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Sub : **Transcript of Conference Call held on 30th May, 2023**

Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 30th May, 2023 with the Investors.

This is for your information and record.

Thanking you,

Yours faithfully,
for **Rico Auto Industries Limited**

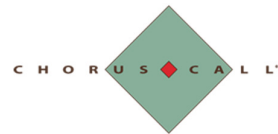
B.M. Jhamb
Company Secretary
FCS : 2446

Encl : As above



“Rico Auto Industries Limited Q4 FY23 Earnings Conference Call”

May 30, 2023



MANAGEMENT: MR. ARVIND KAPUR – CHAIRMAN, CEO AND MD
MR. KAUSHALENDRA VERMA – EXECUTIVE DIRECTOR
MR. R.K. MIGLANI – EXECUTIVE DIRECTOR
MR. RAKESH SHARMA – CHIEF FINANCIAL OFFICER
MR. B.M. JHAMB – COMPANY SECRETARY

ANALYST: MS. HAZEL RATHOD – S-ANCIAL TECHNOLOGIES

Moderator: Ladies and gentlemen, good day, and welcome to Rico Auto Industries Limited Q4 FY '23 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 the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Hazel Rathod from S-Ancial Technologies. Thank you, and over to you.

Hazel Rathod: Thank you. Welcome to Rico Auto Industries Q4 FY '23 Earnings Conference Call. From the management, we have today, Mr. Arvind Kapur, Chairman, CEO, and Managing Director; Mr. Kaushalendra Verma, Executive Director; Mr. R.K. Miglani, Executive Director; Mr. Rakesh Sharma, CFO; and Mr. B.M. Jhamb, Company Secretary. Now I request Mr. Arvind Kapur: to take us through the key remarks. After that, we can open the floor for the Q&A session. Thank you, and over to you, sir.

Arvind Kapur: Thank you. Good evening. My name is Arvind Kapur, and I also have my colleagues here, Mr. Verma, Mr. Miglani, Mr. Rakesh Sharma, Mr. Jhamb, and Mr. O.P. Agarwal, Mr. Sanjay Bhat, who is the marketing chief, and Mr. Surendra Singh and Mr. Jagdish. We are all in the same conference room. I welcome you all to the quarter 4 '23 and also the financial year '22-'23 earnings call.

The good news is that India is almost the third largest automaker in the world. We just overtook Japan, but I think that's about the same numbers as Japan, very close to them. And to become the second, I think it will take us a couple of years because the U.S. is almost 5x the size. But I think we are heading towards that. And the other good news is that the GDP is likely to grow by about 7%.

And I think that's the good thing that will happen to our economy. We are really fortunate that the Indian economy is doing pretty well. On the company front, the mergers all have been completed, and those have been factored into our books, and we've consolidated everything. And this year, we've also given a better dividend than last year.

Among the challenges that we are facing, one is, of course, the Russia-Ukraine war, which continues, and shows no signs of ending, which I think is impacting the economy of Europe, and also many other countries. And besides that, there are semiconductors, the production is enough, but with the type of semiconductor that is especially required for a particular vehicle, we do face those shortages now and then and thereby, disturbing the whole production run for Maruti also the other automakers.

And that also has an effect on the total volumes that are produced. And the good part is that the Indian government is supporting it and there is a large investment that is taking place in the semiconductor industry. And we are hoping that in the next 3 -5 years, we would be less dependent on, I won't say self-sufficient, but it will be less dependent on the imports that we are

totally dependent on at the moment. We also have an issue as far as the crude oil is concerned, the fluctuations can be seen on a daily basis. And we are hoping that these prices stabilize, but we feel that this is probably the direct impact of the war that is taking place.

In the EV space, we do see changes happening. There are a lot of companies, we see more and more vehicles being sold in India. Even though there are some challenges as far as subsidies are concerned in India for the 2-wheeler industry and also for the car industry, there are some challenges, and there are some reductions that have happened, and we will see what was the reaction of the reduction of subsidies in the 2-wheeler industry probably in the next quarter. There have been some challenges for the 2-wheeler industry, and the electric vehicle industry.

On the regular motorcycles and the scooters, the IC engines, we are hoping that this year, they would be better than last year. And we did see some improvement in the 2-wheeler industry volumes last year, we are hoping that this year, there would be further improvement. That is the expectation that most of us in the industry have.

Commercial vehicles fortunately are doing very well. Passenger vehicles are also doing very well. The waiting is still there but we have noticed that the more expensive the vehicle, the more waiting there is. And we hope that this waiting comes down.

The other thing we noticed is that the customers have started actually looking at vehicles that are in the category B or category C. The cheapest vehicles that were sold or available off the shelf and the demand is on the investor side, but the better vehicles, and so that shows that the aspiration of people is actually going up, which is a good sign. And this is what happened in China, this is what happened everywhere else. And we are hoping that this year would be a good year.

During the last year which we are discussing today, our sales did go up by 24% and we clocked INR 2,320 crores. But I would like to apologize here, in the conference call, we had spoken about INR 2,050 crores and INR 2,350 crores. And in some parts, we also discussed INR2,400 crores, which we could be pushing toward that INR2,400 crores. We could not achieve it. There were a couple of reasons for that. One is, of course, the shortage of chips that had some impact.

And the other is that we changed our method of shipment for exports. Earlier, we were shipping CIF U.S. and/or Europe. Now in most cases, we have actually started delivering FOB India. So the freight amount has come down. That has an impact of about almost INR30 crores in our total turnover. But we did it because the fluctuation in the freight rate was so much that started impacting the profitability. This year, we are fortunate that we could cross the INR 2,320 crores.

If you look at the quarterly results, we crossed INR609 crores turnover and the EBITDA is at 12%, which we had promised every quarter, you'll see some improvement, and we have touched 12%. And we are hoping to retain this for the whole year and also make further improvements in our EBITDA levels. That will also have an impact on the PBT as well as the PAT in the quarterly and annual results.

And this is on the consolidated front. And what we are expecting the budget that we have for this year, we are expecting a growth of about 15% to 16%. That's what we have factored in at

the moment. Even though our internal target is to cross 20% and or be close to whatever we did last year. But at the moment, the visibility is up to 15%- 16%. So we are factoring that for all our calculations, but we can assure you that we will cross the budget that we have factored in so far.

Our exports is doing well and last year, we were at INR 460 crores, in this current year in the discussion, we have touched INR 504 crores. This is despite the reduction of those INR 20 crores- INR 25 crores, which we had the freight adjustment that has been done. And in quarter 4, you will see the exports coming down, but the shipments are more because they never reached their destination. So we had to knock off those sales. Otherwise, our exports was consistent in all the quarters.

That's all I have to say at the moment, and I think we can open it for questions.

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes from the line of Kunal Patel from Equilligence Capital.

Kunal Patel: Congrats on good set of numbers. Sir, the first question is regarding exports number. So you said INR122 crores for FOB, am I right?

Arvind Kapur: Yes.

Kunal Patel: And that is compared to, what was it last year same quarter?

Arvind Kapur: We started in the month of February. So it is not a complete amount is FOB. Some amount of this is FOB...

Kunal Patel: Okay. So for FY '22 and FY '23, what would be the comparable number if I exclude the freight cost?

Arvind Kapur: See, the previous quarter should be around 110 or so... See, I think the total freight comes to about almost on an annual basis comes from INR 35 crores to INR 40 crores. and in the current year, there would still be some separate where they will be paying for the freight, but the customers have not agreed. But by and large, most of the customers have agreed to FOB terms.

Kunal Patel: Okay. Clear. Sir, how is the situation in the U.S. now? Are you facing any problems there like it was there in the last quarter? Are there any delayed shipments or any other problems...?

Arvind Kapur: No. That has improved a lot. And because of that, for the quarters before, say. 2 to 3 quarters before that, there was a problem as far as the delays at the ports were concerned. That is not there anymore. But when the shortages were there when the delays were there, we were required to set more shipments so that our goods are there in time for the customers. And so that we don't have to use any premium air freight. And as a result of it, later on at the end of the year, we had to taper down the shipments so that we don't have excess stocks in the U.S. But the situation is good now and the situation there, there are not many delays that are happening there.

Kunal Patel: Understood. Sir, my second question is regarding Toyota. So how is the capacity ramp-up for Toyota? I remember you said they have asked us to ramp it up by another 50%. So are they

asking for another ramp-up? Or what is the current commitment, based on the current commitments, how much revenue can be generated from Toyota in FY '24 and '25 if you have any number?

Arvind Kapur: At the moment, we are running at full capacity which was factored in at the time of placing the order. And now the further enhancement that they want, we are working on that, and that would start, I think that is supposed to start in 2025.

Kunal Patel: Okay. Sir, how much revenue are we generating from Toyota right now roughly.

Arvind Kapur: So there should be about INR 110 crores now and it will go up to about INR 135 crores. Then we would be adding AISIN to this, which will also go into Toyota, which will ultimately go to Toyota, but as a Toyota program. That is for the e-transmission, which also would be from '25 again.

Kunal Patel: Sir, can you talk about the new order inflow this quarter, also the split between EV and ICE?

Arvind Kapur: Okay. Out of the total orders we already have confirmed orders that we already have in hand for which in some cases, we already started making investments. 53% of the total orders we have in hand are EVs and the balance is for the IC engines. But that also includes the wheels, etc for motorcycles etc, which would be about 21%.

Kunal Patel: Okay. And what is the total order book?

Arvind Kapur: INR 380 crores per year at the peak time -- program value would be about INR 1,900 crores.

Kunal Patel: INR 1,900 crores. Okay. So incremental INR 300 crores of order book orders we have last quarter. So INR 1,600 crores was in Q3 if I remember correctly.

Arvind Kapur: Yes. The balance has been added.

Kunal Patel: Okay, okay. And final question, sir, what's our guidance for FY '24, '25, given the visibility we have, both for top line and margins? You have already alluded to some 15%, and 16% growth. So if I do a rough math, that comes to around INR 2,600 crores, INR 2,700-odd crores, if I remember correctly, in Q3, you were targeting some INR3,000-odd crores. So why there is a downward revision of guidance? And also you can talk about margins.

Arvind Kapur: For the next year, we were always talking around INR 2,800 crores, but now it's coming to about INR 2,700-odd crores. But let me tell you, this is the visibility we already have in hand, and we will definitely exceed it, and hopefully, we'll cross INR 2,800 crores. But at the moment, we are submitting a 16% growth that will happen this year.

Kunal Patel: Okay. And on margins, sir.

Arvind Kapur: Also realize that freight separate which we have reduced, that would do about INR 30 crores-INR 40 crores, I think would actually be knocked up in the sales in any case.

Kunal Patel: Okay. sir. And regarding margin, sir?

- Arvind Kapur:** Margins in the last quarter of the year, we did EBITDA of 12%. We hope to retain it, and we hope to do even better. Like last year, every quarter, you will see the results getting better. We are hoping to work hard and also improve the results to make them better.
- Moderator:** Thank you. The next question comes from the line of Darshil Zaveri from Crown Capital.
- Darshil Zaveri:** Congratulations on a great set of results, sir. Sir, we've done fairly well right now. So I just wanted to ask, are there any other noncore assets that we can monetize and reduce some of our borrowings or something? Are there some land assets or something that could potentially help reduce our borrowing costs that can improve our profitability?
- Arvind Kapur:** We spoke about the land, the land bank that we have in Gurgaon, we have large factories running here at Gurgaon, which is a very prime location. It is on the Delhi-Jaipur highway, and this is about 27 acres, approximately 27 acres. And we have been talking about this. Even in the earlier conference calls, we had mentioned this. And we are actively looking for somebody who can, we need a person who can give us a fat check. That is the important thing and a single take. We don't want to break up the amount. And so we're looking for, we are already in the market for that. We are discussing with various people who could be investors here. And as the information comes in, we will certainly let you know.
- Darshil Zaveri:** Okay. And sir, with regard to the defense orders that we've been looking forward to. So what would the timeline now be for those?
- Arvind Kapur:** See, we have been on defense for the last almost about 8 years now, 8 or 9 years. But let me tell you the process is very, very tedious, to change the mindset of all the people in the Army, the generals and also people down the line and the public sector undertakings and also the Ministry of Defense very, very tough but we are on it. And hopefully, I think there will be a good breakthrough probably in the next quarter, we'll share some information with you.
- Darshil Zaveri:** That's very heartening to hear, sir.
- Arvind Kapur:** It requires a lot of patience.
- Darshil Zaveri:** Yes, I can only imagine.
- Moderator:** Next question comes from the line of Anand Agarwal from Balaji Investments.
- Anand Agarwal:** First of all, very, very congratulations on the wonderful set of numbers. I hope you remember. So hello, can you hear me?
- Arvind Kapur:** Yes, I can hear you, and we remember you very well.
- Anand Agarwal:** Yes. Yes. So nice of you. So I think most of the questions have been answered. So just one question. I mean, as far as this EV is concerned, if I remember in Q3 you were of the view that the EV contribution will increase going ahead. How do you see the EV contribution this year in terms of the revenue percentage and the margins?

Arvind Kapur: See, the EV is definitely growing, but it is growing at a slower pace than what many other people were discussing or talking about primarily because of the problems as far as charging, etc., and also the cost of the vehicle and the cost of the batteries. And the EV vehicle has got to come down and price to the price of the normal IC engine vehicles.

That time, it will actually do the tick-off. But we are constantly working on EVs and also picking up orders on the EV. If you notice the new orders we picked up, 53% of them are from the R&D EV space. EV we are also including hybrid vehicles, which are also in huge demand now and so we are very fortunate to be in that space supplying Toyota. And on as the volumes pick up and as the availability of components of Toyota is made available from Japan and China, I'm sure this volume will be almost double whatever we are putting in today.

Anand Agarwal: How do you see, I just want to know a broader picture, 3, 4 years, 3 years...

Arvind Kapur: The 2-wheeler space will definitely be faster than all the other vehicles. I think that sector will keep on picking up. Unless, of course, the subsidies are absolutely removed because of whatever issues have come up between the government and some operators here in India. But the EVs will continue despite the subsidies being there or not and even if it's there, EVs will still sell.

And hopefully, in a couple of years' time, the battery prices will come down, and hence the cost of the vehicle will also come down, as far as the scooters are concerned. Then we'll see a lot of changes happening in the bus space, mainly because these comers-latecomers are investing in the buses, and the central government supports it. And even the buses are expensive, but the state governments can definitely afford it, primarily, they are doing it for improving the general pollution level on the large piece.

That's the reason that the investment will take place. Regarding the car space and others, we feel that it will take a little longer than, firstly, you see the aggregators actually getting into the EV space. Those are the taxi guys and others. And the private sector, it will be a second vehicle to start with, but once the maturity level is achieved as far as these cars are concerned, I'm sure the cars will also start picking up. By 2030 in the car space, we expect I've always maintained, it will be 15% plus/minus 5% would be in the passenger vehicle space.

Anand Agarwal: Okay. Okay. One last question from my side. I mean, just want to know a broader picture for the next 4, 5 years, can we have a kind of INR5,000 crores revenue company, maybe 5 years down the line, since we have a huge population of 140 crores and since EV and everything is there. So can we see that kind of growth?

Arvind Kapur: Five years is a long time. But anyway, we should...

Anand Agarwal: 5 years. I'm talking about...

Arvind Kapur: I am telling that only 5 years is a long time. so hopefully, we should achieve it before that.

Moderator: Next question comes from the line of Mukesh Modi from Modi Fincap.

- Mukesh Modi:** Good afternoon, Kapur Saab and the team Rico, congratulations for the excellent performance. Most of the questions have been asked, sir. The only thing is, sir, this year, what will be our capex? Last time you said it will be very less, but I mean, what kind of capex do we envisage for this year?
- Arvind Kapur:** Yes, depreciation is about INR 110 crores, but the capex investment this year, I think we are including the maintenance CAPEX, we think it should be in the region of about INR 55 crores. In the current year.
- Mukesh Modi:** Current year, yes. So sir, are we expecting any reduction in debt, or debt repayment for this year?
- Arvind Kapur:** So debt repayment is going as usual, but the debt amount will start coming down from the end of this year.
- Mukesh Modi:** By the end of this year.
- Arvind Kapur:** Yes.
- Mukesh Modi:** Okay. And also, you said that you are in the talk about the land acquisition and all. But sir, any ballpark time are we expecting to be finishing this first half of this year?
- Arvind Kapur:** This is a long-term thing because there's a plant that is running here. There are almost 2,500 people working here. And the shifting would take, when we reached an agreement with somebody, we will start getting it after that. And it will be a cycle of almost 1.5 years before we can vacate the place.
- Mukesh Modi:** It will take 1.5 years? Okay. Okay. I think most of them are answered. Thank you very much and wish you all the best, sir.
- Moderator:** Next question comes from the line of Krishna Kukreja: from Lucky Investments.
- Krishna Kukreja:** I just had a couple of questions.
- The first question is on the gross margin, sir, for Q4, even though aluminum prices have come down, the effect on gross margin wasn't seen as much. So what is your insight on that? Can we see gross margins come down further from here? And how come the gross margins are much higher in this quarter?
- Arvind Kapur:** Yes. Because the average aluminum rate of the previous quarter was as compared to the current quarter, the average rate in the current quarter of aluminum is more as compared of the previous quarter.
- Management:** The overall prices have come down, but there was a slight uptick in prices in the last quarter.
- Krishna Kukreja:** All right. Okay. And sir for the capex for this year, you said it was INR 110 crores. Can we get guidance for what will it be in the next year or the year after that as well, if possible?

- Arvind Kapur:** In the current year, as I said, our depreciation is INR 110 crores, but we would be investing INR 55 crores would be the investment, that takes place. But this is for the production planning that has already been decided. This is as per the budget.
- Moderator:** Next question comes from the line of Riken Ramesh Gopani from Capri Global.
- Riken Ramesh Gopani:** Sir, firstly, I wanted to understand sequentially, if I compared to Q3, the gross margins are down almost 400 basis points. So if you could help me understand what is driving it because I don't think just the aluminum price increase was so sharp that it could lead to this. So if you could help understand the difference between Q3 and Q4 on the gross margin.
- Arvind Kapur:** You're talking of Q3 and Q4?
- Riken Ramesh Gopani:** Yes, sir.
- Arvind Kapur:** Yes. Okay. In Q4, the difference in the price of aluminum, the price of aluminum has gone up by INR14 a KT. So that's the average price we had for this Q4. That is the main reason for this change that has happened.
- Riken Ramesh Gopani:** But could that explain the 400-basis point change in gross margin? Or is there some mix change? Or is there some restatement because to that same extent, I see other expenses going down by about 300 basis points? So are there any other reasons because INR 14, so you cannot sort of explain such a large reduction, isn't it?
- Arvind Kapur:** Yes, that's right. In fact, in this quarter, there is the effect of merger also. So our other entity, which normally produces some other commodity, there also prices have increased. So that impact is also appearing here because this is after the merger. So your observation is right that because of that merger also, there is some impact.
- Riken Ramesh Gopani:** So sir, how should we look at these numbers now from FY '24 onwards, where we see at least now the aluminum prices being actually even lower than what they were in Q4? How should the gross margins trend for you?
- Arvind Kapur:** Yes. Q1, the gross margin would be better as compared to Q4 because there is a lag of 1 quarter. So we will be getting compensated for this quarter's increase in quarter 1. And a very minor exceptional increase, but that also will not be there in quarter 1 onwards. So there is definitely going to be a better gross margin next quarter.
- Riken Ramesh Gopani:** Okay. But just to sort of understand there is no impact because of any product mix change in this, correct?
- Arvind Kapur:** No. No, not much. The product that we have is a fairly constant and consistent supply of products that we have. There is nothing else that has happened in the numbers.
- Riken Ramesh Gopani:** Because in a way, even exports have sort of as a percentage of sales come down compared to last quarter. So is that also causing some impact in this you think?

- Arvind Kapur:** There is almost about INR 17 crores- INR18 crores of exports, which have been shipped from here, but which did not reach the shores of America. So those sales were knocked off. So both products and there is some impact due to this as well. there will be a little bit of change because the raw material has been consumed, we've already made the shipment from here. And until the sale is made to the customer, it is not booked.
- Riken Ramesh Gopani:** So that gets slipped over to Q1 because it got then shipped and sold in Q1?
- Arvind Kapur:** That will happen. This one is going to go on, because at the end of the quarter, whatever shipments have been made further knocked off in case we have not reached the customer.
- Riken Ramesh Gopani:** Right, sir. Sir, just secondly, in terms of your sales outlook for the next year, this growth of 15%, 16%, do you see both domestic and exports delivering similar kind of growth? Or what is your sense?
- Arvind Kapur:** The growth has been both in the export and the domestic industry as well. More so, I think it will happen more and – percentage is percentage-wise, maybe equal for the export as well as domestic. But number-wise, definitely domestic will be larger.
- Riken Ramesh Gopani:** Of course, understood. So both the segments should deliver similar kind of percentage growth in FY '24. Sir, the next question is to understand the capex that you delivered in FY '23. At least from our interactions over the last three, or four quarters, the understanding was that you will spend about INR50 crores to INR60 crores capex this year and next year, given the capacities that you already have in play. In that context, you're spending INR200 crores this year, and actually debt level is going up. If you could throw some more light on the reason for the same? And how confident are you that next year will not be more than INR50 crores?
- Arvind Kapur:** FY '22, and '23 was mainly for Toyota. That's what we have done. And subsequently, there was carry-forward of almost INR50 crores, which we kept on postponing until the last minute, which we carried forward into this year, here we are under discussion. And this particular year, running year now, for '23-'24, we are talking of INR55 crores as an investment. Now this does not include the investment in dies and dies are in some cases, consume within three, or four months in some cases, they might last one year. And very rare cases, they go up to two years the life of the die. But that is a constant thing that we keep on investing in to keep on running our machines. We need to upgrade the dies that are running regularly.
- Riken Ramesh Gopani:** So if you want to include that as well?
- Arvind Kapur:** These dies in any case are amortized we get. And in some cases, we can advance from the customers in advance payment for the dies like Toyota and Renault and others that give you advance payment and Maruti amortizes, and Kia is upfront again. Hero is amortized again.
- Riken Ramesh Gopani:** Okay. So if you want to incorporate that also for next year, then including that, what would be the capex number, INR50 crores you said...
- Arvind Kapur:** Another INR35 crores- INR40 crores.

- Riken Ramesh Gopani:** Okay. So all including, it could be about INR 100 crores kind of a capex. So in that, just a follow-up here, given what you are seeing in terms of revenue growth and margins, you could end up with at least INR 300 crores kind of an EBITDA and possibly therefore, reasonably strong free cash flow. Then what will restrict your ability to reduce debt this year?
- Arvind Kapur:** No, no. Our first attempt will be to reduce the debt. That's very clear. And we are hoping to do better than whatever we did last year. And the EBITDA margin would be definitely around INR 300 crores plus. That's what we're hoping to receive. And so whatever extra cash available that we're going to knock off the debt, very clear in that.
- Riken Ramesh Gopani:** So there should be a reasonable reduction in debt that we should expect in FY '24 as well.
- Arvind Kapur:** You will see that yes.
- Riken Ramesh Gopani:** Understood, sir. And just one last question, which is on the tax rate. So how do you see the tax rate going into FY '24 and FY '25?
- Arvind Kapur:** Yes. Tax rates, like last time also we explained, if you see our cash outflow on front of taxation is quite low. But deferred tax plays a definite role. And one good piece of information is that after mergers in many companies, there were carry-forward losses, which will be adjusted now in future years. So that is why this quarter also, you would have seen a reduction in tax percentage as a whole because deferred tax has again been calculated, and there is a benefit on that account.
- So because of deferred tax, there is going to be a reduction in the tax expense as far as cash outflow is concerned. But on the face of it, it comes almost the same like 30% to 34%. But after two years, I think we will be able to adapt to the new lower tax regime. So until that time, we will be utilizing the benefit of whatever carry-forward losses or max credit is there. So it is, like I said, last quarter also, it will take two years, 2.5 years' time to absorb all those whatever benefits are there. So after that, we will adopt 25%.
- Riken Ramesh Gopani:** Understood, sir. Sir, just one last question, which is given the current quarter's performance where you have seen despite some inflation in raw material, you were able to deliver strong operating margins. Now with raw materials going down into the next year, is there potential for you to see further improvement in EBITDA margins from what you reported in Q4?
- Arvind Kapur:** That's the statement I made that we would certainly like to retain whatever we achieve and maintain whatever we've achieved. But our internal benchmarks are even tougher than whatever we had done last year. And we are hoping that our margins should be better quarter-on-quarter.
- Riken Ramesh Gopani:** That is great to hear, sir. Thank you so much and all the best, sir.
- Moderator:** Thank you. The next question comes from the line of Aman Vij from Astute Investment Management. Please go ahead, sir.
- Aman Vij:** It was nice to read the presentation this time. Just a request, if you can release the presentation a little earlier?

- Arvind Kapur:** Beg your pardon.
- Aman Vij:** The presentation, it was released after 4:00 p.m. So the presentation was good, but if you can release it a little earlier, that will be good.
- Arvind Kapur:** Yes. Yes. We realize that. I think we did falter in that. Next time, we'll try to do it around 1 o'clock in any case, yes.
- Aman Vij:** My question is on the defense business, sir. So last time, you explained the issue in electronics fuses, tender, and all those things. So can you give an update? Have the trials for the summertime started? When can we expect some orders in that?
- Arvind Kapur:** That tender. Finally, I think our voice has been heard, and the preference that was being given to the public sector undertaking has finally been withdrawn. And so now that we think that there's going to be retendering on the fuses because there was a lot of monkey business going on there and a lot of support that the current companies are getting from the government, despite the fact that there was a failure of almost 40% of whatever they used to produce.
- And so they were actually putting our defense people who are on the front lines their lives in danger by supplying fuses where only 60% bust and 40% would not perform. So finally, I think, the Army also realized that, and the government also realized that and I'm sure the PMO was also because we marked copies to anybody and everybody because we wanted fairness in the whole system. And so finally, that has been done. And I think there's going to be a retendering that will take place.
- Aman Vij:** Sorry, when do you expect some tenders to...
- Arvind Kapur:** Retendering -- the last time it took about four years for them to even come to this stage, but now I think it is going to be done on war footing, and the decision will have to be made within months now.
- Aman Vij:** Okay. So do we expect some in this year for FY '25 only?
- Arvind Kapur:** The tendering process will take place. But the allocation of business, I think it will take a year because then the trials and everything will start again. That is as far as the fuses are concerned, but there are other things that we are also offering. And I think in the next quarter, we'll probably make up an announcement as far as those things are concerned.
- Aman Vij:** Yes, we have bid for some of the other products. Hopefully, we'll win something. So just one final clarity on this fuse, sir, you actually talk about INR 6,000 crores to INR 10,000 crores opportunity. But in the presentation, now we are talking about INR 3,500 crores only. So any reason has the tender size reduced, has some of the tenders gone to the public sector companies, why has the number been reduced?
- Arvind Kapur:** See, so tenders got split up, first it was INR 10,000 crores. Then it got split up into three different categories after the tendering has been done and they took it from us in writing and they knocked off some fuses, which are actually outdated and not actually required by the government, I don't

know why they even tendered those fuses. And then subsequently, they broke that up also into electronic fuses and the other fuses which are there.

So they kept us splitting it up because this is the first time that they have come up with such a large tender for Make in India, and there was total confusion as to what had to be done. And so that's the reason it's taken so long, and it kept on changing. And the government also kept on vacillating as to what is to be done in this thing. It is very disappointing because every quarter, we'd hear something new that was happening.

And then subsequently, at the end of the day, when the Prime Minister, everybody got involved that Make in India is a must and they started pushing these authorities to place the orders and to actually produce everything in India. That's the time they started breaking up, and that's the time everything started opening and that's where we are today now. Hopefully, in the next couple of months, you'll see the retendering and all that taking place.

Aman Vij: Sorry sir, these trials will have to be done again, these summer and winter trials.

Arvind Kapur: Of course, the steel prices have gone up, we are going to re-price it again.

Aman Vij: Okay. So the whole trial scenario will happen again. You are saying that.

Arvind Kapur: They'll go through the total cycle again. We have 1,000 fuses lying here. And we want them to actually try those out. We said you please pick up any one of the fuses that we have and there will be 99.9% of fuses will work. But please try them out. So that's the challenge that we are facing.

Moderator: Thank you. The next question comes from the line of Ashwin Agarwal from Demeter Advisors LLP. Please go ahead.

Ashwini Agarwal: Good evening Kapur Saab and your team congratulations, a very nice number. So on the capex side, I think there have been a lot of questions back and forth. I just want to clarify. So it will be a total of INR 55 crores-plus, let's say, INR 35 crores to INR 40 crores for dies. So the total capex would be less than the depreciation of this year. Would that be a fair statement to make?

Arvind Kapur: Yes, absolutely, absolutely. But dies, those are amortized and so we do claim the money from the customer.

Ashwini Agarwal: Okay. So that's not part of the capex that you capitalized?

Arvind Kapur: No, we capitalize that also. So that is why sometimes you find a gap in what we say that this is the plan of capex and what figures you see in our results because there are different dies. If these are amortized, can we capitalize those dies And if it is upfront, then it is not capitalized.

Ashwini Agarwal: Sir, let me ask the question different because all of us are financial analysts and what we are really looking to figure out is that when we look at our cash flows. So this year, for example, the capex number was INR 200 crores, right? So what would be the comparable number in fiscal '24? Would that be INR 55 crores, would that be INR 90 crores, or would that be a different number?

- Management:** I think from that angle, it should be around INR 100 crores,
- Arvind Kapur:** INR 100 crores, less than INR 100 crores, including the dies...
- Ashwini Agarwal:** Yes. Okay. Perfect. And sir, again, congratulations and thank you for increasing the payout ratio on the dividend to roughly about 21%. What's your thinking? Because now you're entering the phase where your capex is going to be less than depreciation, hopefully, cash flows will increase significantly. So some will go towards debt repayment. But where do you want the dividend payout ratio to stabilize?
- Arvind Kapur:** On the dividend front, we actually have an announced policy which we did almost about 15 years back. And in that, we have declared that up to 30% would be the payout.
- Ashwini Agarwal:** Perfect. Okay. All right. Okay. Those are my two questions. Sir, thank you so much, and all the best.
- Moderator:** Thank you. Next question comes from the line of Suraj Nawandhar from Sampada Investments. Please go ahead.
- Suraj Nawandhar:** So I just had one question that we've been pursuing this defense opportunistically for quite a few years and you also alluded in the beginning of the call that the process is very cumbersome, slow. You need a lot of follow-ups. So my question is what is giving us this motivation to go after this opportunity so badly, so hard? I mean, is it diversification of the revenue that we want to achieve or is it a better revenue visibility, or what it is that is driving us for this opportunity so hard?
- Arvind Kapur:** Are you talking about defense?
- Suraj Nawandhar:** Yes, yes. For defense.
- Arvind Kapur:** Okay. See, defense is a big opportunity because the amount of money that government spends in defense is incredible. And the amount of goods that can be actually Made in India, we have the technologies in India. Now the thing is, at the moment, the wall of the bureaucracy, which is here in front of us. Fortunately, we have a very small team of three people actually who are leading this. And of course, we have a lot of consultants and others who keep on supporting us on this. And the motivation is primarily, A, of course, to serve the country, to supply something to the country which is going to be at almost 1/4 the rate of whatever they imported and give them as good if the not better quality than what our nature standards and/or any other standards are as far as the fuses are concerned and also the other equipment, which is acquired by the government is concerned.
- So it is another line that we wanted to develop where once it opens up, once the regular supply starts taking place, then it's an ongoing thing which will carry on again and again because if I talk about the fuses, the army for training, etc., and there is a nice shelf type for everything that is there. And they keep on utilizing all these bombs, etc. And there's also the replacement that keeps on coming. And hopefully, nobody wants a war, and hopefully, there's no war.

And the other opportunity is once you start supplying to the government here, the exports also open up. The government is very open to the export front. So we are looking at both those opportunities. And so the culture that we have been doing in the last many years is within limits. It's not that we are going over the top to actually spend the money. And to give you an example, even these 1,000 fuses, which would cost a couple of crores, the understanding was very clear. After the fuses have been tried only after that, the payment will go, very clear. So we don't really engage in spending too much money as far as the defense is concerned. But the investment will start once the orders come in hand.

Moderator: Thank you. The next question comes from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, my question is on the capex spend for FY '23, I still don't understand why for the quarter 3 call as well as the quarter 2 call, we had mentioned that the capex number will be INR 50 crores for FY '23 and there will be no rise in debt. But when we look at the year-end balance sheet, it's INR 200 crore spent on capex and INR 150 crore rise in debt. Why does this deviation happen vis-a-vis even the quarter 3 call?

Arvind Kapur: See, one of the reasons is that four entities have got merged and the impact of that merger has come in this.

Pritesh Chheda: And those entities were a subsidiary of yours or they were associates or JVs of yours?

Arvind Kapur: So these were 100% subsidiaries.

Pritesh Chheda: So then there should not be any impact, right? We always look at the consolidated number.

Arvind Kapur: Yes. In consolidated numbers, those would.

Pritesh Chheda: Always was there.

Arvind Kapur: Yes, yes. And another factor was the Toyota project, which got capitalized during this year only. If you remember during.

Pritesh Chheda: But that should also be a part of your CWIP, right? You started your Toyota project in quarter 3 end. And at the end of H1, it would be a part of CWIP. You cannot go ahead and land up spending INR 100 crores, INR 150 crores in a quarter's time to complete the project.

Arvind Kapur: No. If you remember, in Q3 and Q2 call also, we said that during this year, Q2 and Q3 capitalization were concerned, as far as last year is concerned, last year, it was not CWIP. Last year, these were LCs in the form of LC. So there was no capitalization last year relating to the Toyota project. Although, LCs were there. So in cash flow, it was not appearing as capex. So complete capex of around INR 50 crores on account of Toyota has come during this year only.

Pritesh Chheda: But that you would have known even in the quarter 3 call, right?

Arvind Kapur: Yes, yes.

- Pritesh Chheda:** So then how can a quarter 3 and quarter 4 deviate by INR 150 crores debt and INR 50 crores capex becoming INR 200 crores?
- Arvind Kapur:** If you see our cash flow in Q2 also because Q3, there is no cash flow statement that will be available. But Q2 cash flow statement if you see, there also the spending was there. And we explained that during Q2 and Q3, this capitalization of the Toyota project happened. So we can refer to the Q2 cash flow statement also.
- Pritesh Chheda:** I know about the Toyota project capitalization, but then the commentary in the quarter 3 call was about INR 50 crores capex only. And when I look at the H1 balance sheet, between the H1 balance sheet and H2 balance sheet, there is a gross log addition of straight INR 100 crores. So either in quarter 3, we should have communicated the capex number of INR 200 crores. What makes me feel is that if you're giving us an INR100 crores capex number next year, again, can these slippages happen then? Because we will go by what you mentioned in the call, right?
- Arvind Kapur:** One thing is for sure last year was a special case because LCs were already there. But this year, as of now, there is no such thing, only one LC is there, that's about INR 11 crores to INR 12 crores.
- Pritesh Chheda:** Sir, we have to be very careful about this because as a company, we have been a heavy capex spender for the past so many years with no corresponding ROIC, and investors here are closely monitoring that number. If any deviation like this has a bad taste with the investors. These are not small numbers.
- Arvind Kapur:** I agree with you. But if you see our ROCE percentage, it is now almost 150% improvement is there as compared to last year's numbers. So ROCE improvement is there, and that will continue. So if ROCE improvement is there, that is on account, because now we are realizing the benefits from the investment which was made earlier. So I think you will be better in a position to -- this year, during our talk also, we'll make an effort to at least keep updated because Q3 might have been a miss because there is no cash flow statement that is published during Q3. But Q2, it was evident. So now we'll take care this year, but every quarter, we'll be updating regarding whatever...
- Pritesh Chheda:** Sir, it's not about an update. It's just about communication because these figures cannot deviate so much. And about ROCE, we any case are a sub-ROCE company, we have still reached about 9%-odd, 8%, 9%, which is like the bank FD rate...
- Arvind Kapur:** Yes, you'll find other improvements that are taking that in this you are right.
- Pritesh Chheda:** Now we are sure about this INR 100 crores next year and repayment of debt...
- Arvind Kapur:** Yes, absolutely because we don't have any other areas where we need to invest immediately. And there are no orders which are pending with any supplier from us. And the die casting, there's one die-casting machine which is coming, which is very specific to the AISIN project.
- Pritesh Chheda:** This asset can support what revenues for us now, whatever is on the ground?

- Arvind Kapur:** Currently, we can actually go about INR 3,200 crores, INR 3,300 crores.
- Pritesh Chheda:** And in your initial conversation with other analysts, I still couldn't understand the Q-o-Q GP reduction. So if you do simple math, there was an INR 50 crores increase in revenue, and there was a corresponding INR 50 crore increase in the raw material cost. Now in any calculation that I do about aluminum price rise, it cannot have a situation where the entire INR 50 crores revenue has an INR 50 crores cost increase. If you could clarify that at a later stage, it would be very helpful.
- Arvind Kapur:** You're talking about Q2 and Q3.
- Pritesh Chheda:** Yes sir. And then there are other companies in the aluminum casting space, your competitors. All of them have shown improvement in gross margin. You are the only company where there is a reduction in gross margin without any product mix change.
- Arvind Kapur :** If you see our standalone results and consol results, in standalone, there is not much of an increase in raw material, although there is an increase of around 150 bps or something. And in the case of consol only, there is an increase that is because of our wheel manufacturing facility i.e. Rico Jinfei.
- Rakesh Sharma:** Because we have started selling more wheels for Hero, which has a less contribution margin as compared to the other customers. So that may be one of the reasons.
- Pritesh Chheda:** In standalone, there is the increase of, in raw material percentage, there is an increase of 120 bps, while in the case of consol, what you are talking about, you are right, that is 400 bps.
- Arvind Kapur:** That is the wheel where the raw material content is on the higher side, normally on the higher side as compared to the other, but if you look at the standalone, it's about 1% or.
- Pritesh Chheda:** So when we look at the gross margin number for FY '24, should we take the gross margin of quarter 4 and look forward or should we take FY '23 and look forward?
- Management:** See, I think safer would be to take it in Q4, but it will be better than Q4. So the percentage should be less than that. So if it is coming to 60%, I think safely, we can take around 58% to 59%.
- Arvind Kapur:** The other thing is that there are some price increases pending from our customers also in the wheel plant. So that will also have some impact.
- Pritesh Chheda:** And are you seeing improvement in business Q-o-Q So is Toyota improving? So this INR 600 crores revenue that we see this quarter moves to a higher number in quarter 1 and then moves to a higher number in quarter 2. That's how we should see your company.
- Arvind Kapur:** Yes. Certainly.
- Pritesh Chheda:** Certainly, right?
- Arvind Kapur:** Yes.

- Management:** And on the raw material front, any other questions, please call us, and we'll give you all the details.
- Moderator:** Thank you. The next question comes from the line of Bhaskara Bhatla, an Individual Investor. Please go ahead.
- Bhaskara Bhatla:** I don't have many questions because most of the callers actually asked actually. Only have one question regarding the BMW order I think two quarters ago, you mentioned that we are expecting some big orders on BMW. So is there any news on that?
- Arvind Kapur:** No, at the moment, there is none, but we are waiting for the news. But we did mention that we have got one order already, which comes to almost INR100 crores a year at peak production that we've already got, but others are still pending.
- Bhaskara Bhatla:** Okay, sir. One last question. Based on the conversations you had with the earlier callers, it is safe to say that for the very first we are going to get a net profit of INR100 crores in the coming year in Rico Auto, is that fair to assume?
- Arvind Kapur:** Well, we will maintain the margins that we've done in quarter 4 and will even improve further. If the math is done, then obviously, we will be achieving whatever you're saying.
- Bhaskara Bhatla:** Yes, yes. I don't take too much of your time, and I'm really happy that we did really good in this quarter. That's all your hard work.
- Moderator:** Thank you. The next question comes from the line of Chethan Dhruva, an individual investor. Please go ahead.
- Chethan Dhruva:** Congratulation Mr. Kapur and team on the good results. So only one question. I'm sorry, it's again about margins, okay? So this is on the outlook you presented earlier, I had a clarification that I needed in terms of when you said that you're going to maintain next year's margin over the FY 24 current year's margin at current levels, was it Q4, or was it the full FY '23? Assuming it is Q4, I thought I should clarify it.
- Arvind Kapur:** No, no. We would like to maintain the Q4 margins, definitely.
- Chethan Dhruva:** Q4 margins. So based on your conversation with the previous participants, one thing I could take away is the gross margin itself will lead to a 100 bps improvement versus Q4.
- Arvind Kapur:** To the math accordingly, yes.
- Chethan Dhruva:** Yes. So then correspondingly, the margin should be higher. EBITDA margins should also be higher by at least that much for the full year versus Q4, right?
- Arvind Kapur:** Yes.
- Chethan Dhruva:** Understood. Very positive news.

- Arvind Kapur:** On the EBITDA front If we notice in quarter 4, whatever we had promised in quarter 3 that what we will achieve in quarter 4, we've actually exceeded that.
- Chethan Dhruva:** Right. I think the main issue was around the Q1 change and also the depreciation, which was not articulated clearly, but I think we got the message. Thank you.
- Arvind Kapur:** Yes. But the raw material, again, I would like to repeat, is mainly because of the merger, but I mean, the sole is coming and is primarily from the wheel plant, Rico Jinfei.
- Chethan Dhruva:** Understood.
- Arvind Kapur:** But if you look at the standalone, the percentage is only 1%, 2%.
- Chethan Dhruva:** Got it, sir. Thank you very much. Wish you good luck for FY '24.
- Moderator:** Ladies and gentlemen, we have reached the end of the question-and-answer session. I would now like to hand the conference over to the management for closing comments.
- Arvind Kapur:** Thank you so much, friends. It's been a pleasure talking to you all. And in any case, if you have any more questions, you are free to write to us, free to call us, we are always there for you, and we will openly share with you, transparently share with you whatever is happening in the company. And any questions on investment and why INR100 crores investments were done in a particular period and also the raw material front, any questions we are open for discussion. We would like to certainly share all the information with you.
- And the company, we are doing well and let's hope the Russia-Ukraine war comes to an end. That will give further flip to our exports and also to the other markets, where we're hoping things will start improving. And besides that, we are looking at other customers in India as well, so that our growth takes this both in the two-wheeler as well as in the passenger vehicle market. And we would continue to improve on our EBITDA levels and also on the PBT level. And we have a plan already in place, and we are hoping to make to show you better results in the next quarter and the quarters ahead. Thank you so much for the call. And please write to us or please call us whenever you have any questions. Thank you.
- Moderator:** Thank you. On behalf of Rico Auto Industries Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.