making continuing inroads.

In this segment and increasing our share. I also wanted to put it in perspective that, you know, this is not such a huge market where there can be significant growth revenue, the 18 % market share that we have in the contractor segment could go to 23, could go to 25, maybe even 30%. So you can calculate what the size of the opportunities. The other question from Mr. Sunil Kothari was, what is the relationship with multinationals like ZF? And what can we dream of over the next three to five years?

Again, I think as we have articulated in some of the past investor calls, this is the main focus area for the future growth of, you know, running Madras is truly trying to position itself.

As a global supplier to all the steering players globally and significant inroads have been made in the last two years. Of course, as you're aware, next year has been a customer for the last five years and we have, you know, grown significantly with that steering player. In the last, you know, 12 to 18 months, we have made significant breakthrough with both ZF as well as Bosch. And these are the other two large global suppliers. We are also working with other steering suppliers like again Mando is a good example. As you know, the acquisition that we did of a company here in Chennai helped us get into Mando as a Supplier and we were not a supplier to Mando till then. And through that we are now trying to access some of Mando's global business. So overall, you know, your question of what can we dream of? This is our management's dream as well to, to grow significantly with all the steering players and be a reliable supplier of these steering components. So I think with that we have answered all the questions. I think on farm tractor, there was I think one more question on the farm tractor. Yes unfortunately the market in Q1 has not been favorable.

The negative growth of farm tractor segment continues. I think our general outlook for this entire year is very muted. We are not going to see much growth in, in farm tractor. So unfortunately we just have to wait for that market to pick up.

There was a question on the professional charges. Some of them are one off in nature as you're aware you know during this year, you know, we had taken the services of some tax consultants to do a deferred tax, create a deferred tax asset of our investments in US so that was one particular charge and then of course all the expenses related to creation of the legal entity and the plant in Mexico. And we have also, taken some initiatives to create, a shared services for, you know, all the accounts payable, accounts receivable, all transaction based activities in finance and subsequently in HR and purchase, we are trying to consolidate.

So there were some initial expenses towards that, so we are hoping that, you know, many of these charges will be one off and it will not continue. Of course, during this year, we will see some professional charges coming up in line up in due to the merger of RML RBL and REVL, so there will be some professional charges during the course of this year, but I expect all of these charges will bear fruit in the long term.

The other question on the SEBI cost and cost benefit analysis. Yes, I as you're aware, you know, we just last week we got the approval from both the stock exchanges or No objection from both the stock exchanges, through SEBI for the merger. Now we will be initiating the NCLT procedure which the timeline is difficult to estimate. We are hopeful before March 2025 the merger will be completed and definitely I can assure you that there are going to be some synergies as a result of the benefit of the merger. Some will be immediate.

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Upon, which will happen upon the merger happening. Some will happen, withintwelve to 18 months of the merger happening, and then some synergies will happen, over the next three or four years. So we have not quantified the three or four years, but the first two we have started quantifying the numbers and definitely we will be sharing it with the investors in the near future.

Yeah, I think with that I've attempted to answer all the questions. Again, thank you to both Mr Krishna Kumar and Mr. Sunil Kothar for, the well wishes and the and the questions. Now in, so continuing on with the remaining part of the agenda.

HL (35:29): In compliance with the Companies Act, the Company has engaged CDSL for providing remote e-voting facility and e-voting at the AGM, to enable members to participate electronically in this AGM. The remote e-voting facility opened on Sunday, 21 July 2024 and ended on Tuesday, 23 July 2024 as scheduled. Those members who have not exercised their vote by remote e-voting, can cast their vote during this AGM. The e-voting facility will be kept open up to the end of this meeting for about 15 minutes and the meeting shall stand concluded thereafter. Mr. Ballu Sridhar, Practicing Company Secretary, is appointed as Scrutinizer for the remote e-voting, will also act as Scrutinizer for the E-voting for this AGM. Voting results will be made available on the website of the Company. I confirm that the requisite quorum was present throughout the meeting. Thank you all for your participation. The meeting stands closed at the end of the e-voting process. I now handover to Mr. Balu Sridhar, Scrutinizer for conducting the evoting at the AGM. Thank you.

Scrutinizer (36:56): Yes, sir, the E-voting facility will remain open for further 15 minutes. The electronic facility will automatically be disconnected after the said period.

Scrutinizer (53:14): The time for e-voting has elapsed. Electronic facility can now be disconnected for the meeting. Thank you.

Host (53:24): Thank you Sir.