



“Rane Group Q2 FY26 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Rane Group Limited Q2 FY '26 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 this conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Diwakar Pingle from EY. Thank you, and over to you, sir.

Diwakar Pingle:

Thank you so much. Good afternoon, everyone. Welcome to the Q2FY26 Investor Call of Rane Group. To discuss the announcement and answer your questions today, we have the management team from Rane Group, represented by Harish Lakshman, Chairman, Rane Group; P.A. Padmanabhan, President, Finance and Group CFO; J. Ananth, Executive Vice President, Finance and CFO, Rane Holdings; and S. Prasad, Associate Vice President, Corporate Planning, Rane Holdings.

Please note that the results and presentations have been mailed to you, and you can also view it on the company's website. In case anyone does not have a copy of the presentation or you are not marked in the mail, please do write to us and we'll be happy to send the same.

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

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

Harish Lakshman:

Thanks, Diwakar. So good afternoon, ladies and gentlemen. Thank you for dialing in. I'd like to welcome you all for this teleconference. I'd like to start with a few comments on the industry. The second quarter of this financial year was mixed yet encouraging period for the automotive industry in India.

The quarter began cautiously with subdued consumer sentiment and challenging weather conditions weighing on early performance. However, momentum gathered pace towards the latter half, driven by the onset of the festive season and the rollout of GST 2.0 with its lower tax rates from late September.

These developments revised market confidence and spurred a notable uptick in the overall sales. The Passenger Vehicle segment sustained its growth trajectory, benefiting from a series of new launches and facelift models, stable rural demand and pre-festive inventory buildup. The tax incentives, festive offers and improved supply conditions enabled automakers to clear inventories and maintain healthy momentum.

The Commercial Vehicle segment continued its positive growth, supported by strong infrastructure activity and increased government spending. Fleet operators returned to the market to expand capacity, encouraged by rising freight movement, higher construction demand, improved vehicle utilization and greater access to financing.

The 2-wheeler segment was the standout performer this quarter, achieving a record sales in September. Though the electric 2-wheeler continues to grow, supported by new launches and improved financing options, it was, however, impacted by supply constraints from rare earth magnet shortages.

The Tractor segment maintained its strong performance through the quarter, supported by favourable monsoon conditions, strong agricultural sentiment and improved rural incomes. This continued resilience highlights the stability of rural demand, which remains a key driver for the industry. Overall, the quarter reflected a gradual but broad-based recovery, setting a positive tone for the remainder of the fiscal year.

Coming to the highlights of our performance. Rane Madras total revenue was INR923.4 crores for the second quarter compared to INR851.8 crores in Q2 of FY25, which shows an increase of about 8.4%. I'm also happy to share that we won new business worth INR500 crores plus per annum across product categories during the quarter.

The new tariff situation in U.S. has not impacted sales in this quarter. However, we continue to monitor the evolving tariff situation, and we are still hopeful that the ongoing diplomatic dialogues will provide necessary clarity and stability of the policy.

During this quarter, the EBITDA margin improved by 18 bps from 8.8% to 9%. We are working on several new margin improvement initiatives, and we expect the results to flow in from Q1 of next financial year.

As we move into the second half of this fiscal year, optimism across the industry is definitely strengthening, supported by improving demand across all key segments. The near-term environment remains favourable, supported by steady volume growth across all vehicle segments in India.

We continue to see healthy demand trends from both domestic OEMs as well as export market. The powertrain-agnostic portfolio of the group, the proven capabilities in export market and higher opportunities in the Indian aftermarket are important growth drivers for us. India's position as a global auto component hub remains intact, and this is presenting a significant long-term opportunity for us.

In alignment with this industry direction, we are strengthening our capability in electronics and software integration, lightweight materials and sustainable manufacturing. These initiatives are aimed at ensuring that Rane remains a trusted and future-ready partner to global and domestic OEMs alike.

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

Moderator:

The first question is from the line of Manish Goyal from Thinkwise Wealth Managers.

Manish Goyal:

I have a few questions on each of the companies. First on Rane Madras. Sir, just there was some article on new services, which said that for Rane Madras that company is ready with EV-ready steering and suspension systems for sustainable growth, and we are planning to invest INR250

crores in technology upgradation, and we are targeting EBITDA margin of 11% to 12% over 3 years and a 15% revenue compounding.

So would just like to get your comments on this news item, number one. Number two, you did mention that we are expecting margins to improve from quarter 1 next year. So, if you can highlight what are the several initiatives, sir? And I have some other questions as well.

Harish Lakshman:

No, the first one, Manish, I don't know what article you're referring to. We are not aware. May be there is some misrepresentation, etcetera. As we have explained, the EV electric steering is all coming through the Rane Steering Systems Limited, RSSL, and there is some investments that we are doing in that area. As you know, we have already announced that we continue to manufacture licensed products with NSK. And now we also have a license agreement with ZF and we are winning new business. So I'm not aware specifically on Rane Madras.

On the second question, as I've said in multiple calls in the past, our target is to get to a double-digit EBITDA margin even when the market has got only moderate growth. So, we are continuing to work on several initiatives. And post the merger, there are also certain synergy buying that we are doing in terms of indirect material.

There are also some additional new cost reduction measures that we have initiated for direct material, raw material, etcetera. While it's still early days, we are hopeful that those initiatives will lead to further margin improvement. So our objective clearly is continuing to get to that double-digit EBITDA crossing 11% to 12% is the goal that we are working towards.

Manish Goyal:

Right, sir. And any timelines would you like to specify because we are right now at 8.6% EBITDA margin.

Harish Lakshman:

Last quarter was 9%. So -- and And we are hopeful that second half will be better than that. And therefore, going into Q1 of next year, see if the volumes continue to grow, then the confidence level is higher that we will continuously see improvements in every quarter.

Manish Goyal:

Sure, sir. And just on in the current quarter, we have seen that your raw material cost has gone up So despite your aftermarket sales growing quite strongly, high double digit. So, is there a mix-related impact? Should we understand that aftermarket has a lot of bought-out elements and probably that leads to higher raw material? If you can clarify that, it will be helpful.

Harish Lakshman:

No. I think the -- there has been a lot of raw material cost increase in the brake components division, which is erstwhile RBL. That has had a significant growth in RM cost because of certain specific special material that we use for our friction business. It is not because of aftermarket. In aftermarket, as we explained in our results, it is not comparable to last quarter because we have consolidated all the group aftermarket business into RML. So even some of our JV business, etcetera, the aftermarket goes through Rane Madras now. So that is why it is showing growth.

Manish Goyal:

And sir, one clarification on ZF share of associates from profit in Rane Holding shows INR12 crores versus INR5 crores. But if you look at the presentation where ZF Rane has reported INR30 crores profit in the quarter. So ideally, the share of 49% share should be somewhere near INR15

crores. So why is it that share of profit is reflected as INR12 crores? So that was one question on ZF. And if you can provide another clarification that these are consolidated numbers, which includes steering wheel business, which was acquired and the new plants in the subsidiaries?

Harish Lakshman: Yes. Sorry, I'm not even understanding. Can you repeat the question, Manish?

Manish Goyal: Sir, in your Rane Holdings results for the share of profit from associates, that number is INR12 crores for the quarter. But now we have only 1 associate, which is ZF Rane. And if I look at ZF Rane numbers, what you have given in the presentation, the profit after tax number is INR30 crores. So with 49% share, it should be near INR15 crores. So why there is a difference of INR3 crores? So maybe you can come back on this later.

Harish Lakshman: Yes, we'll come back separately on this.

Manish Goyal: And my related question was also on the ZF. I have a couple of questions, kindly bear with me, is on the steering wheel business. Is it the number what you shared in the presentation includes consolidated revenues from all these businesses, steering wheel business and the new plants in the subsidiaries for inflator and webbing, and also new capacities which have come up?

Harish Lakshman: Yes, I think the answer is yes.

Manish Goyal: And how...

Moderator: Sorry to interrupt sir, I may request you to rejoin the question queue for follow-up questions. The next question is from the line of Mihir Vora from Equirus.

Mihir Vora: So sir, my first question is on Rane Brakes basically. So in the Brakes division, given the current like we are hearing the chatter about the ABS norms kicking in. So how will it benefit our Brakes division? And what are we foreseeing in terms of growth there?

Harish Lakshman: Yes. So your question is about the 2-wheeler right, 2-wheeler ABS. It is definitely a positive development for RML-BCD business because with ABS coming into 2-wheelers, the need for disc pads in 2-wheeler goes up. And therefore, RML-BCD has the products to pursue this opportunity. So definitely, we see it impacting our business positively.

Mihir Vora: Right. But sir, in terms of any traction from the customers we are seeing currently or any kind of color on that front or still there's not much traction yet?

Harish Lakshman: Sorry, can you repeat? I didn't hear you.

Mihir Vora: So I'm saying in terms of any traction from the customers that they have started looking at options and few talks of how they'll be looking at the supplies or something like that. Are we receiving some RFQs there?

Harish Lakshman: Yes, yes. You mean for this ABS, right?

Mihir Vora: Yes, yes.

- Harish Lakshman:** Yes. yes. Definitely. see, whichever bikes where ABS is already fitted, we are already supplying and there are a lot more talks going on. Of course, as far as regulation is concerned, when the exact date is not yet decided, we are hoping it will happen, and that will increase the opportunity further for us. But yes, the answer is yes, conversations are going on for enhancing the business.
- Mihir Vora:** Okay. Sir, and secondly, on the ZF part, if I look at the revenue growth, our order book over the last few quarters have been quite strong into the ZF and especially the Occupant Safety division. But the growth, if you see is not something, which is aligned to the order book. So just some colour whether how do we see the growth of ZF division going ahead as such?
- Harish Lakshman:** So see, the ZF division has 2 parts, which is the commercial vehicle steering and the safety business. As far as the commercial vehicle business, the growth is in low single digits, in line with the CV market, by and large, how the commercial vehicle industry is growing. Whereas the safety business has 2 drivers for growth. One is the domestic market, increased penetration of airbags, 6 airbags, new vehicle launches, etcetera.
- Over and above that, we have a significant export portfolio where we supply to some vehicle makers as well as to ZF - other ZF plants. So that is also growing in double digits. So therefore, the outlook for this business, especially the safety business is quite optimistic that the growth rates will continue to be strong, strong double-digit numbers.
- Mihir Vora:** Okay. And sir, Just one clarification on the order book part. Can you just give us a complete current outstanding order book segment-wise where you've given per quarter, but current outstanding total order book?
- Harish Lakshman:** No. As I said, I think INR500 crores of new order booking has happened. So what is your question?
- Mihir Vora:** So I'm saying the total -- like in every quarter you give the new orders, which you are winning in the quarter, but some total outside order book, which you have in hand right now in terms of new orders which you have?
- Harish Lakshman:** Okay. So that is something we'll have to calculate. We don't look at it that way. We'll review this.
- Moderator:** The next question is from the line of Lakshminarayanan from Tunga Investments.
- Lakshminarayanan:** I have 2 questions. I want to understand both ZF entity as well as the Rane Steering. What is the cost below EBITDA, what is the depreciation, what is the interest? And also, what is the gross margin in these 2 companies? And how it actually compares with -- if possible, how it compares to the previous half year or quarter, whichever you think is appropriate? Yes, you can hear me? Hello?
- Moderator:** Yes, sir, you're audible.

- Lakshminarayanan:** Yes, I wanted to know, yes, both in ZF Rane and RSSL. , I want to know below EBITDA,, what are the 2 cost items. I just want to know the exact proportion and the debt that is actually carried by these 2 entities.
- Harish Lakshman:** So yes, we don't have this information right now readily available. We'll have to come back. We'll discuss this internally.. I think we are showing the EBITDA and the PBT -- PAT.
- Lakshminarayanan:** Yes. And second, in terms of the EBITDA, I mean, you had actually mentioned about how Rane Steering EBITDA can actually go up. I mean I always thought that what we are manufacturing is a system kind of a product, and it's not like a part we actually supply. And if I just look at systems across automotive components industry in India, our margins are the lowest quartile, right? Now how do you really pull it up? And what is the respectable number, which you think you can actually achieve in RSSL?
- Harish Lakshman:** No, I have explained this in some of the past calls. When it comes to Rane Steering Systems Limited, the margins have steadily been coming down in the last 4, 5 years. This is -- of course, I'm ignoring the warranty problem that we had gone through. Despite that, that is because, as I explained, a lot of the new businesses that were booked at that time, NSK was also heavily involved in some of the pricing decisions being a 51% shareholder.
- And a lot of business was -- the inherent profitability was not good, so which has impacted the overall profitability. So, we are working to change this. And it is going to take another few years before we see the EBITDA climb up. Today, we are only at about 4% EBITDA in that business. While definitely, we see the margins improving over the next 2, 3 years. I don't see a double-digit EBITDA happening in RSSL soon, unlike in Rane Madras.
- The answer to your question in terms of the margins, I don't have a clear answer, except one thing I can tell you is historically a lot of the electronics components and even today, is bought out in Rane Steering Systems Limited. So the material cost is still quite high. While, of course, the sales to capex is also low. So while the EBITDA margins are low, the possibility of a decent ROCE in this business is possible even with a low -- even with a single-digit EBITDA. But that's because a lot of the electronics is imported as well as bought out.
- Lakshminarayanan:** Got it. And whatever incremental business you have got in RSSL, what kind of margins they are actually coming in?
- Harish Lakshman:** They are all better. They're still in single digits, but closer to 7% - 8%.
- Lakshminarayanan:** So maybe one feedback is that maybe you can actually segregate it and say that, look this is historical and this is incremental. So as shareholders, we can appreciate that we're actually
- Harish Lakshman:** I can only share that in the call. It will be very difficult for us to start giving you that number-wise profitability.
- Lakshminarayanan:** Fair enough. And what is the debt we are carrying in these 2 entities? And at the group level, what is the plan of debt for the entire year?

- Harish Lakshman:** Yes. So RSSL, the debt is about INR143 crores. And in Rane, the ZF joint venture is at about INR750 crores. As far as the group, as I said, in Rane Madras, the debt reduction plan, we are continuing to work on. And we are hopeful that by the end of this financial year as well as going into next financial year, we will see that INR200 crores to INR300 crores reduction in debt.
- Moderator:** The next question is from the line of Pratik Kothari from Unique PMS.
- Pratik Kothari:** So on exports and especially Steering, this is -- sorry, my question is on Rane Madras. So the export portion in Steering seems to be doing very well. So, if you can just highlight what is going right there?
- Harish Lakshman:** On Rane Madras, right?
- Pratik Kothari:** Correct.
- Harish Lakshman:** Yes, I think it's also partly because you're comparing it to last year quarter, which was not a great quarter. So, if you see what happened last year, there was actually a small degrowth in exports in Rane Madras because the off-highway vehicle market in U.S. had a steep fall during last financial year. And since then, that market has stabilized a bit. And therefore, you're seeing some improvement in sales. And also, there is some new program that's kicked in. So it's a combination of both that last year was extraordinarily I mean, more bad compared to now and some new business.
- Pratik Kothari:** Right. But this would be similar customers, similar geographies that we used to do? Or is this something new?
- Harish Lakshman:** No, no, no, similar customers in similar geographies.
- Pratik Kothari:** Correct. Sure. And secondly, on this land sale, I mean, except Velachery, we also had plans to do another couple of them. Is that plan still on?
- Harish Lakshman:** Yes, it is very much on. So, as I explained in the past, we are continuing to receive offers and then see if offers can be concluded. So that process is still on. There's nothing immediate that we have to report. But as and when it happens, we'll surely disclose to the shareholders.
- Pratik Kothari:** Correct. So, when you said that our debt reduction can be INR200 crores INR300-odd crores here, because we received INR350 crores itself from Velachery, and I'm sure there will be some tax that we'll have to pay, but plus this incremental. So, shouldn't that debt reduction be much more?
- Harish Lakshman:** We have not received the INR350 crores. The transaction has been announced. There are certain milestones, as I had explained in the past. It will happen over a period of 12 months. I think we have disclosed we have received only about INR115 crores. INR115 crores only has been received. , yes.
- Pratik Kothari:** Yes. Correct. But this and the incremental land sale all effectively will be used to repay debt?
- Harish Lakshman:** Yes.

- Pratik Kothari:** Correct. And there was this small change in aftermarket regrouping, if you can just highlight it, it's mentioned in the presentation.
- Harish Lakshman:** Yes. So now that we have completed the merger, so all the aftermarket business of the erstwhile Rane Madras, erstwhile Rane Brake Lining and erstwhile Rane Engine Valve has been put together as a separate division. In addition to that, some of the JV aftermarket of ZF Rane also is flowing through this division. So that is the restructuring that has happened.
- Pratik Kothari:** Okay. Sure, sir. And last one. So post this restructuring or consolidating these entities, we were anticipating some margin changes and over a period of time, I mean, I think in the last call, you had highlighted some 12-odd months for it to play out. Just 3, 6 months into this merger, how are things? Are we on track? What has positively or negatively surprised you?
- Harish Lakshman:** No, no. I think by and large, it is on track, and we are definitely continue to be hopeful that the margins will continue -- go up even during the second half of this year and even better next year, etcetera. But of course, the caveat is all the vehicle segments need to continue to have this positive single-digit growth, if not double digit. And the higher the growth, the faster this margin improvement for us.
- Moderator:** The next question is from the line of Raja Kumar, an Individual Investor.
- Raja Kumar:** Sir, just a couple of questions. So first is on the RML consolidated P&L. So if you see the PBT numbers of September, we have reported INR31.27 crores as a PBT as compared to INR24.68 crores year-over-year. So there is an increase of INR6.59 crores. So but if I see the major contribution for this uplift is coming from reduction in interest cost and you had some exchange -- unrealized exchange loss in previous year, whereas this year, you had an unrealized gain.
- So put together, that is what is contributing to the INR6 crores. In fact, previously, we had some impairment provision of INR50 crores. So we saw INR3.5 crores now. So which means operationally, we have not done well compared to the last year. So what is driving this? Because we thought with the merger coming through, we should be seeing some improvement in your operational performance. Actually, the performance has kind of a little bit -- it's showing a deterioration.
- Harish Lakshman:** Yes. So I mean, I think it's -- I don't have the exact breakup of numbers. As I said, clearly, if you take the Brake Component division, there has been a deterioration in the margin compared to last year due to material cost increases that we are not able to pass on or recover from the customers. Whereas the steering division as well as the engine component division, there is an operational improvement over last year. Whereas the brake component as well as the light metal casting, there isn't an improvement. So that is part of the reason. The contribution, however, remains the same. We have maintained at about 21.9%.
- Raja Kumar:** Yes. No, I'm talking about absolute numbers.
- Harish Lakshman:** Yes, yes, I understand. So, this is the reason I gave you.

- Raja Kumar:** Okay. Got it. Okay. And what is the impairment we have done INR3.5 crores this first half? On the cash flow, I can see there is INR3.5 crores of impairment of financial assets.
- Harish Lakshman:** One second.
- Raja Kumar:** Yes, INR3.59 crores. This is on the RML side., I am...
- Harish Lakshman:** RML side INR3.59 crores?
- Raja Kumar:** Yes, RML consol. See your cash flow, you can see this number.
- Harish Lakshman:** Credit loss and receivables are just an accounting thing. There is no risk there.
- Raja Kumar:** Okay. And lastly, this -- I see there is no current tax provision in the P&L, but in your cash flow, you have shown tax paid of almost INR28 crores. So how do we match these two?
- Management:** Last year, I think we wrote off that overseas investment on which we are carrying deferred tax assets. Deferred tax assets, we are setting off next year -- last year, we set off around INR29 crores. This year also, the entire current tax will be set off against the deferred tax assets. That's why we are not making any provision for the current -- we are not making any current tax provisions. However, we are paying -- as a conservative measure, we are paying, then we are getting refunds subsequently from the department
- Moderator:** The next question is from the line of Munzal Shah from NSFO.
- Munzal Shah:** Sir, a couple of questions. One is with regards to margins of Rane Madras. So last year and we don't include other income actually. So it was 8.3% last year. And we were guiding 100 basis points improvement in margins for this year and maybe double-digit margins from next year onwards. However, the first half numbers do not suggest any significant improvement in margins actually. And we are not including other income. So where do you see this 100 basis points improvement coming for this year?
- Harish Lakshman:** This is the same reason that I explained earlier, the margins of the brake components division, erstwhile RBL, as well as the castings division has come down. The other 2 has gone up. So, net-net, there is a -- we are not seeing the improvement in the first half. But I expect the situation during the second half to improve. So for the full year, you will see an improvement, and that will carry forward into the next financial year.
- Munzal Shah:** So should we see double-digit margins in financial year '27?
- Harish Lakshman:** Yes, that's what, as I said, if the passenger car market and the commercial vehicle market and the tractor continue to show good single-digit, if not double-digit growth, yes, we are confident that it will hit double digit.
- Munzal Shah:** Okay. And secondly, sir, in terms of debt reduction, we were guiding somewhere around INR150 crores, INR120 crores of debt reduction. And that was before selling Velachery land actually, okay? And now Velachery land has been sold for INR350 crores, of which we have realized INR110 crores. And despite that, there is no reduction in first half. And Velachery, I presume

that as Rane Madras, we were generating decent cash flows to prepay debt. So why are we lagging in debt repayment actually?

Harish Lakshman: No, no, the plan always was during the second half. And as I said, the land sale is linked to certain milestones. So you will see the debt reduction happening in the second half of this year and going into next year. There were some capex, etcetera, that were planned in the first half this year. So that is the reason why you have not seen it during the first half.

P.A. Padmanabhan: In the first half, we have spent more than INR90 crores in capital expenditure, which otherwise would have resulted in additional term loan, which has not happened. So we have maintained the loans at the same level and then incurred additional business-related capex of INR90 crores. The second half, you will see the debt reduction happening.

Munzal Shah: So, second half, you mean to say there will be lower capex and, hence, the cash flows will be used to repay debt plus whatever money we get from the buyers?

P.A. Padmanabhan: Comparatively, yes. But the full debt reduction impact will take 2026-27. And we will start seeing the impact from the second half onwards, but for the full impact to be seen, it will take 2026-27.

Munzal Shah: So if we take second half of this year and next year, 12 months, okay, should we combine see at least around INR400 crores of debt reduction?

Harish Lakshman: No. As I said, INR200 crores to INR300 crores is what we are hoping.

Munzal Shah: No, for this year or for next year?

P.A. Padmanabhan: Next 18 months, we expect about INR250 crores to INR300 crores debt reduction.

Moderator: The next question is from the line of Viraj from Enigma.

Viraj: Sir, my question is slightly more longer term rather than just 2 quarters. Sir, if you look at the environment right now, this is one of the best environments auto ancillary companies have seen in 4 to 8 quarters or even 2.5 years. In this environment, we are talking 8% - 10% growth So -- and also, we are unable to improve margins.

If you look at any of the top auto ancillary companies who say that they have cutting-edge technology and were primary Tier 1 suppliers like we are, they make significantly higher margins. We have been talking higher margins for a long, long time. But operationally, we are doing worse than last quarter, which is much worse than any of the top Tier 1 companies. So how do you explain such a difference compared us to any other top auto ancillary companies?

Harish Lakshman: No. So I don't know who you're referring to and what product lines. See, we have to look at the mix of -- what is the segmental mix of -- see, we don't have any play in 2-wheeler, right? Many of the companies who have had excellent growth, they have 30%, 40% of their revenues coming from 2-wheelers. So the vehicle segment makes a difference in terms of the growth. As far as our segment is considered and compared to some of our peers, whether it is, let's say, JTEKT,

who is our number 1 competitor, there is a significant overlap that we have with them, both in terms of growth and in terms of margins, I think our performance is not too far behind.

But having said that, I think you are right in terms of aspiring for growth, there is -- your question is absolutely valid. Why can't we be like them? I think definitely, the intention is there and initiatives are being taken. We are still coming out of multiple legacy issues that we are solving one by one. And I think the results of those are clearly you're all able to visualize. And I think going forward, we have taken certain initiatives that will improve this. So I'm still hopeful of showing this kind of growth as well as the margin improvement.

Viraj: Sir, just one -- I mean -- and I understand where you're coming from. I'm just saying even companies with monolithic lines compared to us are showing double-digit margins already even with lower growth, right? So, I am unable to understand as an outside investor who has never run a business. And I get that point. But to basically be at like 7%, 8% margin even after putting in brake lining business, which was significantly higher margin business into RML, we are unable to improve operationally, something I'm unable to digest as a minority shareholder. That's my only challenge, sir.

Harish Lakshman: I'm not able to give an explanation for a generic question, margins are double digit for everyone. There are 4, 5 players, and that's why I said you look at mix and things like that. So I'm not able to comment one-off.

Viraj: I can take name of companies like Minda. See, I mean, I can keep going on and on...

Harish Lakshman: 45% of Minda comes from 2-wheeler business. We have maybe 5% of 2-wheeler business. That's why, as I said, you have to look at the vehicle segment mix of those companies, how much is coming from 2-wheeler, how much is coming from passenger car, how much from tractor and CV

Viraj: Sure. Sure, sir. And sir, by what time will we see the capex intensity? If you look at last 5 years and look at the combined capex of RML and think about the ROCE generated on those capex, sir, they are like reasonably poor. Now as a management and as a Board of the company, what kind of benchmark do you keep on those capex? Because the capex intensity, we always hear will keep -- will come down next year, but something or else comes up and the capex intensity just does not come down. And again, outside shareholder, I'm not able to understand what ROCE we are generating because the sales never grow at the same pace.

Harish Lakshman: Right. No. I mean, as I said, the last 5 years are not reflective of the inherent profitability of the business because of multiple legacy issues that we are fixing.

Viraj: No, no I'm talking only about the RML. I'm not talking about the JV. I'm only talking about RML.

Harish Lakshman: Yes, yes, I'm also talking RML only because if you see, we had our U.S. investment that we exited. We had to write-off. So when you look at ROCE and the EBIT that is employed on the ROCE, you have to factor in all these one-off cleaning up that was also done. So that's why I said the last 5 years is not reflective of the inherent profitability of the product lines that we are

in. It also is dealing with some legacy. So as I said, as we are cleaning up all of this and strengthening the balance sheet and reducing the debt content, you will see all this flow in, in the coming years.

Viraj: Sir, just last one thing. What is the benchmark do we have when we invest in like you talked about doing more than INR100 crores capex next year as well. What is the benchmark that we have in terms of ROCE when it comes to capex, both in RML and in JV apart from ZF, of course, because there we have a JV partners. But apart from that, where everything we control, what is the ROCE we are looking at before we put in even INR1?

Harish Lakshman: Yes. So the objective is that the ROCE should be more than 20%. This I've said this even in the past calls. And there are some businesses and some product lines where even it is upward of 25%, whereas some are only in the 16%, 17%. But for various strategic reasons, customers, we have to invest. So most of our product lines are in the 16% to 25%, 28% ROCE range.

Viraj: You're talking pre-tax?

Harish Lakshman: Yes.

Viraj: My only wish as a minority shareholder is to be slightly more careful with the capital allocation.

Harish Lakshman: Definitely. Point noted.

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

Manish Goyal: I just want to check on the -- on my previous question on the share of associate profit, if you were able to...

P.A. Padmanabhan: Yes Manish. See, as you know, now ZF Rane has started selling the aftermarket through Rane Madras. So in the quarter ending, there will be some stocks, which are lying in Rane Madras, which contains the intercompany profit element, which needs to be eliminated when Rane Holdings is consolidating at Rane Holdings level.

So this basically is while INR30 crores is the profit that ZF Rane has earned during this period and around INR15 crores should have flowed in, because there is an intercompany profit which is lying in Rane Madras inventory that has been eliminated and only the INR12 crores has been taken in Rane Holdings books. This will get adjusted in the coming quarter, and this will be a phenomenon every quarter going forward, depending on what is the profit lying in the closing stock.

Manish Goyal: Okay. Okay. Fine. Continuing on ZF Rane, if you can just give us breakup of revenue between your products, steering system and occupant safety with the comparable numbers? And also, if you can share how big is now steering wheel business, which we acquired a couple of years back? And is it profitable to the company average level of 12%?

And second question is on the -- we are seeing gradual improvement in margins at ZF Rane. Earlier, we are targeting to reach 13%. So by when do we expect that? And third question is on how is the capacity utilization at our new facilities? And what is the capex plan at ZF Rane?

- J. Ananth:** Manish, on the sales, overall sales from the quarter, Steering Gear is INR231 crores as compared to last year's INR203 crores.
- Manish Goyal:** I'm sorry. I'm extremely sorry, your voice was echoing and we could not get any number. If you can please come closer to the mic.
- J. Ananth:** Yes, is it audible now? Is it better now?
- Manish Goyal:** Yes, now it's better.
- J. Ananth:** The Steering Gear division sales is INR231 crores for the current quarter. INR231 crores INR230 crores for the current quarter as against INR200 crores for the last year Q2. And the Occupant Safety is INR396 crores as against INR383 crores in last year Q2.
- Manish Goyal:** And Steering Wheel business is part of the Steering Gear business?
- J. Ananth:** Steering Wheel is part of Occupant Safety. The Steering Wheel sales is INR58 crores for the quarter.
- Manish Goyal:** Against how much was it previous quarter, Steering Wheel?
- J. Ananth:** INR45 crores. Previous quarter was INR45 crores. Previous Q2.
- Manish Goyal:** Okay. So it is part of Occupant Safety?
- J. Ananth:** Yes.
- Manish Goyal:** Okay. Okay. And how is the capacity utilization with our new facilities? And my second question, sorry, was on the margin outlook. When do we expect it to reach to 13%, which we were targeting earlier? And on the capex plan and capacity utilization. and...
- Harish Lakshman:** So the ZF Rane, as you know, the EBITDA margins, the Steering Gear division profitability is better than the Occupant Safety. The Occupant Safety will only be in single digit, whereas the Steering Gear is in double digit and can go higher. But that is a function of the commercial vehicle market. So, if the commercial vehicle market starts growing at 8% - 9%, we will start seeing that kind of margins.
- Manish Goyal:** But Harish, this quarter, Steering Gear has grown well as per data provided now, INR231 crores versus INR200 crores, while occupant has not grown. So I'm just puzzled?
- Harish Lakshman:** Correct. But if you see -- you have to look at it also from a half. If you see the first half, the Occupant Safety business grew strong double digit. I forget, 18%, 19%? Something like that. If you see first half, we are still up by a double-digit number for -- just one second.
- Yes. So if you see the Occupant Safety, this year, first half is INR708 crores. Last year was INR630 crores, so which is almost 11.5% increase. There were some one-off reasons for Q2. So this 11% growth will continue.

Moderator: The next question is from the line of Jigar Shroff from Financial Research.

Jigar Shroff: I just wanted one answer. What is the debt on RML's books as of today?

Harish Lakshman: INR780 crores.

Jigar Shroff: 7-8-0?

Harish Lakshman: 7-8-0.

Moderator: The next question is from the line of Lakshminarayanan from Tunga Investments.

Lakshminarayanan: Yes. This is regarding the RSSL. You mentioned that the debt in the books is around INR143 crores. That means approximately INR1 crores or so would be the per month interest cost, right? So what explains such a high depreciation on this? And do you think there is -- is it like bulged up and then it will actually come down?

Because the translation from EBITDA to PAT is PBT seems to be very low. So the INR18 crores is what you have reported as EBITDA and debt would come to around INR3 crores or so for I mean, debt servicing, which means about INR15 crores depreciation is what we are carrying on Rane Steering?

Harish Lakshman: Yes, about INR12 crores - INR13 crores.

Lakshminarayanan: Okay. I mean is that like is it bulged? Or do you think that will be -- it will taper down...

Harish Lakshman: No, no, it will maintain at this level. That's translating to about 7%, 8%, right, of EBITDA. So see, this -- sorry -- it's 2.7%. Sorry, 2.7% of sales right now.

Lakshminarayanan: Got it. And the debt in Rane is around -- I mean, ZF is around INR750 crores and this you said INR143 crores. The second question is that there are a lot of these cross service income, right? So I think these entities used to charge and you used to charge some trademark fee, etcetera. And all these things will have GST component on it on top of it. Now after you realigned it, are we getting some savings due to these cross charging that was there?

Harish Lakshman: No, I'm not -- so first of all, this will have no implication on the joint ventures. It will have implication only for Rane Madras. So the -- so I don't know...

Lakshminarayanan: For example, RSSL used to pay some service fee to -- or brand fee or something to Rane Holdings. Now that RSSL has actually become 100%, there is no need to actually do this, right? So are we -- is there any savings that is there or it's already reflected in the P&L as well?

Harish Lakshman: In RHL consolidated, it will get knocked off. So as far as RSSL is concerned. But in the case of RML, it will be there. So when you look at RHL consolidated, it will get knocked off.

Lakshminarayanan: Got it. Got it. I mean you still would charge a trademark fee for RSSL?

- Harish Lakshman:** Yes, yes. In theory, yes. There could have been some quarterly adjustments, etcetera, that happens from time to time, but at a consol level, it will get knocked off.
- Lakshminarayanan:** No. Because for RSSL, the charging -- there is a GST also component also on top of it, right? So if you charge a...
- Harish Lakshman:** Yes, correct, there will be. Yes, the answer is yes, there will be GST and we'll take -- the companies will take input credit. So GST will have no implication on the inherent profitability.
- Lakshminarayanan:** Got it. So tell me one thing, which year you think will be a breakout year for RML as well as Rane Holdings, whether it will be '27 or FY '28 or even further when all these things get aligned and then there will be like an upward cliff and -- not cliff, upward trajectory.
- Harish Lakshman:** I mean very difficult to predict. We are all hoping the sooner, the better for all of us. So we're all working towards that. The market has to do its part. The tariff situation needs to get sorted out. As you know, we have a reasonable exposure to the North American market. So it all depends on how the stars are aligned.
- Lakshminarayanan:** And see, the erstwhile RBL and also the Engine Valve had leadership. Now after the consolidation, how you have actually handled the leadership? Have they kind of taken other areas or -- so that, that is one synergy benefit, which we always wanted to get, right? So how you have done that particular part?
- Harish Lakshman:** Yes. So no -- see, the one thing that we have been very careful in the merger is the businesses continue to operate as divisions. And each of the leaders continue to focus on their own respective product lines and drive the P&L for that. Where we are drawing synergies is all only in the support functions.
- Starting with finance, where the finance team has kind of got integrated now. Then we are taking up things like of course, straightaway things like insurance, compliance costs, SEBI, stock exchange, those kind of things that is straightforward, audit, internal audit, those kind of things. But those are all small numbers, but then those consolidation has started happening.
- The next is we are starting to look at other support functions like indirect materials, transportation and logistics, those kind of things. In terms of organizational, further integrating organization, etcetera, we have not yet even looked at a clear time line. There are certain possibilities, but those comes with both pros and cons. So we're still evaluating those.
- Lakshminarayanan:** And what is the RHL debt? And what is the pathway for that at an RHL level?
- Harish Lakshman:** RHL debt is INR60 crores, how much?
- Harish Lakshman:** INR55 crores. So it's about INR55 crores. And the intent is for RHL to be 0 debt.
- Lakshminarayanan:** Got it. And is there a reason for RML to be separately listed or because anyway you have there can be one holding company with multiple entities you anyway have, right? So is there a reason for RML to be separately listed?

Harish Lakshman: No. I mean, we are looking at RML as a flagship vehicle going forward. As I've said in the past, all our future initiatives and growth investments, M&A, joint ventures, everything will be routed through Rane Madras. So we are positioning Rane Madras as the future business for growth for the group.

Moderator: Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to the management for closing comments.

Harish Lakshman: Thank you all for your time and questions. As explained, the teams are still working very hard to continue to improve our performance. Of course, I can clearly, we recognize that we have still a long way to go, but we are hopeful that we will see further improvements in the coming quarters. And hopefully, the market will also support this. So with those words, we'll conclude this meeting. Thank you.

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

(This document has been edited to improve readability)