

Management Discussion & Analysis

Economy and Industry

Global economy saw broad based pickup in growth in 2017 and is estimated to have grown 3.8% as per IMF, led by growth upsurge in major advanced and emerging economies. Surging business and consumer confidence and steady job creation led to the creation of a favourable environment for growth. The recently approved U.S. tax policy change is expected to stimulate growth momentum further going forward. However, faster than expected increase in inflation on the back of rising fuel prices and interest rate in the advanced economy and imposition of global trade barriers leading to trade war could act as a dampener. As per the estimates provided by IMF, the strong momentum in economic activity seen in 2017 is expected to continue in 2018 and 2019 driven by advanced economies where growth is expected to exceed 2 percent.

Estimates from the Central Statistics Office (CSO) suggest that the Indian economy grew by 6.6% in FY18 as compared to 7.1% in FY17. GST resulted in slowdown of manufacturing activity leading to deceleration in growth momentum in the first half of FY18. However, the economy resumed its fast growth trajectory with revival in manufacturing and construction activity in the latter half. Indian economy is poised to achieve stellar growth amid strong revival signs in consumption spending and investment activity after having recovered from the disruptions caused by the demonetization and introduction of Goods & Services Tax (GST). According to IMF estimates, India is expected to grow at 7.4% and 7.8% respectively in 2018 and 2019 respectively making it the fastest growing economy in the world.

Indian Automobile Industry

During the fiscal year 2017-18, the domestic industry witnessed growth across all the vehicle segments. From a segment perspective, the Passenger Vehicle (PV) segment registered 5% growth owing to new launches and strong preference for Compact Utility Vehicles segment. The volumes of Passenger Cars and Utility Vehicles grew by 1% and 20% each respectively on a year on year basis.

Domestic Commercial Vehicle (CV) segment volumes contracted during the first quarter of financial year led by sharp decline in sales of Medium & Heavy Commercial Vehicles (M&HCV). This was due to pre-buying in Q4 2017 ahead of the



BS-IV rollout and deferment of purchases by fleet operators before roll-out of GST. However, due to demand from the construction, mining and FMCG sectors in the subsequent quarters resulted in growth of 10% in the CV segment.

In the M&HCV segment there was a major shift towards production of higher tonnage multi axle vehicles. Overall the M&HCV market had muted growth over the previous year. The Light Commercial Vehicles (LCV) segment reported strong volume growth of 14% driven by rising demand from e-commerce and logistics sectors and increasing rural disposable income. The Small Commercial Vehicles segment reported volume growth of 27%.

Revival in the rural economy because of normal monsoon and increasing rural spends by the government positively impacted the demand for tractors and the Farm tractors grew by 14%. The two-wheeler segments also reported robust volume growth of 16% on the back of new launches, improving consumer sentiment and better rural income driven by good monsoon.

| Industry Segment (Production figures) | Growth in % (YoY change) | |
|--|-----------------------------|------------|
| | 2017-18 | 2016-17 |
| Vehicles | | |
| Passenger Cars (PC) | 1.0 | 5.4 |
| Utility Vehicles (MUV) | 19.9 | 26.3 |
| Vans (MPV) | (0.3) | (0.6) |
| Passenger Vehicles | 5.5 | 9.4 |
| Small Commercial Vehicles (SCV) | 27.0 | 2.7 |
| Light Commercial Vehicles (LCV) | 14.0 | 6.0 |
| Medium & Heavy Commercial Vehicles (M&HCV) | 0.3 | 0.4 |
| Commercial Vehicles | 10.4 | 3.0 |
| 3 – Wheelers | 30.4 | (16.2) |
| 2 – Wheelers | 16.1 | 5.8 |
| Farm Tractors (FT) | 14.4 | 21.1 |

Source: Society of Indian Automobile Manufacturers

Indian auto component industry

The Indian auto component industry achieved stellar growth and is on course to become the third largest player in the world owing to increasing domestic demand and huge export potential with major global OEMs making India a component sourcing hub for their global operation. The Company expects that healthy growth in OEMs volumes, robust replacement demand and an increase in the content of auto components per vehicle owing to the adoption of new safety and emission norms and technological advancements should result in low double-digit growth for the industry.



Rane Holdings Limited (RHL)

Operational Highlights

- The Group Companies continue to pursue various initiatives towards achieving profitable growth
- Various steps were taken for cost rationalization, such as localization, value engineering, productivity improvement projects and other strategic saving initiatives
- Acquired 69.41% equity stake in Telematics 4u Services Pvt. Ltd. The acquisition is aligned with our aspirations of expanding into new auto businesses.

Financial Highlights

The Financial Statements have been prepared in accordance with Ind AS notified under the Companies (Indian Accounting Standards) Rules, 2015. These are the Group's first financial statements under Ind AS and the corresponding previous year figures have been restated as per Ind AS

Standalone Financial Highlights

- Total Revenue was ₹ 97.09 Crores for FY18 as compared to ₹ 98.81 Crores in FY17, a decrease of 2%
 1. Operating revenue increased from ₹ 70.88 Crores in FY 17 to ₹ 95.56 Crores in FY18 due to higher dividend income and trademark fee from Group Companies
 2. Other income decreased from ₹ 27.93 Crores in FY 17 to ₹ 1.53 Crores in FY18. There was an one off income of ₹ 26.31 Crores during FY 17 on account of divestment of our shareholding in SasMos
- EBITDA stood at ₹ 62.40 Crores as compared to ₹ 66.94 Crores during FY17, a decrease of 7%

- Net profit (PAT) stood at ₹ 48.79 Crores for FY18 as compared to ₹ 49.80 Crores in FY17

Consolidated Financial Highlights

- Total Revenue (excluding excise duty) was ₹ 2,310.05 Crores for FY18 as compared to ₹ 2,077.97 Crores in FY17, an increase of 11%
- EBITDA stood at ₹ 256.69 Crores as compared to ₹ 248.98 Crores during FY17, an increase of 3%
- Net profit (PAT) stood at ₹ 130.29 Crores for FY18 as compared to ₹ 133.37 Crores in FY17

Subsidiary Companies

Rane (Madras) Limited (RML)

Operational Highlights

RML-Standalone

- Maintained healthy capacity utilization as plants sustained higher production to meet increased demand for Steering products
- Achieved production ramp up of Rack & Pinion at Varanavasi Plant
- Continued to improve operational performance and achieved reduction in internal rejections and premium freight in Die-cast division
- Secured System Audit Award from Maruti Suzuki India Ltd. and New Product Development Award from SML Isuzu Ltd.

Rane Precision Die Casting (RPDC)

- RPDC performance was in line with expectation till first half of 2017-18. In second half we have had setbacks in reduced offtake from some customers and operational inefficiencies. This is being closely monitored for improvement.
- Key pieces of equipment and tooling were refurbished or replaced as appropriate.
- Acquisition of automation systems to improve productivity and customer satisfaction.
- Implemented marketing strategy to penetrate new industries and customers to augment the core automotive business.
- Launch of a new steering rack housing for major customer.

Standalone Financial Highlights

- Net Sales was ₹ 1,172.60 Crores for FY18 as compared to ₹ 951.87 Crores in FY17, an increase of 23%
1. 29% growth in the domestic market
- Steering and Linkages business registered good growth across vehicle segments and Die Casting business delivered robust performance.
 - Indian Aftermarket business saw revival in demand after initial GST hiccups.
2. 6% growth in the Exports market – led by positive performance of Steering & Linkages business with All-Terrain Vehicle (ATV) segment in North America



- EBITDA stood at ₹ 139.50 Crores as compared to ₹ 99.38 Crores during FY17, an increase of 40%
- Net profit (PAT) stood at ₹ 41.82 Crores for FY18 as compared to ₹ 20.67 Crores in FY17, an increase of 102%

Consolidated Financial Highlights

- Net Sales was ₹ 1,349.41 Crores for FY18 as compared to ₹ 1,156.77 Crores in FY17, an increase of 17%
- EBITDA stood at ₹ 134.88 Crores as compared to ₹ 99.92 Crores during FY17, an increase of 35%
- EBITDA Margin at 10.0% for FY18 as against 8.6% in FY17
- Net profit (PAT) stood at ₹ 24.22 Crores for FY18 as compared to ₹ 4.32 Crores in FY17.

Rane Engine Valve Limited (REVL)

Operational Highlights

- Successfully installed a new line at Trichy plant for enhanced business volume with International OE customer
- Plants improving capacity realization and operational performance
- Increased Repairs & Maintenance spend to improve machine availability
- Delivery issues and higher rejection persist at select manufacturing facilities
- Won awards from Hyundai Motor India and Renault-Nissan

Financial Highlights

- Net Sales was ₹ 368.49 Crores for FY18 as compared to ₹ 348.93 Crores in FY17, an increase of 6%
 1. Sales to Indian OEM customers grew by 10% helped by increased share of business with key domestic customers in Two-wheeler and Stationary Engines segment
 2. GST implementation and related stabilization of process in the markets negatively impacted the Aftermarket business
 3. Sales to International customers grew by 7%. This was driven by ramp up in business with a major European customer partially offset by lower offtake in International Aftermarket business
- EBITDA stood at ₹ 15.46 Crores as compared to ₹ 24.80 Crores during FY17, a decrease of 38%
- Net loss after tax including exceptional income stood at ₹ 17.06 Crores for FY18 as compared to profit of ₹ 57.69 Crores in FY17



Rane Brake Lining Limited (RBL)

Operational Highlights

- Enhanced Aftermarket dealer network and introduced various new products in Aftermarket
- Completed Long Term Settlements (LTS) at Hyderabad and Trichy Plants well within time lines
- Enhanced formulation library with Low Steel formulations
- Continue to realise higher cost savings through various operational and strategic initiatives
- Won awards from Foundation Brake, Endurance Technologies
- Rane Brake Lining Limited became the first Great Place To Work (GPTW) certified company in the group.

Financial Highlights

- Net Sales was ₹ 482.46 Crores for FY18 as compared to ₹ 466.11 Crores in the FY17, an increase of 4%
 1. OE sales registered a healthy growth of 6% mainly supported by strong demand from Passenger vehicles and Two-wheeler segment
 2. GST implementation and related stabilization of process in the markets negatively impacted the Aftermarket business

- EBITDA stood at ₹ 80.61 Crores as compared to ₹ 77.69 Crores during FY17, an increase of 4%
- Net profit (PAT) stood at ₹ 35.75 Crores for FY18 as compared to ₹ 34.93 Crores in FY17

Rane t4u Private Limited (Rane t4u)

During the year, RHL acquired 69.41% equity shareholding in Bengaluru-based Telematics4u Services Private Ltd (T4u). Founded in 2009, T4u offers customized analytics-rich end-to-end telematics solutions for various transportation and asset tracking requirements in India and other countries across South Asia, Middle East and Africa. T4u was renamed as Rane t4u Private Ltd.

The financial highlights of Rane t4u for 2017-18 are as follows:

- Net Sales for seven months period ending March 2018 was ₹ 8.27 Crores
- Incurred negative EBITDA of ₹ 5.40 Crores.
- Net loss after tax stood at ₹ 6.02 Crores for seven months YTD ending March 2018.

Joint Venture Companies

Rane TRW Steering Systems Private Limited (RTSS)

Operational Highlights

- Ramped up production at manufacturing plants to meet the increase in demand for steering products in the CV segment
- Purchased land near Trichy to construct an additional plant for future expansion of Occupant Safety business



- Successfully added new technology Side Airbag into product portfolio
- Capacity expansion for ramping up volumes in seat belts and airbags
- Steering Gear Division received “Best in Class” Award from Tata Motors

Financial Highlights

- Net Sales was ₹ 1,124.54 Crores for FY18 as compared to ₹ 855.80 Crores in FY17, an increase of 31%
- EBITDA stood at ₹ 148.20 Crores as compared to ₹ 104.79 Crores during FY17, an increase of 41%
- Net profit (PAT) stood at ₹ 72.06 Crores for FY18 as compared to ₹ 48.63 Crores in FY17

Rane NSK Steering Systems Private Limited (RNSS)

Operational Highlights

- Select Manual Steering Column (MSC) customer lines transferred from Chennai plant to Uttarkhand plant based on proximity to customer location
- Increased localisation of testing and validation facility for Electric Power Steering (EPS)
- Continued to achieve cost savings through localization in EPS products
- Enhanced the operational efficiency through Cycle time reduction and OEE improvement

Financial Highlights

- Net Sales was ₹ 1,293.96 Crores for FY18 as compared to ₹ 1,000.09 Crores in FY17, an increase of 29%
- EBITDA stood at ₹ 192.94 Crores as compared to ₹ 135.66 Crores during FY17, an increase of 42%
- Net profit (PAT) stood at ₹ 119.45 Crores for FY18, including ₹ 25.06 Crores of exceptional item, as compared to ₹ 61.20 Crores in FY17.

JMA Rane Marketing Limited (JMA Rane)

The financial highlights of JMA Rane for 2017-18 are as follows:

- Net Sales was ₹ 60.85 Crores for FY18 as compared to ₹ 66.79 Crores in the FY17, a decrease of 9%
- EBITDA stood at ₹ 3.26 Crores as compared to ₹ 3.00 Crores during FY17, an increase of 8%
- Net profit (PAT) stood at ₹ 2.09 Crores for FY18 as compared to ₹ 1.74 Crores in FY17

Opportunity and Threats

Following the implementation of GST, manufacturing activity is expected to further accelerate. Given the positive environment for Indian automotive sector, the Company is set to capitalize on the upcoming opportunity by focusing on improving process efficiencies, reducing cost, building scale in existing markets, exploring new markets and working with its various technology partners and OEMs to bring in the best in class products to the country and outside of the country. A stronger regulation which makes a certain safety level mandatory and rising awareness about safety in cars is likely to lead to healthy growth in the Company's Occupant Safety segment.

However, increasing commodity prices, volatile forex movements, liquidity issues in the increasing interest rate environment, and looming trade war continues to be the area of concern in the future. Economic slowdown leading to contraction in demand remains one of the major threat which could lead to decreased volumes and capacity utilisation. Below-normal monsoon leading to decline in rural demand and increasing competitive intensity could also act as a major dampener.

Outlook

Growing economy, rising income coupled with favourable demography, availability of credit and financing options, low cost of production, low penetration of cars and a major thrust on infrastructure by the government bodes well for the industry and the Company.

With the objective of delivering profitable growth, the company expect to leverage on the favourable demand environment and pursue market share improvements and new product introductions. Further, the Company continues to expand the international business with its existing customer base. Established the business development office in Munich, Germany to support European customers and penetrate new customers. The Company is exploring suitable inorganic growth opportunities to further accelerate growth.

Internal Control Systems

The Company has put in place robust internal control system to prevent risks through a framework of internal controls and processes. These controls ensure that the business transactions are recorded in a timely and complete manner in the financial records, resources are utilised effectively and the assets are safeguarded.

The internal audit function is outsourced to a professional firm of independent assurance service providers. The Audit Committee and the Board in consultation with the internal auditor, statutory auditor and operating management approve annual internal audit plan. The scope also covers the internal financial controls and internal controls over financial reporting. The internal audit findings are placed before the

Audit Committee at each of its quarterly meeting for review. The management's responses and counter measures are discussed in the Audit Committee meetings. This process ensures robustness of internal control system and compliance with laws and regulations including resource utilization and system efficacy.

Risk Management

The Company has laid down well-structured procedures for monitoring the risk management plan and implementing the risk mitigation measures. The risks are broadly classified into strategic risks, operational risks, financial risks and statutory compliance risks. These risks are rated based on factors such as past year experience, probability of occurrence, probability of non-detection and its impact on business. The top management reviews the strategic risks, the risks with high probability and high impact every quarter and presents its report along with risk mitigation plan to the Board of Directors on half-yearly basis. The strategic risks are taken into consideration in the annual planning process with their mitigation plan. Other risks are covered as part of internal audit process and presented to the Audit Committee every quarter. The business processes risks and the related controls are subjected to internal audit and reviewed on a quarterly basis. The risk ratings are revalidated with the top management as part of the internal audit process every quarter. The overall re-assessment of risks at company level is carried out and presented to the Board of Directors once in two years for their review.

Human Resources

At Rane Group, Leadership Development and Employee Engagement were the focus areas for FY 2017 – 18.



Leadership Development

As part of technical competency development for the front line managers, Rane Manufacturing Systems Professional (RMSP) was launched in Q1 to build manufacturing capability, focusing on manufacturing processes and systems with gemba based learning and business oriented projects. To supplement the learning, as a pilot, an online learning mode was introduced for five technical courses. Further, a refreshed twelve-day customized course on “Learning on Machines” was designed and delivered to graduate engineers. To enable the graduate engineers to explore the vast opportunities and to build a solid career, Reconnect program was rolled out. The objective of the program is to further build awareness on various paradigms that will aid them to focus on execution and achieve the results.

As part of strengthening the leadership pipeline, the revamped High Potential Leadership Development (HPLD) intervention was rolled out. The new elements such as 360 degree feedback, Immediate Functional Senior (IFS) workshop, etc. were incorporated in the design. Around 39 employees across the group companies were identified and initiated into HPLD intervention. About 5 employees of RHL went through the TOP GEAR program focused on High Potential Leadership Development. The participants pursued an action-learning project that focused on solving a significant challenge faced by the company. As part of Executive Leadership

Development, Developing Executive Presence was rolled out. The Group Leadership Development Council periodically reviewed leadership development.

Employee Engagement

Rane Group follows the GPTW framework and conducts the employee engagement survey every year to understand the opinions, attitudes and perceptions of employees, which forms the basis for refining policies and programs. To enhance the employee experience, select workflows were digitized and deployed. Employees were encouraged to participate in marathons and other fitness related programs to promote individual wellness and achieve a sense of balance in life. Several other new initiatives were structured to engage with employees regularly.

Awards and Accolades

Rane Brake Lining Limited became the first GPTW certified company in the Group.

Rane Group was recognized by International Federation of Training and Development Organisations (IFTDO) in Best HRD practice category.

Workforce Productivity

Further impetus was provided to workforce productivity improvement initiative. The objective is to rationalize Direct Employee Cost through enhanced manpower utilization and





judicious automation. Periodic review and guidance sessions were held at the Plants with the identified teams.

Information Technology

Rane Data Centre (RDC) continuously engaged with business in identifying and implementing Line of Business related key projects to improve efficiencies. RDC assisted in the implementation of Product Data Management and Product Life Cycle Management at RNSS and RML. e-Procurement solution has been extended to all group business units for further improving the procurement efficiency.

The internal team successfully managed GST migration. SAP ASP system has been implemented for filing GST returns. The Kar Mobiles Division was fully integrated with the accounting systems of REVL in SAP. SAP ERP system was updated with relevant enhancement patches during the year.

To address the ever-increasing cyber security threats and vulnerabilities, ISMS has been further strengthened by implementing data protection measures such as Data Loss Prevention tool (DLP) & malware protection. RML & RBL locations were certified as ISO 27001 compliant.

Redesigned website was rolled-out, based on the responsive web design principles, to provide seamless experience across multiple devices.

Corporate Social Responsibility

The Company continues to be a responsible Corporate Citizen and places significant weightage on carrying out its Corporate Social Responsibility duties and create a positive impact on the society.

In the year 2017-18, the company contributed to Rane Foundation, the lead for implementing Rane Group's CSR initiatives. The company also partnered with several NGOs for implementing projects in the area of Healthcare and Community development.

One of the major initiative of Rane Foundation is Rane Polytechnic, established at Trichy in the year 2011, has stepped into its eighth academic year. In the current year, 194 students completed their diploma program. Over 90% of the students were campus placed. The institution endeavours to offer quality technical education and sustainable development to the rural youth. Rane Foundation also embarked upon a journey to provide quality education to children in rural neighbourhood by establishing Rane Vidyalaya. The school is located in Theerampalayam, Manachanallur Taluk, Trichy and will follow CBSE curriculum and open its doors for the academic session 2018-19.

Rane Pioneer of Change Award

'The Rane Pioneer of Change award' was instituted as part of Shri L L Narayan (LLN) memorial initiatives during LLN's centenary function held on 6 October 2017. The award was instituted by Rane Foundation to identify and bring into limelight the grass-root level organizations and individuals from Tamil Nadu, who have excelled as social change leaders in the field of Education – Capacity Building & Skill Development, Public Health and Community Development. The biennial award comprises of a medallion and ₹ 10 Lakhs cash prize.