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RANE.NS - Q2 2021 Rane Holdings Ltd Earnings Call

EVENT DATE/TIME: NOVEMBER 12, 2020 / 9:30AM GMT

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CORPORATE PARTICIPANTS**Harish Lakshman** *Rane Holdings Limited - Vice Chairman & Joint MD***J. Ananth** *Rane Holdings Limited - VP of Finance & CFO***Lakshminarayan Ganesh** *Rane Holdings Limited - Chairman & MD***CONFERENCE CALL PARTICIPANTS****Ashwin Agarwal****Manish Goyal** *Enam Holdings Pvt. Ltd - Investment Analyst***Pratik Kothari** *Unique Asset Management Limited - Investment Associate***Shyam Sundar Sriram** *Sundaram Asset Management Company Ltd. - Research Analyst***Sreemant Dudhuria** *Unifi Capital Pvt. Ltd. - Manager***Diwakar Pingle****PRESENTATION****Diwakar Pingle**

Good morning, good afternoon, friends. Welcome to the Q2 FY '21 Earnings call of the Rane Group. To take this through the results and answer your questions today, we have the management team from the Rane Group, Mr. L. Ganesh, Chairman and Managing Director; Rane Holdings Limited; Hari Lachman, Vice Chairman, Rane Holdings Limited; PE Pabina, President, Finance and Group CFO; Shiva Chandrashekar, Executive Vice President of Sector and Legal Services; and Jay Ananth of Rane Holdings Limited. Please note that we have sent the press release and also the latest presentation link of the deck has been sent. In case any of you have not received the presentation, you can look at our website or even the BSE side of Rane, or you could write to us, and we'll be happy to send the detail earning 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 of the uncertainties that we face. These uncertainties are included but not limited to what we mentioned in the prospectus. And subsequently, the annual reports, which you can find on our website.

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

Lakshminarayan Ganesh *- Rane Holdings Limited - Chairman & MD*

Thank you, Diwakar. Good morning, ladies and gentlemen. Thank you for dialing in. I would like to welcome you all for this teleconference. You'd have seen the Q2 FY '21 performance highlights of the group companies posted on our website. I'd just like to provide a few additional comments. We saw gradual improvement in the demand environment with the opening of the economy. Just (inaudible) I management teams, attractively kind of rose to the occasion and is the sudden ramp-up of production from Q1 to Q2 despite continuing supply chain and some labor availability challenges. The group continues to prioritize on cost reduction measures pursuit to minimize the impact on account of the quarter 1 lockdown, which (inaudible). The group aggregated total revenue declined by about 1%. So effectively, we are (inaudible) about flat. Revenue from Indian Oil customers grew just by 1% on a whole, however, the revenue from the international customers declined by 9% and bit cost control and lower employee cost, the EBITDA margin improved by 466 basis points. And the aggregate PBT for the group was about INR 14.8 crore compared loss of INR 34.3 crores in the previous of FY '20.

Turning to the company. A brief comments on the companies. The Rane (inaudible) standalone, net sales increased by 8%, led by growth in all the segments, sales to Indian OE customers by 5%. International customers by 6% and a very robust growth in the aftermarket by nearly 29%. Fixed cost reduction resulted in 168 basis point increase in EBITDA margin. The strong growth in farm tractor volumes is helping this business significantly

in quarter 2. Turning to the Light Metal Casting India business. We're seeing good traction with new orders, but I'm happy to share that in Q2, we won a new order of nearly about INR 36 crores a year from a leading European passenger vehicle customer. With the current order book position, LMCI business is likely to have a very decent performance in the year '21/'22. EU subsidiary, LMC, the U.S. subsidiary, however, continues to face challenges based on lower volumes and the COVID impact in the U.S. market is much more worse than what we see here and other parts of the world. A significant drop in sales and underadoption of semi-variable manufacturing costs resulted in higher loss in the U.S. subsidiary. We continue to see good progress in operational improvements. However, as mentioned earlier, the RML Board is closely monitoring the performance order books, the new orders, et cetera, to take a future call will sometime in the middle of next year on this business.

(inaudible), the revenue decreased by about 12%, driven by a drop in volumes in domestic and international customers. This was partly due to commercial vehicle volumes not picking up and also some diesel engine production coming down among most of our customers. Plants continue to improve performance, much better fixed cost control and reduction in manufacturing costs due to improvement in operational performance, like quality, productivity, et cetera and to mitigate the adverse premix and despite the volume drop we manage the EBITDA margins at similar than [7 10] last year. Rane Brake Lining experienced about a 4% decline in revenue. Sales to OE drop by 8% and the aftermarket segment posted a marginal 1% growth, however, favorable material price movement and products helped in margin improvement. There was also one-off selling price correction, which we got from the customers for prior periods, and there was some write-back provisions so this also helped us in this quarter. As you are aware Rane Brake Lining announced a buyback. This decision was taken by the Board considering the cash reserves in the company. And the fact that CapEx is not much of CapEx is required for the next couple of year given the capacity utilization currently. So cash reserves, at least part of that addition was taken to buy back shares. This buyback is now underway. Turning to the joint ventures. Rane TRW had a 3% decline in revenue. Revenues from steering gear products decline due to some volume drop in the export business and also muted volumes in the commercial vehicle segment. Revenue from the occupant safety system increased from international customers. Under absorbing of semi-variable manufacturing costs resulted in marginally lower EBITDA in this company. Rane NSK sales increased by nearly 8%. This was due to better uptake in the served models and as you know, Maruti, Suzuki a major customer has done well in Q2. Lower employee cost and reduction in other fixed costs helped in margin increase. There was an extraordinary expense INR 20 crores, which is an incremental provision towards product warranty claim. We remain cautiously optimistic about this (inaudible) demand post festive season, we'll have to wait and see now, the indications are that Q3 schedules are quite good from customers. With his opening remarks, I take this opportunity to wish you all a very Happy Diwali and a very happy and safe (inaudible) season and hand it over to Harish for his comments, after which we'll take your questions.

Harish Lakshman - Rane Holdings Limited - Vice Chairman & Joint MD

Thank you. Thank you. Good morning, everybody. Just a few more comments on my side relating to the market. The last quarter (inaudible) Q2 was an extremely challenging quarter. And in many ways, the exact opposite of Q1 where. We struggled to ramp up volumes and meet customer demand because of the strong recovery in the domestic market. To compare the group's performance vis-à-vis the market that we share some details around the vehicle segment. Our performance better than most of the major vehicle segments, except the farm tractors and small commercial vehicles, where our presence is less than 3%. In the Farm Tractor segment, the reason we had a positive growth rate, the growth is lower than industry rate due to growth of manor steering in tractors compared to the power steering. While we are there in both segments, our share, our market share in (inaudible) is much higher (inaudible) the growth lower. In the passenger vehicle segment, the higher take model help us perform much better than the industry. In the LCV segment, the increase in penetration of our power steering. This has in higher pack value and higher flow from Rane TRW and then (inaudible) segment. We also managed to increase our share of business, which helped us achieve a better performance than the industry. The growth in 2 wheeler segment is driven by share gains with some of the key customers as well as better uptake in some of our (inaudible) models. At the market segment level, our sales to the Indian customers grew by 1% over last year. Revenue from Indian aftermarket grew by 9% where as our sales to international customers declined by 9%, specifically coming from engine valve (inaudible) the business that we supply from RBS and some of the hydraulic cost stearning from Art. As per Q2 FY '21 sales, our international business is about 23% of the total group turnover. So in the few words, we'll now open up for any questions that you may have. Thank you.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have a first question from the line of Shyam Sunder Sriram from Sundram Mutual Funds.

Shyam Sundar Sriram - Sundaram Asset Management Company Ltd. - Research Analyst

Yes, sir, wonderful performance on R&W per se. You have highlighted in the presentation of increase in share of business in this commercial vehicle steering side if you can comment on that? And secondly, how much was exports this quarter? And how are we looking at (inaudible), you've also commented on a new export order win to Russia? So if you can give some perspective on of these points, sir.

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

I mean, the first 1 is because of good work done by the management last year in terms of ensuring our power steering models that are engineered on all the BS VI vehicles, as you know, from April 1st the production has all moved to BS VI. So that helped us achieve a significant increase in share of business. Of course, I think eventually, competition will catch up and will maybe -- it will be difficult for us to sustain this kind of share. But of course, we will continue to be the market leader. So I hope that answers your question.

As far as export (inaudible) I let Ananth to answer.

J. Ananth - Rane Holdings Limited - VP of Finance & CFO

The total is (inaudible) INR 110 crores.

Shyam Sundar Sriram - Sundaram Asset Management Company Ltd. - Research Analyst

Okay. Okay. And is very close to what we were doing last year, say, on a like-for-like basis. Sir, last year, we did around INR 115 odd crores?

J. Ananth - Rane Holdings Limited - VP of Finance & CFO

Yes. correct.

Shyam Sundar Sriram - Sundaram Asset Management Company Ltd. - Research Analyst

Okay. Okay. Understood, sir. And you also come very strong export momentum. So this can -- this will -- this revenue per quarter from an export will increase going forward into the future quarters. Is that the fair understanding? And the new export order win to Russia will also start by this fiscal year at sell?

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

So I mean, the answer to your first question is yes, it will continue in this fiscal year. Stocks next indecent. I'm sorry, I stand corrected. That export is in Russia, 2023.

Shyam Sundar Sriram - Sundaram Asset Management Company Ltd. - Research Analyst

Okay. Okay. Understood, sir. Understood. Understood. And second just on the NSK side, sir, if you spoke about, I mean, our revenue momentum has been better than the underlying production. So 1 is on the serve models for Maruti has done better for us. Secondly, Celso is there any pickup from that side also from -- for NSK?

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

Yes. Rane NSK, the manual column for commercial vehicles we are extremely well positioned. So I like Rane KRW, what Harish mentioned, so happened that we proactively worked on all the BS VI model. So we are extremely well positioned. So as the commercial vehicle business picks up, which is expected to happen in the second half, we will benefit from that. And on the LCV, with Ashland Tata Motors, we are very well positioned. And with M&C, we also gradually all the new generation vehicles will have our column.

Shyam Sundar Sriram - Sundaram Asset Management Company Ltd. - Research Analyst

Understood, sir. Understood. And generally, on the fixed cost initiatives. In RBL, also, we saw very good fixed cost reduction on the Rane Midra stand-alone. If you can comment on how much do we expect these -- will these costs normalize as the business momentum normalizes in the second half of this fiscal year? And specifically on the RBL Rane Break Lining the gross margin, very, very good improvement. So on the lower commodity prices and price hikes. So this commodity benefits we can assume to sustain there? Is that a fair understanding on these 2 points?

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

So yes, as far as fixed cost is concerned, I mean I definitely -- this kind of savings is not sustainable because it was already covered in the media about 4, 5 months ago, many of us have in the industry, including in Rane, we all the management and in many plants, even the unions took a salary cut, which flowed into the Q2. So salary, and now we have started restoring compensations because of the market is close to coming back to normal. So a large part of the fixed cost is also salaries of employees. So obviously, that savings is not sustainable, but very additional cost-saving measures that the company undertook. We definitely see several of those initiatives continuing even into the coming quarters. So therefore, well, 1 significant portion will not continue. There are some certain other initiative that will continue. As far as RBL is concerned, I think we had also mentioned after the quarterly results in the media, that one of the main reasons in Adia was in addition to the commodity, the main reason was there was a one-off price settlement our customers that was recognized in that quarter. That is the main reason. Now commodity and to comment on commodities, we are definitely seeing pricing is hardening, steel, iron scrap, everything is starting to we are starting to get a pressure from our suppliers for price increases. And of course, we have already started engaging in conversations with our vehicle manufacturers on the same view. So I think commodities, we will start seeing an increase in the coming quarters, especially if the demand continues.

Shyam Sundar Sriram - Sundaram Asset Management Company Ltd. - Research Analyst

Understood, sir. One last question, if I may squeeze in, sir. From NSK perspective, on the warranty provision if you can give some comment, we thought that probably the first quarter would have been the last quarter of provision. So from that perspective, how are we seeing that now planing out for the remainder part of the year? And what is the out in there for. And any new order wins per se from NSK that you would like to highlight at this point?

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

Yes. As far as the warranty is concerned, some warranty returns still continue, although, we are able to identify most of them to the pre countermeasure production. So some bunching of also perhaps happened doing the lock down, we are not getting anything. Now after that, as the vacant usage has started increasing, but we are not fully clear, but some pre countermeasures and claims continue to come. Hopefully, this should start coming down now. We are watching this very closely. We will get a better picture in the next 2 months. But as I mentioned in the last time also, the impact

will be a 2019, '20, it will be much less, but it is not completely disappeared, claims still are coming. So as Betacat, we have made a provision this quarter also. New orders kind of continue. We bid for businesses, we get some. So fortunately, so far, this is not affected in any of our new orders, although recently, there have been no order is coming from many of our customers, but we are in as a routine, winning orders for new brand for us.

Operator

(Operator Instructions) We have a next question from the line of Pratik Kothari from Unique Asset Management.

Pratik Kothari - Unique Asset Management Limited - Investment Associate

Sir, my question is on the RPDC part, where you mentioned that the Board will take a view somewhere in the middle of next calendar year. If may just talk about internally, what are the parameters that we are looking at, which is (inaudible) decide as to either continue with this decision or to let it because quantitatively, if we can at what are the things that you're looking at?

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

I mean, this is a very difficult question to answer the specific parameters. It's a combination of so many things in terms of customer order booking, efficiency improvement in plant, interest rates, et cetera, et cetera. But ultimately, the key metric will be sustainable profitability and ensuring that we can get a return on the capital that we are employing there. So that will be at metric. So we need to have the visibility for that. So that is what Mr. Ganesh said, that we will take a view in the middle of next year whether that visibility is there or not.

Pratik Kothari - Unique Asset Management Limited - Investment Associate

Fine. So I guess, like you said, 2, 3-points you look at combination of everything in terms of visibility. So in terms of -- if you look at visibility today, what should change 6 months later that will help us change the view because, I believe currently, we don't have enough visibility on on that part at least. What should change in the 6 years at least in terms of customer booking, et cetera that will help us make the decision right?

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

Yes. So the key is customer booking, whether some new contracts that we are winning, many are undergoing negotiations and also there are -- I think we have already announced 2 new businesses that we are launching in Q4 of this year, that is January 2021 (inaudible) and March that quarter, launching new customer program, how they take off, they could do much better than market. So those are the things.

Pratik Kothari - Unique Asset Management Limited - Investment Associate

This is on the non (inaudible) part, the 1 where you're launching in Q2?

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

Sorry.

Pratik Kothari - Unique Asset Management Limited - Investment Associate

That is on the non-auto section?

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

One is auto. The other is non-auto.

Pratik Kothari - Unique Asset Management Limited - Investment Associate

Okay. Fair enough. And just no reason from the middle of next year is when we the mood will be ceded during July and (inaudible) ?

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

Yes. We will take a view at that time on what the future is for that business.

Operator

(Operator Instructions) We have next question from the line of Naresh Ranka an investor.

Unidentified Participant

Heartily congratulations on decent results, and thank you for the opportunity. Sorry, I know, I mean, currently, what will be the capacity utilization of all the plants basically Rane NSK and Rane TRW? Currently, what will be our capacity utilization levels?

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

So again, it varies from plant to plant, depending on the customer mix. But I would say for Rane NSK and Rane TRW, I think on the steering side, maybe of about 70% to 80% would be the utilization levels. Whereas for -- on the occupant safety side, it's probably close to 90%.

Unidentified Participant

Okay. Sir, just 1 more question. So generally, we have seen that for also ancillaries, if they have more share of business in the aftermarket more profitable. I mean, but I feel that our Rane Group share of business in the aftermarket is lesser than we competitors like when we see a state and all that. So are we doing anything to increase our presence, both domestic and international aftermarket business?

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

I see aftermarket, you're asking specifically on steering or general?

Unidentified Participant

Generally, I bother component hearing and suspension is with the major component.

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

Yes. So generally, Rane has a reasonably solid presence in the aftermarket. In fact, our #1 product Break Line, Rane Break Line products that we make and Rane Brake line is in almost 45% to 50% of the company's revenue is aftermarket. And Rane Madras also is substantial. We definitely are a market leader in many of our product lines. I would think we are even significantly larger than Qs. As a percentage, it may not be comparable

because Rane (inaudible) has a lot of steering products that we do. We do to exports to multiple countries, et cetera. So aftermarket as a percentage of RML maybe smaller because OE thing is bigger because of exports, et cetera. But I would think after market to after market comparison, we should be even larger than (inaudible).

Unidentified Participant

Because what I can see from the stats available, I think maybe we are a little, let's say, especially Rane Madras. I think we have 15% of (inaudible) maybe aftermarket. Okay. So is there any more potential to increase because Rane TRW and Rane MSK, I think, almost lower so (inaudible) aftermarket.

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

Yes, Rane TRW, the steering side, definitely, there is some aftermarket potential, but it will not be as large as what we see in so Rane Madras and Rane Brake Lining. And of course, on the occupant safety side, the aftermarket is almost nonexistent because we may see (inaudible) airbag. And even for Rane MSK, there is a significant opportunity.

Unidentified Participant

Even the (inaudible) don't have a potential for the components?

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

Yes, very little. Very little. I mean, as I said, Rane, on the steering side, there is some and I, but it's not significant.

Operator

(Operator Instructions) We have next question from the line of Ashwin Agarwal from Akash Ganga Investments.

Ashwin Agarwal

The last time when we had met in Bombay, Harish mentioned about INR 80 crores to INR 90 crores per annum order for general motors to (inaudible) premium. So has this business commenced or when will it commence?

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

Yes. Yes, it is comment. That's the good news, Ashwin. It is coming from last month.

Ashwin Agarwal

And the site remains the same?

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

Sorry, Yes, e value size --

Ashwin Agarwal

Of INR 80 crores and INR 90 crores per annum the same?

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

Yes. As of now, it is looking to be the same.

Ashwin Agarwal

Do you hope that if this goes well, we can get additional orders of the same product? Is there a possibility?

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

I mean, definitely, there is possibility. There's no firm order booking as yet because, obviously, they want to see our performance, but there is a lot of discussions going on, and the pipeline is looking healthy.

Ashwin Agarwal

So you had also spoken about some ball joints orders from Daimler and few other customers. So have those orders what is the each state?

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

I'm not clear which 1 directly to Daimler? Or --

Ashwin Agarwal

No, I don't know, Daimler, you said some ball joints orders have commenced you have secured some orders?

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

No, I'm not aware.

Harish Lakshman - Rane Holdings Limited - Vice Chairman & Joint MD

No (inaudible), we have not got any direct export orders. But other (inaudible) orders, we have been getting on value is not so high as racine, but we are getting export orders of ball joints.

Ashwin Agarwal

Sir, what can be the exports of Rane Madras in next 2, 3 years because of the domestic oil scenario and also our subsidiaries, which we already so about how can we scale up our exports? So what are the ideas or what are we planning to do so that we can make this big is?

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

Yes, yes. So I should clearly, export is a major focus area for Rane Madras. And I can tell you that the way orders the current book of orders, firm orders that we have on hand and the pipeline that we have, I think there is visibility that it will grow faster than the domestic market, of course. Next year, the domestic market starting growing at 25% or something like that, then it's a different matter. But let's assume the Indian car market is going to grow at 10% to 12%, and commercial vehicle market is going to grow at 8%. If that happens, the export will be even higher than that.

Ashwin Agarwal

Okay. And this will continue for the next [2] years?

J. Ananth - Rane Holdings Limited - VP of Finance & CFO

In the (inaudible) business also, India tasking. As Mr. Ganesh said, I think as far as the India casting business, the worst is behind us, and the order books are now good and production has started, et cetera. And so that is also part of Rane Madras.

Ashwin Agarwal

Yes. And sir, we had a capacity of around INR 170 crores of domestic divesting. So what can be the revenue next year from this year I'm not looking and next year, maybe.

J. Ananth - Rane Holdings Limited - VP of Finance & CFO

Yes. But something on domestic total value capacity that is there is about close to INR 170 crores. Next year, we should be very close to that number next year.

Ashwin Agarwal

Next year.

J. Ananth - Rane Holdings Limited - VP of Finance & CFO

Yes, next financial year.

Ashwin Agarwal

And the cost-cutting also a lot of measures we have taken on that front.

J. Ananth - Rane Holdings Limited - VP of Finance & CFO

Correct.

Operator

We have next question from the line of Manish Goel from Enam Holdings.

Manish Goyal - Enam Holdings Pvt. Ltd - Investment Analyst

Yes sir, on the warranty provisions in an ASK. I just want to know that has the problem been identified and is being identified and has been dissolve so that going forward, we don't have further claims?

J. Ananth - Rane Holdings Limited - VP of Finance & CFO

See, as I been telling you complex problem. And actually, NSK ourselves in (inaudible) or and so. So to -- we believe we have identified in all the issues. There are some product issues, some manufacturing issues. Also, we believe that we have identified and good counter measures in play. So 1 positive sign is post-countermeasure, the products that are coming back warrants, very, very miniscule almost 0.006007 kind of percentage. That is a trend we are seeing. So which makes us believe that the counter measure has been effective. But whatever are getting still is the pre countermeasure production. But that is coming into Titan starts because, as I explained last time, it depends on the mileage. So the usage and mileage, we can't predict how each person use is vacant. And sometimes after 2 years, 2.5 years, it comes. So that's the reason why we have not been able to fully currently predict. But as far as counter measures are concerned, the indications are that post counter measures are warranty claims are very, very small percentage. So we think we have behind as far as the problem is concerned.

Manish Goyal - Enam Holdings Pvt. Ltd - Investment Analyst

Okay. Okay. And on Rane TRW, would I possible to share the revenue breakup between the steering business and the occupancy safety overall basis?

J. Ananth - Rane Holdings Limited - VP of Finance & CFO

For the quarter?

Manish Goyal - Enam Holdings Pvt. Ltd - Investment Analyst

For the quarter and half year lease, sir?

J. Ananth - Rane Holdings Limited - VP of Finance & CFO

The sharing business is close to INR 100 crores. And the occupant safety INR 170 crores ?

Manish Goyal - Enam Holdings Pvt. Ltd - Investment Analyst

(inaudible) is closed to 100, (inaudible) and is 167.

As compared to last year quarter?

J. Ananth - Rane Holdings Limited - VP of Finance & CFO

Last year, quarter sharing was 112, occupancy was INR 172.

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Manish Goyal - Enam Holdings Pvt. Ltd - Investment Analyst

Okay. And can you please provide for half yearly as well?

Lakshminarayan Ganesh - Rane Holdings Limited - Chairman & MD

Yes. (inaudible) 123 for the current year first half and occupant INR 240 crores.

Manish Goyal - Enam Holdings Pvt. Ltd - Investment Analyst

Can you provide the comparative numbers as well?

J. Ananth - Rane Holdings Limited - VP of Finance & CFO

Comparative of previous year first half or sharing is INR 286 crores and occupant around INR 350 crores.

Manish Goyal - Enam Holdings Pvt. Ltd - Investment Analyst

Sure, sir. Sir, coming to Rane Madras, diecasting domestic business. So like what we understand that on earlier due to underutilization we were incurring losses. So on full utilization, assuming next year, we probably reach near to our full utilization. What kind of EBITDA and PBT margins, we can change. Just a ballpark number. And how much of that would be exports of that total revenue, which we book next year?

J. Ananth - Rane Holdings Limited - VP of Finance & CFO

So because of the -- as you're aware, in the last 2 years, the investment we made in India for the casting business, we had problems because some of the orders export orders did not take off the way the volumes we were anticipating and then 1 order we had lost, et cetera. So we desperately started looking for new orders. And in the process, we started getting more domestic business in the last 2 years. And now in the last 6 to 8 months, we now started to winning a lot of export orders, as Mr. Ganesh also mentioned, and they all kick in in '22, '23 et cetera. Now the ability of export business is better than domestic business. So therefore, while we will see growth in the next 12 to 24 months, a significant growth in the next 12 to 24 months that is coming from a mix of domestic and exports with a higher proportion of domestic. So now to answer your question of EBITDA I mean we have said at 1 point in time, we were looking at about 14%, 15% EBITDA but now we see -- but the more domestic, we do, obviously, the margin is lower. So I don't know the exact numbers, but maybe in the 11%, 12% is a number that you'll see.

Manish Goyal - Enam Holdings Pvt. Ltd - Investment Analyst

11%, 12% at EBITDA level or PVR level?

J. Ananth - Rane Holdings Limited - VP of Finance & CFO

EBITDA, EBITDA. So as you see your question or specific for next year, I'm answering you ask me what is the long-term sustainable EBITDA for this business, it is higher.

Operator

We have next question from the line of Sreemant Dudhoria from Unifi Capital.

Sreemant Dudhoria - Unifi Capital Pvt. Ltd. - Manager

I joined the call a bit late, so maybe I may be repeating this question. My question is specifically on rani brakes. So last year, we saw an increase in the gross block in the company. And could you please comment what could be the additional CapEx addition for the next 2 years in (inaudible)? And what is this related to? Is it for domestic market or it's for the exports? That's the first question.

Harish Lakshman - Rane Holdings Limited - Vice Chairman & Joint MD

In terms the CapEx last year, significant CapEx was mainly on R&D. We have now fully kind of like ourselves for R&D. So we don't expect any significant investments in R&D for the next 2 to 3 years. capacity also, we are currently at about 70% to 75% utilization. So again, for the next couple of years, we don't expect any significant CapEx in that business.

Sreemant Dudhoria - Unifi Capital Pvt. Ltd. - Manager

Okay. So also CapEx that was done last year, how much was towards the R&D? And what was this related to? Because this is a significant increase in the cross block?

Harish Lakshman - Rane Holdings Limited - Vice Chairman & Joint MD

I'll come back on this. I don't think it was I.

Sreemant Dudhoria - Unifi Capital Pvt. Ltd. - Manager

Sure. Sir, the second question is again on Uniprix. If you could help us provide a mix between the asbestos and the non asbestos braking, both in the OE business and in the aftermarket, what is the mix right now? What could be the transition in the next couple of years?

Harish Lakshman - Rane Holdings Limited - Vice Chairman & Joint MD

In terms of we, it is almost 100% non as discussed as I was free. So in terms of aftermarket, the commercial vehicle at is after us. But we are gradually introducing new (inaudible) see product in the market, which is gaining traction. So our idea is in the next 2 to 3 years, we go completely to as the dusty, including the aftermarket.

Sreemant Dudhoria - Unifi Capital Pvt. Ltd. - Manager

Sure, sir. So some of the leading regulators in the developed markets are transitioning towards lower copper content in the braking systems. Is there any such in Indian markets and should we expect anything of that to be coming? And how do we have the R&D to make that?

Harish Lakshman - Rane Holdings Limited - Vice Chairman & Joint MD

Well, to answer your question, not yet in the Asian market, it is a intend in the global market, what you see is, right? So in addition, because our partners have already developed the copper the formulation of their American customers. And so whenever is required, we will be able to reduce those combinations in India.

Sreemant Dudhoria - Unifi Capital Pvt. Ltd. - Manager

Sure, sir. How the export look in the braking system, sir, should we see a strong growth in the braking systems export in the coming years? Should the proportion in the overall mix increase?

Harish Lakshman - Rane Holdings Limited - Vice Chairman & Joint MD

See, so far, the export has not been there in this business, and we've been operating more on the domestic market. And whatever exports we are doing, it has been in the regional areas and neighboring countries, et cetera, a little bit to the Middle East. But now the company focusing a lot on this. So from 3%, 4% of the sales, we would like to take it to about 10% in the next 2 to 3 years, 10% of sales. So a lot of focus now we are working seeing other markets in studying other markets. So certainly, we would like to take it to about 10% of sales in the next couple of years.

Sreemant Dudhoria - Unifi Capital Pvt. Ltd. - Manager

Is opportunity for us to export in the aftermarket business of Nisshin Bor, sir?

Harish Lakshman - Rane Holdings Limited - Vice Chairman & Joint MD

Mission Board does not do any aftermarket. So plus and minus. So therefore, we have the premium to do it in any market we want. That is we are now -- our strategy is based on that. We are trying to understand and get approvals for aftermarket formulations in after markets. So mission, that's only OEM.

Sreemant Dudhoria - Unifi Capital Pvt. Ltd. - Manager

And the OE in the developed markets when Mission bore supplies, is there opportunity for us?

Harish Lakshman - Rane Holdings Limited - Vice Chairman & Joint MD

OEM is very, very difficult. This is a safety critical product. And most customers before buying, they are very, very cautious on this particular product. So while a niche or possibly bulk we buying from outside. So far, we don't see any that trend, but we see a lot of aftermarket opportunities.

Sreemant Dudhoria - Unifi Capital Pvt. Ltd. - Manager

Sir, lastly, on the gross margin is expanded in quarter in the braking systems, how sustainable are these margins going forward?

J. Ananth - Rane Holdings Limited - VP of Finance & CFO

No, as Harish explained earlier before we joined, partly, it was because of an old pricing correction which we got for previous period credited during this quarter. And also, there were some provisions we had made earlier in (inaudible) materials, et cetera, due to COVID, which has started moving in some write-backs are there. So that is the reason to quite the profitability jump so much. Is not sustainable.

Sreemant Dudhoria - Unifi Capital Pvt. Ltd. - Manager

Okay. So sustainable operating --

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J. Ananth - Rane Holdings Limited - VP of Finance & CFO

Sorry, sorry. 40 crore 24 a. Out of the INR 40 crore CapEx that you asked, INR 24 crores, INR 25 crores was R&D.

Sreemant Dudhoria - Unifi Capital Pvt. Ltd. - Manager

This is a significant R&D expense. Could you please elaborate, sir, what was this related to? And how will this help us in the coming time?

Harish Lakshman - Rane Holdings Limited - Vice Chairman & Joint MD

See, we have equipped ourselves with various types of diameters and the these diameter help us in in testing and validation. So we have probably got the most sophisticated for rail, metro it breaking blocks. We have got for passenger car, Nowait for 2-wheelers last year, we are giving ourselves with the latest, including noise and vibration and harshness NVH capabilities. So we probably have the best facilities for R&D in India in this field and this will help us for many, many years to come.

Sreemant Dudhoria - Unifi Capital Pvt. Ltd. - Manager

Okay. another INR 16 crores (inaudible) capacity building (inaudible)

J. Ananth - Rane Holdings Limited - VP of Finance & CFO

No, there was solar, we invested in a solar plant (inaudible) Pondicherry. So I think it is a 3-megawatt or. Yes, close to hour is a yes. So there was a solar environment also. So capacity was more balancing last year. There's significant investment in capacity. Some balance coupon, et cetera, was added this year and there, but no big line was added.

Sreemant Dudhoria - Unifi Capital Pvt. Ltd. - Manager

Okay. And we don't see any further significant increase in the capacity?

J. Ananth - Rane Holdings Limited - VP of Finance & CFO

Not for the next couple of years.

Sreemant Dudhoria - Unifi Capital Pvt. Ltd. - Manager

Operating margin trend. So our sustainable margin should be in the 11%, 11.5% range of operating margins?

J. Ananth - Rane Holdings Limited - VP of Finance & CFO

It always varies in this company based on 2 things. One is the product mix segment mix, I mean the aftermarket does well to margins improve and commodity prices and fire. So it's very difficult to predict because it's very heavily different 3 factors. But obviously, our SMS will be to try to maintain at margin as well.

Operator

(Operator Instructions). We have next question from the line of Sham Sundar Siriram from Sundaram Mutual Funds.

Shyam Sundar Sriram - Sundaram Asset Management Company Ltd. - Research Analyst

So this is your interaction with the various OEMs across vehicle segments, over a period of three, 1.5 years, per se, just a slightly broader perspective. How are you seeing the (inaudible) production or outlook from the different segments, commercial vehicle passenger way tractors? If you can give some perspective on basis your discussions with industry participants?

Harish Lakshman - Rane Holdings Limited - Vice Chairman & Joint MD

No. So definitely, the mood is very upbeat. And I think as Q2 has shown, the recovery has been stronger than what most of us expected. So most of the OEMs are of the view that this is going to sustain in the coming months while the post festive season in December, maybe early part of January, there will be a slight there. But there of the view this will something. And going forward, the next financial year should also be a much better yield. So the general view mood is very up beat. In Rane (inaudible) we are taking a very cautiously optimistic approach just because the economic impact of corn happened to the GDP has been so high it not clear whether what we are seeing in Q2 and some in Q3 is a combination of pent-up demand and festive season because April, May, June, there were almost no sales, very little sales. So therefore, is there a pent-up demand that is catching up or whether it is sustained, is still unclear. So we are taking a little bit more conservative approach in -- about the few immediate futures.

Shyam Sundar Sriram - Sundaram Asset Management Company Ltd. - Research Analyst

Understood. And on commercial vehicle on the heavy commercial side, specifically, can we assume that the worst is the past and then incrementally, the volumes will get better from here from a production perspective.

J. Ananth - Rane Holdings Limited - VP of Finance & CFO

Yes. Definitely, it's going to get better. But I mean, let's be clear volume we saw in 2018, '19, sitting where we are today, I don't think we will see that until '23 where the industry or the menative industry. So we have come down significantly. But I think, clearly, the bottom is behind us and month on month, it's improving. So that is definitely an increasing sign. And I think even all the NBFCs are beginning to talk more positively about buying, et cetera.

Shyam Sundar Sriram - Sundaram Asset Management Company Ltd. - Research Analyst

Understood, sir. Sir, just on TRW, from a domestic occupant safety perspective, we had highlighted the seatbelt orders for Maruti and even a new order from Hyundai. And I mean, when you compare from last year levels, it does look like the domestic occupancy safety has also started moving up well. So what is the -- how much is the domestic occupancy within the occupant safety itself for the first half? Volumes the industry volumes would have been pretty low, but just to get some sense on -- from a mix perspective, how has it moved from last year to now, sir?

Harish Lakshman - Rane Holdings Limited - Vice Chairman & Joint MD

A [INR 62 crores], INR 63 crores or -- it's about the same. It's about same, suppose INR 40 million, INR 60 million ex 40% domestic, 60% export.

Shyam Sundar Sriram - Sundaram Asset Management Company Ltd. - Research Analyst

Okay. Understood, sir. Understood. Sir, 1 last question, if I may squeeze, per se, from the government has announced a production linked incentive mechanism. According to you, what are some top high aggregates that are more reliant on imports and where the government maybe -- may want to reduce the import content per se. I mean the final details are not yet available, but from your perspective, from an industry perspective what could be the top 5 aggregates that could be a focus area for the government act on it from this perspective?

Harish Lakshman - Rane Holdings Limited - Vice Chairman & Joint MD

I mean -- I mean, it's still too early because the only say the announcement was made, and there are absolutely no details in it. So I mean, while clearly, Electronics is 1 general area import dependence is high. So there will be more and more pressure to bring localization of electronic items. But my understanding is this team is also focused on enhancing in a significant way. I think there are likely to be some incentives for exporting companies as well as my understanding, especially because the auto industry has been heard very badly with the withdrawal of the MEIS schema, which is an important part. So my understanding is this this production link incentive team will also try to solve the problem that was created by withdrawal of MEIS. Of course, these are all just what we read in media and what people like ACMA and all have been lobbying with the government. We are waiting for the details.

Operator

Thank you. There are no further questions from the participants, I'd now like to hand the conference over to the management for closing comments. Over to you, sir.

Diwakar Pingle

Thank you very much. I wish you all a very happy and (inaudible) Diwali. Thank you.

Harish Lakshman - Rane Holdings Limited - Vice Chairman & Joint MD

Thank you all. Happy Diwali (inaudible).

Operator

Thank you very much.

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