



# “Rane Group Q2 and H1 FY25 Earnings Conference Call”

**November 08, 2024**



**MANAGEMENT: MR. HARISH LAKSHMAN – CHAIRMAN, RANE GROUP  
MR. P.A. PADMANABHAN – PRESIDENT, FINANCE &  
GROUP CHIEF FINANCIAL OFFICER  
MR. SIVA CHANDRASEKARAN – SENIOR EXECUTIVE  
VICE PRESIDENT, SECRETARIAL & LEGAL SERVICES  
MR. J. ANANTH – SENIOR VICE PRESIDENT, FINANCE  
AND CFO, RANE HOLDINGS LIMITED**



Expanding Horizons

*Rane Group  
November 08, 2024*

**Moderator:** Ladies and gentlemen, good day and welcome to Q2 and H1 FY'25 Earnings Conference Call of Rane Group.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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. Diwakar Pingle from EY Investor Relations. Thank you, and over to you, sir.

**Diwakar Pingle:** Thank you, Neha. Good afternoon, friends. Welcome to the Q2 and H1 FY '25 investor call of Rane Group.

To discuss the Results and answer your questions today, we have the Management Team from the Rane Group, represented by Harish Lakshman – Chairman, Rane Group, P A Padmanabhan – President, Finance and Group CFO, Siva Chandrasekaran – Senior Executive Vice President, Secretarial and Legal Services, and J. Ananth – Senior Vice President, Finance and CFO, Rane Holdings Limited.

Please note that we have sent you the press release and also the presentation link of the deck. In case any of you have not received the presentation, you could look at it on our website or even the BSE site of Rane or you could write to us and we will 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 in the annual reports, which you can find on our website.

That being said, I am now handing the call over to Harish. Over to you, Harish.

**Harish Lakshman:** Thank you, Diwakar. Good afternoon, everyone. Thank you for dialing in. I would like to welcome you all for the Q2 teleconference. I would like to start with a few comments on the industry.

India's automotive industry faced a mixed performance across all segments. The passenger vehicle segment faced challenges due to subdued consumer sentiment and high inventory levels. However, the utility vehicles category continued to perform well.



Expanding Horizons

*Rane Group  
November 08, 2024*

The commercial vehicle segment continued to decline, largely affected by a slowdown in the infrastructure projects across the country.

The farm tractor industry, coming with negative growth, showed some early signs of revival driven by favorable monsoon conditions and improving farmer sentiments.

The two-wheeler segment continued its strong performance driven by robust demand from both rural and urban markets.

Coming to the Group performance:

The group's aggregate sales decreased by 4% on a year-on-year basis. Revenue from the Indian OE customers declined by 3%, mainly due to drop in the commercial vehicle segment. Revenues from international customers decreased by 10%, predominantly on account of the divestment of our LMCA business last year. The EBITDA margin for Rane Holdings consolidated increased by 140 bps supported by various cost-saving initiatives.

I will now provide some details around each of the businesses. Rane Madras, the steering division faced a challenging demand environment this quarter due to the drop in commercial vehicle segment. Additionally, a shift towards power steering and reduced demand from manual steering tractors further impacted the uptake of the manual steering products.

The exports sales declined by 6% vis-à-vis last year due to the lower off-take of steering products in the U.S. market for the ATV segment. However, the order booking continues to remain strong and we won orders worth 170 crores during this quarter. The EBITDA margin declined by 171 bps and the lower material cost was offset by certain one-off provisions.

Coming to REVL:

The Engine Valves continued to sustain the financial performance supported by strong off-takes from passenger vehicle customers. Demand from export customers remained weak. In Q2 FY '25, the EBITDA margin improved by 501 bps mainly due to favorable material price as well as other cost-saving initiatives.

Coming to Rane Brake Lining:

The company continued its market leadership in the passenger vehicle segment with increased penetration in the two-wheeler segment. We capitalized on a favorable demand environment to drive the top-line growth. Though it is a small portion of the overall sales, RBL is enhancing the international aftermarket business, strong orders from U.S. and other served regions. Won order worth Rs. 12 crores across customers and segments for RBL during this quarter.

Coming to Rane Steering Systems Private Limited:

As you all know, RHL acquired 51% stake of NSK in erstwhile Rane NSK Steering Systems Private Limited and the company was renamed. RSSL has become a wholly owned subsidiary of Rane Holdings with effect from 19 September 2024.

The column EPS product during this quarter was impacted due to drop in served models in the passenger vehicle segment and the manual steering column demand has been adversely impacted by the lower commercial vehicle sales volumes.

The EBITDA margin, as I have highlighted in some of our past calls, has been impacted due to the unfavorable mix and the drop in volumes.

Coming to our joint venture with ZF, ZRAI:

I am happy to share that ZF Rane recently inaugurated a new inflator plant as well as a Sled test facility for the occupant safety business at Trichy. The company invested close to 100 crores in setting up these facilities.

The decline in commercial vehicle segment has also impacted this joint venture, especially the steering division. So, the revenue from the steering division decreased by 14%.

The occupant safety division continues to benefit from increased preference for safer cars and strong off take from domestic customers. The revenue from occupant safety business grew by 28% compared to last year's quarter. The EBITDA margins have also improved by 128 bps driven by operational leverage and favorable Forex.

To give you a brief update on the scheme of amalgamation of Rane Madras, Rane Engine Valve and Rane Brake Lining, we have received a no objection certificate from both the Bombay Stock Exchange and National Stock Exchange on July 18, 2024 for the scheme of amalgamation and we have since then filed a joint application with NCLT Chennai on August 26, 2024 along with consent of secured creditors. NCLT has ordered a meeting of the shareholders on November 20th and meeting of unsecured creditors on November 21, 2024.

Coming to the outlook:

We saw the demand slowing in domestic automobile market in the first half of FY '25. The sales during the recent festive season bring some positivity. However, we need to wait and see if this continues during and sustains for the remaining part of the fiscal year.



Expanding Horizons

*Rane Group  
November 08, 2024*

Global geopolitical situation remains complex and resulting in higher supply chain related costs. Amid these challenges, we remain committed to operational improvements and cost saving measures to help mitigate potential impacts.

With these remarks, I am now happy to take any questions that you may have. Thank you.

**Moderator:**

Thank you very much. We will now begin the question and answer session. The first question is from the line of Manish Goyal from Thinqwise Wealth Managers. Please go ahead.

**Manish Goyal:**

I have a few questions. First on the JV, sir, like what we probably see that share of profit from JVs have been declining significantly, and this quarter it is just 5 crores. So, as per data provided in the presentation, ZF continues to do well. But somehow within ZF also, the EBITDA growth is quite strong, but profit after tax has shown a marginal decline. So, is it entirely due to increasing interest and depreciation? And what is that amount? And how do we see it going forward for ZF Rane?

And on the other side, Rane Steering Systems also the margins have fallen significantly. So, is it pertaining to only this quarter? And are there any one-off items which have probably led to such a declining margins? And how do you see it going forward, sir? And what is the operational PAT loss if we exclude the one-time income in Rane Steering Systems?

And also I would, and related question again, because probably on the debt side like what would be the situation now at Rane Steering Systems on the debt side? I believe we probably had 300 odd crores of debt, but now we have received 176 crores as a warranty settlement. So, how do you see the debt position at Rane NSK going forward and as well as what is the debt position in ZF Rane, sir? I have some more. I will come back again.

**Harish Lakshman:**

I will first answer Rane NSK. As I explained in the past few calls, Manish, unfortunately the margins will continue to remain under severe pressure, in fact, even for the next one or two years. This is largely because some of the profitable businesses that we were supplying to Maruti has come to end of life, end of production and some of the new programs that we had launched in the last 12 to 18 months is very unprofitable.

So, as I explained, this has got a long history behind it, how the prices were settled with the customer, the role of the Japanese involvement in Japan, etc. So, while we are trying to do our best to see how we can improve the present situation by additional cost reduction measures as well as some potential pricing support from customers which is not yet concluded, there is going to be pressure.

As I said, of course, from a 2–3-year perspective, we are very optimistic about this business because buying out NSK shares is opening up new doors that did not exist earlier by giving us the ability to access some new customers and also some of the new businesses that we have

already booked in the company in the future will have much better profitability. So, I expect this strain to continue for some more time. But as I said, from a 3-5 year perspective, we are extremely optimistic.

As far as the operating loss is concerned for this quarter, it is 12 crores, if you exclude the 176 crore income that we got as part of the warranty settlement. The entire 176 crores has been utilized to pay off the loans that was there in the balance sheet of the company. So, today, the outstanding loan in Rane Steering Systems is approximately 160 crores. So, the debt has come down substantially.

**Manish Goyal:**

No, I asked while probably the EBITDA has grown quite well, but PAT has shown minor decline. I believe that is largely due to higher interest and depreciation. So, one is what is that amount? And is there any one-off between EBITDA and PAT which would have led to lower PAT? And how do we see it going forward? And also related question, Harish, is in terms of how do we see the margin what we have seen in the current quarter. So, have we started getting benefits or backward integration of inflator project? And how do we see it going forward?

**Harish Lakshman:**

So, the PAT has been impacted largely due to the acquisition of the Steering Wheel Business TSSW which you are aware happened in the month of March. So, that has impacted the PAT.

But having said that, as far as the safety side of the business, definitely the margins have started to improve because of both the inflator as well as the webbing localization. Of course, the production on those two products is still in ramp-up phase, and as the ramp-up reaches to full capacity, you will see the full benefit of the margins flowing to the bottom line. So, definitely we see this margin improvement to continue in the coming quarters. And overall the book of business also looks very good.

The combined margin was also impacted, as I said earlier, because of the commercial vehicle market slowdown, which the Steering Gear division depends on completely. As you know, the inherent profitability of the steering business is decent. But if there is a sudden drop in volumes, then our ability to retain the margins becomes very difficult. So, we are still hoping that the market picks up on the CV side so that the margins can improve on the steering side as well in the coming quarters.

**Manish Goyal:**

So, Harish, what was the impact due to this acquisition of steering wheel? So, I believe the numbers what you have shared are consolidated numbers and it includes the new acquired business of steering wheel. So, what is the revenue and what is the profit impact due to that? Just if you can share.

**Harish Lakshman:**

So, for the quarter, the new business that we acquired had a top line of about 45 crores, and it had an EBIT of about 2.5 crores.



Expanding Horizons

*Rane Group  
November 08, 2024*

- Manish Goyal:** So, at net level, it has incurred losses.
- Harish Lakshman:** PBT is 2.5 crores. That particular subsidiary has no loan in it. So, actually the PBT is 2.5 crores on a top line of 45 crores.
- Manish Goyal:** And one more question on Rane Madras. You did mention that margins were impacted due to one-off provisions. So, sir, if you can share the number and what was it pertaining to? And really appreciate if you can please mention this in press release also so it becomes convenient to analyze it.
- Harish Lakshman:** I don't know whether you read it fully, Manish, because it is clearly explained in the press release. I will, in fact, read the same statement.
- Manish Goyal:** Yes, Harish, I read the segment, but the quantum is not mentioned. So, that is what I was referring to.
- Moderator:** Thank you. The next question is from the line of Pratik Kothari from Unique PMS. Please go ahead.
- Pratik Kothari:** I think, sir, you were answering to Manish.
- Harish Lakshman:** Yeah. So, as far as the one-off provision is concerned, as we explained, this was the receivable amount from the buyer of our LMCA business was due in September 14th. This amount has not yet been received. Discussions are still going on. And while it may take some more time, I still believe that the money is recoverable. But for the duration, there is some uncertainty. So, therefore, we decided to make a provision during this quarter for this amount and that amount is 12 crores.
- Pratik Kothari:** Sir, I believe even in Q4 of last year, we had made some 14 crores of provision for the same reason, right?
- Harish Lakshman:** So, with this, we have provided 100%.
- Pratik Kothari:** And I believe this was a private equity whom we had sold this business to. So, what is happening, I mean, were there milestones that were to be achieved, which is not getting achieved? Or is this something else? Why aren't they paying up?
- Harish Lakshman:** They had committed to pay it on certain dates in two installments, this entire 26 crores, which has not happened. But there are some clauses in the agreement where if they don't pay us, the amount is still owed to us and interest will also accrue. And there is some certain lien that we had on the assets of the business. So, that is why I made a statement earlier that I still believe



Expanding Horizons

*Rane Group  
November 08, 2024*

that the amount can be recovered, but the duration, whether it will come this quarter, next quarter, there is some uncertainty.

**Pratik Kothari:** So, I mean, in terms of business performance, it's not related or linked to that?

**Harish Lakshman:** Yes, for us it's not linked to anything to do with business performance. It was purely a time-based payment schedule. So, there is no link of the business. And as I said, actually, if they don't pay us, interest accrues to them. And in the event of a liquidation or something that happens over there, we have a charge on the assets.

**Pratik Kothari:** And sir, regarding this merger between Engine Valve, Brake and Rane Madras, if I think from a perspective of shareholder as Rane Brake or Rane Engine, it seems that we are being added to a business which has a lot of stress in terms of business performance, in terms of balance sheet, in terms of debt, etc. And given we have this voting, which is coming up very soon, so if you can highlight it as a Rane Brake or as a Rane Engine shareholder.

**Harish Lakshman:** Yes, I will answer. Yes, if you are an investor who is interested only in quarters, yes, it will make no sense, this merger. You must understand that Rane Engine Valves has been losing money for 10 years. So, one good quarter that happens. So, if you take a very quarterly view, then Rane shares may not be the best solution because we take long-term views here. So, Rane Engine Valve has turned around after 10 years of losses, right?

Similarly, Rane Madras, as I explained, if you take even 24 months ago, you know the numbers of Rane Madras. Because of LMCA, and we have taken some additional provisions this quarter, and of course the fact that commercial vehicle market has slowed down, farm tractors are still in negative territory, and some slowdown has happened in U.S. exports, all this has happened in one quarter. So, if someone wants to take a very narrow quarterly view, there is nothing that I can say.

**Pratik Kothari:** No, I think you know that we have been shareholders for the last 12 years. So, I don't think it's a quarterly comment which I was expecting. I was trying to understand, I mean, as shareholders of Brake, what is it that we get, in a combined entity, what are those benefits? Just sir, caveat, we have been shareholders for the last 12-13 years.

**Harish Lakshman:** Right. So then you should know the potential that Rane Madras has, and not go just by this quarterly result. And as far as Rane Engine Valve is concerned, at some point this product is going to decline. And as I said, this company comes with a lot of footprint, with deep manufacturing capability.

So, the merger enables us to save money in the future, as Rane Madras' growth happens in other product lines, to be able to effectively use the footprint, as far as Rane Engine Valve is



concerned. So, for any Rane Engine Valve shareholder, who is stuck with a dying product, now there is hope and light that they have access to lot more products.

As far as Rane Brake Lining is concerned, overnight the company is achieving scale from being a 700 crore company to be a part of a 4,000 crore company. And Rane Brake Lining, while, of course, has been performing very well and it is debt-free, the growth has not been satisfactory, even from our own perspective.

If you look at Rane Madras CAGR over the last 15 years, it is about 12%-13%, whereas Rane Brake Lining is at about 7%. We believe, and of course, if you look at exports, both Rane Engine Valves and Rane Madras is at about 30% exports on sales. Rane Brake Lining is at about 6%, 7%. So, we believe that Rane Brake Lining will now get access to markets, especially in Europe and in North America, thanks to Rane Madras, and we will be able to piggyback on their export capabilities to grow the exports.

And honestly speaking, because of the post announcement of the merger, we have already started facilitating some of the exports and we are actually beginning to see results already. You can see the export sales of Rane Brake Lining is growing. So we believe that RBL will also have a direct benefit to be a part of this larger Rane Madras.

And of course, post of merger, because of the size that we have, and the overall balance sheet become stronger and as I have also communicated earlier, we are very, very clear that in the next 12 months, we are going to look at some more significant debt reduction options. Obviously, it makes far more sense to do some of those initiatives post the merger, rather than before. So, we are waiting for this merger to get completed before we initiate that as well.

**Pratik Kothari:** Is there any ballpark figure what would this reduction be in debt? I mean, I believe these are some non-core assets which we intend to sell. Any ballpark, what are those numbers?

**Harish Lakshman:** I mean, it's difficult to estimate. I mean, if you want me to give me a number, I would say we are looking at at least 150 crore reduction during next year. I mean, when I say next year, between January and December of 2025.

**Pratik Kothari:** And sir, I will again echo Manish's view that if these one-offs were written either in our presentation or in a notes to account, that would have been better, the quantification of it.

**Moderator:** Thank you. The next question is from the line of Munjal Shah from Antique Stock Broking Limited. Please go ahead.

**Munjal Shah:** Just one bookkeeping question with regards to Rane Madras. You mentioned 12 crores written-off. In which head is this 12 crores written off? And second, why is it not reflected in the cash flow statement? Because it is non-cash.

- Harish Lakshman:** So, I believe it is coming in other expenses.
- Munjal Shah:** So then that 12 crores comes here. And why does it not reflect in cash flow, sir? Because it is non-cash, right?
- P.A. Padmanabhan:** If you look at the cash flow statement, in the cash flow from operating activities, you will find that from the profit for the year, we have made adjustments for various items which includes impairment loss on financial assets as well.
- Munjal Shah:** No, that is a very small amount, sir. That impairment loss on financial assets for this half, it is only 0.44 crores in standalone. And in consol is 14 crores. So, that 14 crores includes this 12 crores in consol numbers, right?
- P.A. Padmanabhan:** It includes 12 crores. This impairment is happening at Rane Madras International Holdings at the Netherlands company level, at the subsidiaries level, so it is having a direct impact at the consolidated level.
- Munjal Shah:** And if we then include our EBITDA margins are 9%+ actually for Rane Madras.
- Harish Lakshman:** Exactly. But for this, even despite a poor performance at Rane Madras, EBITDA margin is 9% plus.
- Munjal Shah:** And sir, considering this year, like we are witnessing some volume pressure across various segments and maybe around a quarter back when we met. So, now what is the type of guidance are you likely to see and I am not looking at one quarter or one year actually, but in terms of Rane Madras, Rane Brake and Rane Engine, these three companies together, what type of, over next four, five, six years, what is the CAGR that you are expecting, and you are still expecting margins to go up to 11% in two years' time and maybe upwards of 12% post that?
- Harish Lakshman:** Again, as always for me, the uncertainty is always the next two quarters. We really don't know how the market is moving. Of course, I think all of you would have seen October sales across all segments, four-wheeler, two-wheeler as well as commercial vehicle has been extremely encouraging.
- But of course, we also have to realize that both Navaratri and Diwali happened in the month of October, whereas last year Diwali happened in November. So, we don't know whether what we saw in October was just a one-off thing or it will sustain. But of course, we are all hoping it will sustain, which will mean a much better Q3 and Q4 for us. But there is still a lot of uncertainty. We are not clear why the demand has dropped. But we still believe that structurally there is nothing significant that is going to slow down the industry.



Expanding Horizons

*Rane Group  
November 08, 2024*

So, to answer your question from a 5-year perspective, definitely we are very optimistic of growing at least 10% CAGR in the domestic market, combining all the segments including the aftermarket segment as well as some of the new product launches etc.

And as far as exports is concerned, our order booking continues to be strong despite a little bit of slowdown only in the ATV segment that we are seeing. And as I explained I think even in the last quarter's call, even for Rane Madras' slowdown in export, there has been high rate of growth the previous two years and then there have been one or two end of life of production etc., whereas some new program is starting next year. So, as a result of all that, it looks as though Rane Madras' growth during this year on export has slowed down. But I am confident that it will continue to improve in the coming years because the order booking is still very robust. So, therefore, a good domestic growth as combined with the continued export growth, we are still confident of hitting a double-digit CAGR from a 5-year perspective. And as far as margins are concerned, yes, clearly we are seeing visibility of getting to about 11% EBITDA in the combined business in the coming years.

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

**Rajkumar Vaidyanathan:** Sir, I have three to four questions. So, if you permit me, I will ask one day one.

**Harish Lakshman:** Sure.

**Rajkumar Vaidyanathan:** The first question is on the acquisition of the 100% stake in Rane NSK, I just want to know what is the motivation for Rane to acquire the stake, and if you could just give more color as to why do you think that Rane will be able to turn around this company without the NSK partnership? And are we looking at any tie-up with some other technical partner in the medium to longer term?

**Harish Lakshman:** Yes, so as I explained even in last call, while we have purchased the shares of NSK, the relationship with NSK continues. So, all the current Maruti programs that are under production, even Volkswagen program under production will continue. The license and technology will continue till the respective end of life of those vehicle models. And also the opportunity exists for some future models also. So, therefore, the NSK relationship continues. Of course, it will not be to the same level as it was when they were a shareholder.

As far as other opportunities are concerned, yes, we are working on some options and we hope to disclose something publicly at the appropriate time, which will demonstrate to our investors that this company has more options now available to pursue customers other than just being dependent only on Maruti Suzuki. So, we will be announcing something shortly, maybe in the next month or so you will hear about the future technology plans also for this company.



Expanding Horizons

*Rane Group  
November 08, 2024*

But as I said we continue to remain very optimistic because we believe this share purchase has given us an ability to grow with customers that did not exist in the past. Of course, the short-term profitability and margin challenge is there, and of course we are working very hard to see what short-term measures are available to improve the margins. But from a long-term perspective, as I said, this new technology options will open new doors.

**Rajkumar Vaidyanathan:** And sir, I also just want to extend this question. If you look at the current holding structure now, Rane Holdings has got 100% stake in Rane NSK and under JV and then the RML consolidated, right? So, I was just thinking would it make sense to combine Rane NSK also into the RML group so that the group can leverage losses of NSK and that way it could save the cash.

**Harish Lakshman:** So, I think it is a fair question and as we have communicated when we announced the merger of Rane Madras, Rane Engine Valve and Rane Brake Lining, it was not clear what was the future direction of Rane NSK at that time. Even though some conversations were going on between NSK and Rane, nothing was certain. So, after announcing the merger, this particular event has happened.

So, we will keep reviewing this, and we will see what is in the best interest of all stakeholders including our customers and of course our investors. So, we will keep reviewing this, and we will come back at the appropriate time, but if your next question is going to be do you see something happening in the next one or two quarters, the answer is no.

**Rajkumar Vaidyanathan:** But from a scale and from a valuation standpoint, now that you have 100% stake in Rane NSK, it would make sense to kind of collapse all the units under one entity, so that you will have a larger scale and better valuation and also the volatility in the stock and institutional interest will also be there. I would request as a shareholder to go to consider this, if not in the short term, at least in the medium term.

**Harish Lakshman:** Yes, definitely your point is noted, and we will keep reviewing this.

**Rajkumar Vaidyanathan:** Sir, moving to the next question, this ZF Rane, I think the previous participant asked, I just missed the point on why the PAT has come down despite a robust EBITDA performance and is there any one-off?

**Harish Lakshman:** No, as I explained the interest cost has gone up. It is largely due to that and as we mentioned, we also have depreciation, and all the inflator investments and webbing investments that we have made have gone into production. So, the capitalization has started. So, there has been an increase in both depreciation as well as the interest expense which has led to this.

**Rajkumar Vaidyanathan:** So, the third question is on this Rane Engine Valve performance. That has given a very good performance this quarter. So, is there any one-off or is this performance, we can assume that it is kind of maintainable?



Expanding Horizons

*Rane Group  
November 08, 2024*

**Harish Lakshman:** There was some one-off price recovery that happened during this particular quarter, which is what made EBITDA jumped to 11% in this business. But having said that, if you just plot the EBITDA of this business in the last 4-5 quarters, you can see that it is steadily improving, and I believe that we have the potential to hit a 10% EBITDA in this business once the market also picks up. So, clearly, we are getting more and more confident on the performance of REVL.

**Rajkumar Vaidyanathan:** Sir, the last question, any update on the tractor segment given the robust monsoon, are you seeing any green shoots?

**Harish Lakshman:** Well, some small increase is happening, including in October sales, but it is definitely too early to say confidently that the tractor market is back into growth territory.

**Rajkumar Vaidyanathan:** And what is the general outlook for the next couple of quarters? Do you think the growth will be similar to what we had in the previous year's similar quarter?

**Harish Lakshman:** Sorry, can you repeat that question?

**Rajkumar Vaidyanathan:** No, I am just asking for the second half, what is the outlook for the second half? Will it be similar to what we witnessed last year or it will be better given better monsoon? Not only tractor, so the overall auto segment.

**Harish Lakshman:** I think we are expecting a slightly better second half compared to last year because the CV market had slowed down in Q4 of last year and we are expecting this coming Q4 to be slightly better. But for the entire year, we are planning about a 4% growth for the year.

**Rajkumar Vaidyanathan:** And sir, lastly, on the raw material inflation, given the softness in steel prices, do you think that going forward the raw material inflation will be kind of subdued and any improvement in performance is reflected in bottom line? Is that a fair assessment?

**Harish Lakshman:** Yes, we are not seeing any significant movement either upward or downward.

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

**Sunil Kothari:** Harish, basically the point of Pratik who is trying to understand it, definitely the merged entity will have a very larger benefit of the merger scale and everything. So, if you can talk about the say, Rane Madras has aluminum die casting, exports, new product development, new orders and other way this farm segment which is manual and which is going down. So, combining all this, if you can talk a little bit on a long-term view, because you know very well, we are shareholders since very long. So, we are trying to understand that what possible positivity or development you are trying to do with Rane Madras.



Expanding Horizons

*Rane Group  
November 08, 2024*

**Harish Lakshman:**

I think we are positioned very well in the domestic market as far as all the steering products is concerned, including in the passenger car segment with all the new programs we continue to penetrate both Tata Motors, Mahindra and Maruti Suzuki. So, we are very well established in all the segments on the passenger car segment.

As far as the farm track segment is concerned, in manual steering, as you know, we have a very high market share, upwards of 70%, whereas when the tractor moves to power steering, we have only a 22% or 23% market share. So, whenever the market is moving from manual to power, there is a little bit of, there is loss of business. I mean, I shouldn't say little bit. There is a, from our perspective, reasonably significant loss of business. But that is inevitable because we were the third entrant into this segment and both the number one and number two in this market are multinationals who have an equally good product and until recently, I would say, even they had a better product.

So, therefore, the farm tractors, while it will continue to grow, the hydraulic business in Rane Madras will continue to grow, but if you actually look at it, we are actually trying to hold on to what we are actually losing in manual steering. But overall if you see, the hydraulic business is about 130-140 crores on the total close to 1,700-1,800 crores turnover of Rane Madras. So, I believe that that will continue to grow, but I don't see that becoming a 400-500 crore portfolio. It will continue to grow at maybe 7%-8%.

But the export story continues to remain strong, both for the casting business as well as for the ball joint and rack and pinion. As we have mentioned, even this quarter, we have won some new orders both on ball joint as well as on rack and pinion, a good order in Europe as well as some in U.S. So, we are very optimistic that the export growth will continue.

So, I think the outlook is optimistic. And as I said, the EBITDA margins also, we are working on several initiatives to improve this 9.5-10% EBITDA that we have on the steering and casting business to move it to 11-11.5%. And those initiatives are also underway. It's unfortunate that the market has slowed down a bit, which impacted us in this quarter. And of course, also we had some of these one-off provisions. Otherwise, as I said, even this quarter, despite the slow market, the steering business had an EBITDA of 9.7%.

So, overall, we continue to remain very optimistic, Sunil. And I think post merger, I must tell you, Rane Brake Lining outlook is also looking very encouraging for us from an export standpoint. We are able to see potential for steadily growing that business at about 20%-25% every year, the friction business and into markets like both U.S. and to Europe. And as I said, this is also part of the synergy benefit that we are seeing. So, we are also quite excited about that growth that we see.

And Rane Engine Valve, the focus has been on moving to more and more EV insulated business. We have been able to penetrate both domestic as well as export markets into some of the EV



Expanding Horizons

*Rane Group  
November 08, 2024*

insulated business and we are quite encouraged. So, while Rane Engine Valve, eventually there will be a slowdown of the engine valve business, but I think from a 10-year perspective I am still seeing growth for our business.

**Sunil Kothari:**

Harish, more on this aluminum die casting. I think we are very confident and it seems that now domestic aluminum die casting production and everything is ramping up. So, how that is moving, maybe quarterly numbers if we can say what type of outlook.

**Harish Lakshman:**

See, the die casting business while the potential is still there, as I have said in the past from a profitability standpoint, we are still not fully where we need to be. The EBITDA margins are getting better, but at the same time the depreciation and interest on this business is still high because we have made significant investments and lot of it was debt-based investments that were made and the volume did not materialize.

The bulk of it was done just before COVID and the sales didn't happen. So, the interest continued and the depreciation has been high, but the sales has not happened. So, while the EBITDA margin is definitely in double digits, we see 13%-14% EBITDA margin in this business, the depreciation and interest continues to remain high.

So, that is why we are working on two things. One is to reduce the interest burden, and as I said earlier, during 2025, we are planning some initiatives to reduce the debt that will help to reduce the interest burden. And I think depreciation will automatically start coming down in the next couple of years. So, once those two happen, you will see the PBT in this business also go to about 6.5%, 7%. So, that is what we are hoping to do.

**Sunil Kothari:**

And sir, last question is on this Mexico initiative. So, just feedback from your side, how you feel, how is it progress and what you think?

**Harish Lakshman:**

So, we made a small step and we have started. All the work is going on, but with what is happening in U.S. and the election and I think I am sure you have read even more on what is going on between the Republican Party and the current Mexico President, so we are also little concerned. We will have to wait and watch. I still believe that even if there is some negative impact, it will be targeted only at certain countries like China etc., and India will not get impacted, but we will have to wait and see.

But as I said when, while going into Mexico itself, we have been very careful in our approach strategy after having learned lessons from U.S. So, if we see major headwinds, we have made the investment in a manner that we can quickly recover and make a quick move unlike U.S. where we were forced to live with the problem for four, five years. So, here while assets, some investments have been made, everything is largely a lease-based model, so we can quickly take action if the geopolitics is unfavorable.



Expanding Horizons

*Rane Group  
November 08, 2024*

I think also the other risk that we see is the program that we have invested in Mexico for is mainly an electric program. So, that is also an uncertainty. While the program is still there, we will have to see how the electric volumes play out in North America. So, we will have to wait and see the impact of this new elections in the U.S. and then take decisions.

**Moderator:** Thank you. The next follow-up question is from the line of Manish Goyal from Thinkwise Wealth Managers. Please go ahead.

**Manish Goyal:** Sir, I have a few questions on Rane Holdings. So, we have booked an exceptional gain of 213 odd crores. So, 176 is towards warranty settlement. There is another 37.5 crores is basically a re-measurement of stake in Rane NSK. So, just wondering why is it booked through P&L and what is the fair value which was assessed that we book gains on this stake increase?

**P. A. Padmanabhan:** Manish, this is Padmanabhan. See, this stake that we acquired, we were already holding a 49% stake in Rane NSK and then we acquired additional 51% from NSK, making it 100%. Now as per the accounting standard, Ind AS 103, we need to do a fair valuation of the entire investment.

Now while doing so, the portion of increase in the value which can be allocated to the 49%, that needs to be taken through the P&L and the portion which can be allocated to the 51%, that will be shown under equity. So, here whatever initial investment that we had made for the 49%, that was compared with the fair valuation of the 49% and the difference is around 37.5 crores which has been taken to the P&L and whatever amount we have paid for the 51% acquisition compared with the fair valuation, that difference has been taken to equity. This is as per the accounting standard requirement for purchase price allocation.

**Manish Goyal:** And the debt position, what we show, consolidated debt of 1,052 crores at Rane Holding, this is after repayment of debt at Rane Steering System of 176 crores?

**P. A. Padmanabhan:** Yes.

**Manish Goyal:** And this debt would have gone up also because Rane NSK got consolidated with effective from 18th September. No doubt 12 days, but the balance sheet is fully reflecting the higher debt. Am I right, sir?

**P. A. Padmanabhan:** Yes.

**Manish Goyal:** And on, say, Rane Engine, it was mentioned that there was one-off item. And so, ideally, if you can share that number and we are probably confident that we will move to double-digit margin Rane Engine. What was the one-off write-back, sir?





Expanding Horizons

*Rane Group  
November 08, 2024*

- Harish Lakshman:** One-off was some past price recoveries which was under discussions and negotiations with customers. The full impact of that negotiation was recorded during this quarter. 4 crores was the amount.
- Manish Goyal:** But excluding this, ideally, what do you say that aiming that we should be reaching 10% margin here in near future?
- Harish Lakshman:** Yes, definitely. Of course, the market has to pick up again, Manish, but yes, definitely we can, visibility for that. Yes.
- Manish Goyal:** And if you can just share what is the CAPEX plan for the group and within group, like, in which companies? Because in Rane Madras also we see CAPEX is high and the debt is increased in Rane Madras. So, just want to get a perspective on the CAPEX plans in near future, sir.
- Harish Lakshman:** So, I mean, as we had communicated in the past, our three-year CAPEX plan was approximately 1,000 crores across all the businesses, out of which, we had planned originally in FY 2024-25 400 crores, and then 300 crores each is the subsequent two years. But I expect we will be holding back on some of the CAPEX during this year. So, the 400 crores may not happen to the full extent, but as of now, we are retaining our outlook for this 1,000 crores of CAPEX from a three-year perspective. And out of this 1,000, almost 45% of that is going to come from ZF Rane. So, the remaining 550 crores will be from Rane Madras and Rane Steering System.
- Manish Goyal:** So, sir, this 45% means we have already invested 100 crores for the inflator and webbing plant, and we are talking about incremental 450 crores in ZF Rane itself over a period of next three years. So, what will be it? Again, will it be related to capacity expansion? If you can just what are the plans over here?
- Harish Lakshman:** So, a lot of it is to do with the capacity expansion, because the business is continuing to grow at 20% plus. Both in exports as well as domestic also, we have been winning a lot of new orders. So, almost all the CAPEX is towards, I would say 80% of that amount is towards capacity increases. The remaining 20% will be towards capability, engineering, R&D, things like that.
- Moderator:** The next question is from the line of Lakshmi Narayanan from Tunga Investments. Please go ahead.
- Lakshmi Narayanan:** So, a few things. Just wanted to understand you have incorporated a company called ZF LIFETEC Rane, okay, and I also understand that ZF globally wants to separate out the occupant safety business. Now, what does that actually mean for us? Because that will be helpful to know because we incorporated a new company now. Where does it fit? And if you can just put some life on that.



Expanding Horizons

*Rane Group  
November 08, 2024*

**Harish Lakshman:** So, discussions are still underway with ZF, but as you rightly pointed out, ZF has announced that they are globally carving out their seat belt airbag business into a separate legal entity. So, as a consequence to that, we are also in the process of doing that in the carve-out with ZF.

Now, what are the long-term implications is not clear to us, but I can tell you, in the short-term, I don't expect any change. It is business as usual because this is more a financial carve-out that is happening. As far as the growth strategy, customer strategy etc., nothing changes. So, from overall strategy and growth standpoint, there is no concern, but from a financial standpoint, whether it is possible that our current joint venture will get split into two legal entities, yes, it is a possibility. So, discussions are still going on with ZF, and as and when a decision is taken, of course, we will be sharing with our investors. But at this point in time, there is no reason to be concerned on any aspect as far as the growth and future of the business is concerned.

**Lakshmi Narayanan:** The ZF Rane LIFETEC, which you have Incorporated, where does that actually fit in, like is it held by the subsidiary or is it held by the Rane Holdings? What is the capital structure of that?

**Harish Lakshman:** So, that has not yet been decided. The company has just been incorporated, but I can tell you one thing, eventually, it will still be a part of Rane Holdings. Just like today, how ZF Rane Automotive India is 49% held by Rane Holdings, eventually, once the clarity is emerged on what the carve-out structure will be, there will be no change. Rane Holdings will be the effective 49% shareholder of this business.

**Lakshmi Narayanan:** And second, I just want to understand, what is the debt at each entity? If you can just give a sense of at the end of the half year, what is the debt that is held at Rane Madras, what is the debt held at each of these companies, it will be helpful.

**Harish Lakshman:** And you are asking total debt, both short term plus long term, right?

**Lakshmi Narayanan:** Yes, at a group level, what is the total debt at Rane Holdings level, including all the subsidiaries and so on?

**Harish Lakshman:** At the console level, as I think Manish or someone mentioned, 1,052 crores will be consolidated. Out of which, Rane Madras is about 740 crores, Rane Engine valve is 140, Rane Brake Lining is 0, Rane Holdings is 10 crores, and ZF Rane is not consolidated, and Rane Steering is about 160.

**Lakshmi Narayanan:** And the last question is, if I look at your joint ventures, there is some kind of corporate overheads that are being charged into each of the entities, right? So, there is a royalty that is being charged. If I look at the P&Ls of other expenses part, there is an expense that is being charged, and also there is a, I think, corporate overhead or some consulting charges being charged by Rane in general. Now, with the NSK being 100% owned by Rane, whether that charge will diminish?



Expanding Horizons

*Rane Group  
November 08, 2024*

**Harish Lakshman:**

There are two types of charges that we do. One is what we call the trademark charge and the other is for other services like our IT systems is run out of Rane Holdings, the business development, branding, secretarial and legal function, our HR development, leadership development, etc. So, all those are the services that Rane Holdings provide. So, these expenses are on an arm's length basis charged to all the operating companies.

The trademark is for the use of the Rane brand name. So, as far as Rane steering system is concerned, all these service charges will continue as it is. As far as the trademark, what we do is usually when Rane incubates a business or starts a new business, we sometimes give a couple of years holiday on charging the trademark.

Like for example, when we started some of our aftermarket business, we did not charge their trademark for a year or two. So, something like that we may do at Rane steering system, but otherwise, all the other charges will be there.

**Moderator:**

Thank you. Ladies and gentlemen, we will take this as the last question. I now hand the conference over to the management for closing comments.

**Harish Lakshman:**

So, thank you. Thank you everyone for all your questions, and I hope we were able to answer them to the full satisfaction. And of course, as always, we maintain that we wish we could have performed better, but I think because of the market conditions did not fully favor us and despite the uncertainties, I am still optimistic that the market will start improving in the coming quarters and even going into next year and that should help us deliver better numbers. So, thank you all. We will be in touch.

**Moderator:**

Thank you. On behalf of Rane Holdings Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.