

RICO RICO AUTO INDUSTRIES LIMITED

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RAIL:SEC:2021

June 30, 2021

BSE Limited Phiroze Jeejeebhoy Towers Dalal Street Mumbai - 400001 Scrip Code - 520008	National Stock Exchange of India Limited Exchange Plaza, 5 th Floor, Plot No.C/1, G Block Bandra-Kurla Complex, Bandra (E) Mumbai - 400 051 Scrip Code - RICOAUTO
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Sub : **Transcript of Conference Call held on 23rd June, 2021**

Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 23rd June, 2021 with the Investors.

In relation to one of the investors seeking a response on the capitalisation of the Company, which was duly responded to by the Managing Director of the Company, we submit herewith further explanations.

In respect of capitalisation of Tools, Dies, Jigs, Fixtures and Gauges etc. (Capital Assets). There are 2 types of contracts that the Company enters into with the customers for Tools, Jigs, fixtures, dies, gauges, etc. one contract is where such assets are owned by the customer and another is where such assets are owned by the Company (and or its group entities).

In cases, where assets are to be owned by Customer, we receive money in advance to meet the cost of manufacturing Dies, Tools, Jigs, Fixtures and Gauges etc. These are tested for performance, inspected and approved by the Customer. After approval these are billed to the Customer and balance amount after adjusting the advance, if any, is received and recorded as a revenue based on the specific terms of the contract with the customer, such assets, therefore, are not capitalised in our books of account and kept as property of the Customer.

In cases, where such assets are owned by Rico Auto, the costs towards such assets are capitalised in our books of account as Fixed Assets and amortised over their expected economic useful life in accordance with the requirements of the accounting standards.

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 FY2021 Earnings Conference Call”

June 23, 2021



MANAGEMENT:
OF RICO AUTO

MR. ARVIND KAPUR - CHAIRMAN, CEO & MD
MR. O.P. AGGARWAL - CHIEF ADVISOR (FIN. & A/Cs)
MR. SURENDRA SINGH - PRESIDENT & COO
MR. SANDEEP RAJPAL - VICE PRESIDENT (MARKETING)
MR. RAKESH SHARMA - CHIEF FINANCIAL OFFICER
MR. B.M. JHAMB - COMPANY SECRETARY

MODERATOR: **MR. SAURABH BHAVE - S-ANCIAL TECHNOLOGIES
PRIVATE LIMITED**



Rico Auto Industries Limited
June 23, 2021

Moderator: Ladies and gentlemen good day and welcome to the Rico Auto Industries Limited Q4 FY2021 Earnings Conference Call, hosted by S-Ancial Technologies Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to the Mr. Saurabh Bhavne from S-Ancial Technologies. Thank you and over to you, Mr. Bhavne!

Saurabh Bhavne: Thank you. On behalf of S-Ancial Technologies I welcome you all to Rico Auto Industries Limited’s Q4 and FY2021 earnings conference call. From the management, we have Mr. Arvind Kapur – Chairman, CEO and Managing Director, Mr. O.P. Aggarwal- Chief Advisor (Finance & Accounts), Mr. Surendra Singh, President and COO, Mr. Rakesh Sharma, Chief Financial Officer, Mr. Sandeep Rajpal – Vice President (Marketing) and Mr. B.M. Jhamb, Company Secretary. Now may I request Mr. Arvind Kapur to take us through his opening remarks subsequent to which we can open the floor for Q&A session. Thank you and over to you Sir!

Arvind Kapur: Good evening everyone. I welcome you to today’s conference call. I hope everybody is safe and healthy and your family and your near and dear ones are all safe and healthy. Please get yourself vaccinated. I think that is the only solution we have. We do not want to face another the third wave and what we are doing here we have vaccinated all the 95% of our colleagues who are above 45 and 35% of our colleagues who are between 18 and 45. I think by the end of the month, we should vaccinate almost everybody in our facility and then we are going to extend this vaccination to the families of our colleagues as well so this is just on the health front.

COVID has played this time the second wave that hit us I think we were all not very comfortable and fortunately the State Government this time realized that the companies can keep on working, the manufacturing facilities can keep on working, but since the closure was dependent on the local political parties in the states there were some states who did not allow manufacturing like Karnataka, we had a problem in Toyota plants and other plants as they were shut there, but most of the other plants were in operation and Chennai was unprecedented. I requested some of the OEMs there to prepone their annual closures and half-yearly closures so that it could overlap with the closure of the states and that got extended for a while.

So for us what was happening was that all the OEMs did not close at the same time. So, we had to keep on running our plants, some of them were opened then the exports were opened, we were shipping our consignments to Germany and the other places, so all that was happening. In the process, there were lot of people who did anticipate that there could be total closures and so lot of the migrant labours did go back to their states but most of them have come back now and so we are back into full production now and now of course all the states are opened and the markets have also opened and it appears that the reaction in the car market as well as the two-wheeler market would be stronger than what happened last time.

The demand might not be as much, but we are seeing signs of change and we are seeing that goods are picking up, but the word of caution here, I think all the vehicle manufacturers are



looking for increasing the prices of their vehicles primarily because of the commodity price increases that have been taking place for the last almost one to one and a half years and the other costs which have actually gone up and so there is a possibility that there would be a price hike that would take place possibly in this July, August, September, October in this period and what impact will that have would all depend on the amount of price increases that actually take place, but the orders seem to be good both in the domestic market as well as the export market.

We are very happy and excited about the export market. Our exports last year was pretty good despite all the issues that were existent and this year again I think there would be a further growth. I think we should be crossing about 450 Crores to 500 Crores as far as exports are concerned and the domestic market we will see a growth in the domestic market as well and one is of course this year we did a consolidated turnover of about 1500 Crores, this is despite the fact that the first quarter was a total washout but the orders were good and the exports were good and the investments have been made in the previous years, those actually came into production and we could cross the turnover of the last year.

This year of course there is one extra quarter that we will be working and 25% would be that growth in any case but we are expecting another 20% - 25% growth for this year as well. So, I think this year seems to be good. So far the exports are going to be very good and in the domestic market, we have picked up more businesses from current companies as well as some new companies we have added and we are hoping that we should cross our dream figure that we have been talking almost every year and we will cross that very easily this year.

The commodity prices I must add here that there is a lag impact. The contracts with most of the OEMs is that the commodity prices are pass through but it is an average of three months, every quarter they settle and in one or two companies it is on six months basis that we need to settle, it is an average of that month that they normally give us the price so we do not actually get the full price and what happened in this year was that the prices just kept on going up the whole year, they never came down at all and so the lag impact was a lot and I think there was an impact of almost about 45 Crores to 50 Crores totally out of it we have got some and about 17 Crores and 18 Crores is the carry forward which was there, and we would get back possibly this year.

It is a total pass through. The only thing is the lag has impacted us and normally the increase in commodity prices is not very high but this year has been an exception. The investments that we are looking at this year would be within the depreciation. The depreciation is around 80 Crores but the initial investment that we need to do this year is about 55 Crores.

Besides that there is a separate project which we have been given and that is the Toyota project and that is a very prestigious project that has come our way and Toyota selected us amongst three four bidders in which there were also Japanese companies and we got selected after making the samples and delivering goods in time and that would be a separate investment that would take place, but the investment that we would do this year there would be no impact on the turnover for this year. The impact will come only next year because they come under production next year.



On our repayment, our repayments are about 65 Crores this year and we would have enough accruals to pay of these. Our turnover is also going up and our accruals would be pretty good this year. So all the investments that we have been showing in the last couple of years, they have actually started to come into production and you will see a major change in the company's performance this current year. In our subsidiary Rico Jinfei there would be a major increase there also. We had created the capacities. It took us many years to get the orders. Finally, we have the orders and we did about 150 Crores this year. Our target is that we will almost be doubling it this current year in the Rico Jinfei and that is for the aluminium wheels that we supply, but you will see all the other companies also their turnover going up this year.

We have also setup a COVID centre because of the issues that came up in the last a month and a half then there was a shortage of oxygen and shortage of beds, our Dharuhera plant which we rent it out absolutely, the machines have been transferred to our various plants and the production is taking place in various plants and we converted that particular Dharuhera building into a COVID centre. We are still holding it, hopefully that there would not be a third wave but if at all it comes we will be absolutely ready for the third wave.

I think that is all. If anything else, I think I am open to the questions and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Jaimin Desai from ICICI Securities. Please go ahead.

Jaimin Desai: Good evening Sir. Congratulations on pretty healthy revenue performance in the quarter. Firstly, I wanted to ask, could you describe the impact of electric or hybrid vehicles on your business segments or product profile and over the medium to long-term would Rico be a gainer from the transition on net basis or would the business be largely unaffected?

Arvind Kapur: When we talk of electric vehicles, we normally talk of electrification. So when I say electrification, it is not pure battery electric vehicles, mainly the hybrid vehicles also are part of that and it is taking place and when it takes place there would be impact on us because we are making a lot of engine components but if you look at the growth that is taking place at the moment, in India we produce about 3.5 million cars a year and by 2030 when we can say the penetration of electric vehicles and electrification would start taking place. We expect that today we are making 3.5 million cars and by 2030 we should be making in the region of about 8 million to 10 million cars. They say 10 million but I am now estimating at about 8 million because of COVID years etc. Out of that the pure electric vehicles, which are the battery vehicles, we expect those would be in the region of about 15%, plus minus 5%. If it stretches to 20%, 25% that would actually be the hybrid vehicles that will be there and for pure electric vehicles too actually there are two very challenging things are to happen. One is that the battery prices got to come down even lower than whatever they are today, like it has come down to about \$55 to \$60 and the vehicle we should be able to produce, lets say big Maruti vehicles which are about Rs.5 lakhs, I think should be the target for these vehicles then they would be start mass selling, but there will be only mass selling, in case the auto has a facility of very significantly charging the vehicles and/or battery replacement, whatever is being done, but we find that CNG started in Delhi about

20 years back and still we have huge line in the petro pumps to fill up the CNG so we do not see the access to charging station would be that easy. Even in US we have had experienced with suppliers or some of our colleagues that they have had to wait for two hours in California, which is the hub of electric vehicles, for charging their cars and stations which can charge about 20 cars at a time, so it is a problem at the moment, it is going to take a while and by the time it actually shifts, that would I say will be 2040 or 2045. By 2030 the ICE engine, the petrol engine that we are talking of today, the capacity built up in India would be almost double of whatever we are doing today. If we are making 3.2, 3.5 million vehicles today, by 2030 we should be making close to 8 million to 9 million out of which 15% could be electric and/or electrified vehicles, the balance are going to be ICE engines. So, we need to still double our capacity to meet the demand by the year 2030 and what we feel is, it is around 2040, 2045 that there would be some change that would start happening, but by then that there would be a lot of technologies that would also come into assistance which will include hydrogen vehicles and even the hybrid vehicles. On the hybrid vehicles, the order we got from Toyota is for hybrid vehicles. We are the only ones who would be making these components for the hybrid vehicles and those components will go for Toyota in India and also for exports from India and also for Maruti Suzuki. As you know the Toyota has invested in Suzuki Japan. So they are quoting as far as hybrid vehicles are concerned, so most of the vehicles will get converted into hybrid vehicles by then, but it will be 20 years down the line.

- Jaimin Desai:** Sir, this Toyota order for hybrid you are saying that we are the sole supplier for that product?
- Arvind Kapur:** Yes.
- Jaimin Desai:** What would be the component?
- Arvind Kapur:** There are various components. They are transmission components and we will be supplying those, but let me tell you we are already supplying for electric vehicles. Our turnover this year for the electric vehicles that is for BMW, PSA and Renault was about 78 Crores and this current year it should be almost doubling, it will be around 150 Crores in the electric vehicles. So we are in the electric vehicle components as well and they are growing and the components that we are supplying are primarily for Europe and one set of components will go to India and China as well.
- Jaimin Desai:** Sir, how much would be the engine components as a percentage of our FY2021 sales at a consolidated level?
- Arvind Kapur:** The engine is about 43% of the total sales and for next year it will come down slightly to 38% even though there is a total growth that is taking place and it will come down primarily because of the electric vehicle components which are going up and also the transmission components which are going up, the chassis and the wheels, the aluminium wheels there is a major growth from 150 Crores it is going to be 300 Crores. So, those are the non-engine components. So, from 43% we will come down to 38% but the actual value would be more.

- Jaimin Desai:** In the result press release it mentions order wins of around 1690 Crores for the year, so how much of these would be on the electric or hybrid side?
- Arvind Kapur:** Out of 1690 crores new nominations, about 500 Crores would be from electric and hybrid vehicles.
- Jaimin Desai:** By what year would these form a part of our revenues? How many years down the line?
- Arvind Kapur:** The start would be next year, and 2022-2023.
- Jaimin Desai:** The peak would be say four, five years after that?
- Arvind Kapur:** Next year will be peak. See, what I said was these Toyota components that I am talking off these have got the domestic market for Maruti Suzuki and Toyota and also for exports in South East Asia.
- Jaimin Desai:** In terms of domestic EV space, there is a lot of action happening especially on the two-wheeler front, so considering that you have the big presence on the two-wheeler side, as well, are you in discussion with the two-wheeler electric OEMs?
- Arvind Kapur:** Yes, we are. See, like the wheels etc., those we are going to be supply in any case. We have already negotiated with some of the major customers and the major players who are going to coming in that and that is one part, but if you look at the motor and the transmission that is required we are looking at those components as well and negotiating it with the customers.
- Jaimin Desai:** Last question if I may be allowed, Sir, in terms of margins, in the medium term say next year, do you think, we would be able to cross the double-digit, into double-digit level at the consolidated level for EBITDA margins?
- Arvind Kapur:** This coming year we should do it.
- Jaimin Desai:** This would be irrespective of whatever happens on the material cost side?
- Arvind Kapur:** Material is a pass on. There is a lag which happens and at the moment of course this year we will also be getting the lag of last year, which will be carried forward and now if the raw material is doubled then of course there would be a challenge, it will only get postponed, but we are hoping that the aluminium seems to be more stable at the moment. We are hoping for aluminum. Iron does not impact us so much. But the commodity, the raw material is a pass through. The only thing is now we have started negotiating with our customers that rather than three months average or six months average we want to reduce the timeline, we got to reduce it on to maybe one month or so, one or two months. So we are negotiating that also.
- Jaimin Desai:** That is it from my side. Thank you. All the best.

Moderator: Thank you. The next question is from the line of Rashi Talvar from Ashmore Group. Please go ahead.

Rashi Talvar: Good afternoon, Sir. How are you doing?

Arvind Kapur: Good Rashi Ji. How are you?

Rashi Talvar: I am fine. Just a quick question that capex that we ended the year with in FY2021 was much ahead of the guidance that we had. So, I was just wondering how to reconcile that and this seem to be obviously a first quarter phenomenon because till then we were pretty sure on what capex would have been?

Arvind Kapur: See, the capex that we normally consider is the machines or the buildings which are required or even the utility. The dies which are consumable we normally do not include those as investment that is going to take place because most of it is funded or advance is given to us by the customers and the dies all of them or most of them depending on the volume they do not last more than six months to one year and they get consumed in that so we do get that advantage over of completing the cost in six months or one year. When we declared that this is what capex we are going to have is by accounting purposes they have clubbed all the jigs and fixtures and put it together. Whereas the funding is done of all the jigs and fixtures and everything has been funded by the customers and they own it actually.

Rashi Talvar: So, they own it.

Arvind Kapur: They have funded it. They obviously own. We own it, but I mean, they have actually funded this. So, I would say they have funded actually. What we do is anything which is specific for a particular component, we ask the customer to pay for it, all the jigs and fixtures and the dies when they get ready we ask the customers to pay for it because in case, their vehicles do not sell, their component is not used by them, we are not going to bear the cost.

Rashi Talvar: Let me break it up, because we had our capex for the year was 124 Crores versus the guidance of about 80 Crores to 90 Crores.

Arvind Kapur: The balance is all jigs and fixtures and the dies, and etc. You know each die can cost us 5 Crores, like some of these Toyota dies, each die is almost 3 Crores to 5 Crores and we made a whole set of dies for Toyota and now we are making a second set of dies for Toyota this year.

Rashi Talvar: So, these set of dies that were made for Toyota are made for this new project that we won?

Arvind Kapur: Yes, those are made because to win the project we had to make these dies. We had to make these dies and prove and of course they funded us for it. They paid us for it. They paid two other companies for the same component and they were looking at a timeline and also the quality component that were supplied and we were the ones who did it before time and gave it to them in time and so those dies are 6 Crores, 8 Crores or something like that. That is one set of dies.

- Rashi Talvar:** How many sets did we have to make?
- Arvind Kapur:** Now we had made only one. But now we are going to make the second and third one. Now since the order has come to us, we need to have two to three sets of dies depending on the volume. If it is 11000 to 12000 pieces a month, then we keep two sets of dies.
- Rashi Talvar:** Okay, but your point being that this extra let us say 34 Crores or 44 Crores was basically for dies and fixtures.
- Arvind Kapur:** Dies, jigs and fixture and special gauges that we put for special component, which we cannot use otherwise for any other components, any other customers. There is a lot of money that comes in as advance from the customers. That also shows as a commitment of theirs on the project itself.
- Rashi Talvar:** That is what I am trying to just assess that this entire amount would have been funded by the customers before?
- Arvind Kapur:** Yes. The first set, the second set, essentially the customers will pay for and then thereafter once this is regular and when there is full production that is the time we start amortizing it over the production because then the recovery is very fast. It is depending on the volume each die lasts about 100000 shots, 80000 to 110000 shots. So, if the volume is more than 100000 within seven to eight months we consume the die. Now for two years, we consume the die within three to four months. See that we have to make samples, we have to make and give them with 300 sets of samples and for that I am not going to make a die for that and for 300 pieces and total expenditure will be more than 8 Crores to 10 Crores and they were only testing us out. They were testing us and testing the other people out as to who would be the best supplier we would get so they scale ourselves for it.
- Rashi Talvar:** Thank you Sir. I will come back in the queue for more questions later.
- Moderator:** Thank you very much. The next question is from the line of Hitesh Kumar from Aksa Capital advisors. Please go ahead.
- Hitesh:** This is Hitesh. Thanks for the opportunity. Sir, any update on this Gurugram plant where we were looking to moving out of that location?
- Arvind Kapur:** No, not at all. Nothing at all. Primarily because of COVID I do not think there was any interest by anybody. So, at the moment I think everything is down, so at the moment we have no update on that.
- Hitesh:** Sure, and there were some purchase of assets from Rasa Autocom during the quarter where except the land we have purchased the machineries and the infrastructure, so could just help explain what was that for?

- Arvind Kapur:** See Rasa, we have three plots in Bawal, one is in the name of Rasa, one is in the name of Rico Auto and the third was in the name of Rico Jinfei and Rasa because it is a plot allotted by HSIDC there is an obligation of starting production within certain limited time, so we started the production there but whatever they produced 100% was being supplied to Rico Auto and Bawal itself, so whatever die castings and etc., etc., whatever they did, they supplied to Rico Auto. Now, after the terms and condition of HSIDC were over we internally thought that we should merge all the companies and rather than just transferring goods from one end to the other end and with a lot of paperwork etc., and then also we have problem of related party transactions etc., so what we did was we bought all the production assets so Rico itself would start producing that. So, all the profits of Rasa actually get transferred to Rico Auto now. And that Rasa is a 100% subsidiary of Rico Auto by the way and the plot we did not transfer because there was a heavy cost of the registration fees that was required to be done and we thought we will do it whenever it is easy because Rasa is also our own company. So, at the moment, the building is on rent Rasa is 100% Rico Auto company at the moment the transaction is only rental portion and the machines have been transferred so there is no transaction as far as the component supplies are concerned.
- Hitesh:** Got it and Sir on Rico Jinfei because you expect the turnover to double I think last year FY2020 at least we did about Rs.120 Crores odd what would be in FY2021 and how do you see that moving along with the profitability there?
- Arvind Kapur:** FY2021 we did Rs.150 Crores and we said Rs.300 Crores actually.
- Hitesh:** And profitability would be the same roughly about 10% - 11% that we had?
- Arvind Kapur:** Yes, our target is improved by another 1.5% because you must realize that the capacities that we created but we were not utilizing the equipment and now we will be utilizing the equipment fully and there would still be some capacities available but of course there would be some investments as far as machining is concerned that would be required later on but at the moment all the investments are in place, we do not have to do anything at the moment to touch Rs350 Crores.
- Hitesh:** Got it and lastly on this Rs.1700 Crores new order wins most of it will be coming in from FY2023, so FY2022 this 25% growth that we are anticipating is just the organic growth and also because last year Q1 was a complete washout and hence probably this 25% growth which you are building in?
- Arvind Kapur:** Yes, first quarter is of course the add on as this year because last year we actually worked for three quarters and one quarter is add on that will happen so that is 25% growth in any case. If I regard 25% as the turnover in one quarter, the balance of course is the new order which are there and for which the investments have already been made.
- Hitesh:** No, the growth that you are looking for FY2022 is just 25%, right?
- Arvind Kapur:** No, we are looking at 25% plus and another 25%.

- Hitesh:** So, roughly about Rs.2000 Crores plus?
- Arvind Kapur:** We are adding a quarter and then you are saying we are going to grow by another 20% - 25%.
- Hitesh:** Okay, so that is roughly about Rs.2200 Crores odd of revenues that we are looking at depending on whatever visibility you have on these orders?
- Arvind Kapur:** Very close to, your guess was pretty close.
- Hitesh:** Got it, sure. Okay, sure thanks a lot.
- Arvind Kapur:** We will hold the next question; I can just talk a little about the hybrid vehicles. We personally think hybrid is a way forward and Toyota has always spoken about the hybrid vehicles and they feel that the first thing that would happen is, till of course the battery charging places are available very, very easily all over the country and very conveniently available and I think the vehicle can cross almost about 800 kilometres to 1000 kilometres in one charging because in India you have a traffic jam of almost two hour – three hours and if your car is standing for two hour – three hours I think you are going to consume a lot of battery and what happens once the traffic starts you might not be able to move at all your battery might totally discharge. So, everybody feel that hybrid vehicle would come in first, so hybrid vehicle how it works is, it works from the engine as well as the battery, and the engine is charging the battery and/or is running the car on the engine. The battery for the speed of 40 kilometres/hour it is the battery that operates, it is very silent operation than the engine takes over. The next would be plug-in hybrids where you can actually charge the batteries run on the battery the whole day, in case you run short of batteries then the engine will take over. So, that would be the next step that will come in and along with it till there is more maturity as far as the battery vehicles are concerned.
- Moderator:** Thank you. The next question is from the line of Bhaskar D a Retail Investor. Please go ahead.
- Bhaskar Dasla:** Sir, good afternoon. This is Bhaskar Dasla, just a quick one, like from now onwards do you think we can expect some kind of regular profits above Rs.15 Crores mark, I can say like that when you actually improve in quarter-on-quarter quite lot compared to previous year. But in terms of the profit do you think we can expect above Rs.15 Crores kind of each quarter going forward or it is going to be still in around Rs.10 Crores odd?
- Arvind Kapur:** No, is your question that do we expect Rs.15 Crores net profit quarter-on-quarter?
- Bhaskar Dasla:** For each quarter, yes. That is right Sir.
- Arvind Kapur:** We are hopeful to get better than that now because please understand that we have been making a lot of investments in the last couple of years and now all those investments are actually in play and the turnover jump you see is huge and it would be a major increase that we would go for this year and we would be sweating all the assets that we have at the moment and hopefully we will be much better than this, unless COVID hits us again and there is a third wave and everything

shuts down then of course we do not know hopefully they will not shut the industry and by not shutting the industry is the only advantage we have is that our exports will carry on but the domestic market will come to halt because all the shops and the selling areas will get closed that becomes a disadvantage. So, let us hope that people behave and the third wave does not come and if at all it comes people are vaccinated by then and the impact is not so much and then there are no closures, if that happens then of course it is in extreme situation otherwise last year also we would have done much better but the first quarter which is wash out but all the cost we had to incur in any case.

Bhaskar Dasla: Okay, Sir. One last question from my side like last year we had issues with exporting we had some cost incurred about Rs.30 Crores, so that is done Sir, freight?

Arvind Kapur: No, you are talking of the premium freights?

Bhaskar Dasla: Yes Sir, premium freights that is right?

Arvind Kapur: Yes, we do have premium freights this year also but that is not because of short supply from our side. What has happened is earlier, I am sure you people must be also reading in the papers that there is a shortage of containers and the shipping costs have gone drastically almost five times and what has happened is that earlier for Europe and for US, it used to take about four weeks of sailing and we used to keep four weeks of stock there and in the US and also in Germany, and Europe what has happened is that, that four weeks has turned into seven weeks to eight weeks now plus the availability of containers is not there. We ship almost two – three containers every day and shipping those containers there is always a shortfall, it will be delayed by three days or five days or ten days and the cost has gone up that is what has happened. Now to cover up those extra four weeks of sea time we have used premium freights to ship, but we have made a lot of changes there and the overall cost that we expect for this year is close to about Rs.10 Crores in the whole year. But I would not call it premium that this is actually meeting the requirements of the customer just to get the goods there for which we are asking the customer to pay for because it is not our fault that the containers are delayed.

Bhaskar Dasla: Sir I think that is lot better than Rs.30 Crores if you think only around Rs.10 Crores, this year?

Arvind Kapur: No, that is over, that is history. But that also happened a year before last year, but primarily last year the COVID times we had lot of shortage of labour, we had to keep up the lines running up for our customers, so we did employ a lot of fresh people, untrained people whom we tried to train but there were lot of problems that we incurred as far as the components are concerned is behind us now.

Bhaskar Dasla: Okay, so now you think that work force is also not stable like number of employees that are going to be?

Arvind Kapur: Workforce was stable we did over employee also to be honest and so that in case people go away with another wave then we would have enough people with us.

- Bhaskar Dasla:** Okay, Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Jaimin Desai from ICICI Securities. Please go ahead.
- Jaimin Desai:** Thanks for the opportunity again. Sir, could you provide us the geographical break up of revenues in FY2021 and also who would be your top five clients and what would be the share of business with these people?
- Arvind Kapur:** Geographical you would mean globally, or you wanted only for India. India is India. You want a breakup for India as well.
- Jaimin Desai:** No, I mean in terms of exports which would be our major markets?
- Arvind Kapur:** Major markets are Europe and US; Germany, France and US and then of course we are exporting to Japan, we are exporting to China, we are exporting to Thailand those are very small numbers. It is primarily Germany, France then Volvo in Sweden, basically Europe and US.
- Jaimin Desai:** Sure, and your top clients?
- Arvind Kapur:** Top clients are BMW and GKN and PSA. I am talking of only exports please and then Renault, but Renault is earlier we were exporting directly to Renault plant all over the world but now Renault they have got a collection centre here they consolidate all the material here and then send. So, that we do not regard as exports that are now domestic market, but it is all meant for exports as components. After about a year PSA is also planning to do the same things that they would consolidate in India then pick up the material from here.
- Jaimin Desai:** Finally on the housekeeping question. What is the normalized tax rate that we should assume going forward because the tax rate has been pretty volatile in the first three or four quarters?
- Arvind Kapur:** Whatever we have done now we will be doubling that in any case, so we will be increasing about 4% to 5% that is what figure would be.
- Jaimin Desai:** 4% to 5% of sales?
- Arvind Kapur:** Yes. You must realize that we were incurring a lot of interest on investments that have been done which were not being flogged now this year we have the opportunity of flogging everything. You will see a major change that will come up, but you see every quarter wise, of course this first quarter again there is a slight impact but there is an impact but not a major impact, but we will cover up.
- Jaimin Desai:** Okay, thanks a lot.

Moderator: Thank you very much. The next question is from the line of Rahul Singh from IndusInd Bank. Please go ahead.

Rahul Singh: Thank you for this opportunity. Sir, my question is in the last quarter comparing the third quarter to fourth quarter your sales have increased but your EBITDA has actually declined. So, I want to know what is the reason for that from Q3 to Q4 on EBITDA level?

Arvind Kapur: It was actually gone up from 9.5% to 9.8% but otherwise that would have been better in case because the raw material price increase in this quarter was very high and that impact we will get next month. The other thing is that like I mentioned earlier that we have finally closed Dharuhera which was a pain for all the investors earlier, they would ask this question when are we going to shut down Dharuhera and the final cost whatever required to shutdown Dharuhera that has also been done and dusted, so that is also shown in, but still the EBITDA level has gone up.

Rahul Singh: My next question is what the quarter-on-quarter freight expense is for the last financial year. Freight expense it has increased or it is in same line of quarter-on-quarter?

Arvind Kapur: The air freights have decreased drastically. This is the premium freight I am talking of. They have decreased drastically. The sea freight has gone up, but we are reorganizing everything and hopefully the targets that we have taken internally, despite the freight rate going up by four times to five times and we are targeting that the impact should not be more than 1.5 times to 2 times of the total freight cost of last year and how are we going to do it is we have changed repackaging, you must understand that bulk of our export is aluminium components and aluminium components when we stuff in the container we cannot stuff more than 10 tons or 12 tons of materials. So, what we are doing is we are also exporting iron components and iron components we can barely fill half the container and the container by weight it is about 22 tons–23 tons. So, what we are doing is we have started mixing up the iron and aluminium in a 40-ton container where we can ship about 28 tons and with this, we will reach the ultimate weight and also be able to carry a lot of aluminum components almost free of price. So, all these combinations are taking place then repackaging of all the components earlier we were packing in one box, say 600 components we are trying to see how we can take it to 900 components. So, where all this permutation and combinations we are working out and hopefully it should not be more than 1.5 times that would be the maximum that we would be touching. This is despite the freight increase of five times and this is permanent for us. This table would be permanent for us because the freights are not sustainable at the level that the shipping companies are charging at the moment. They will come down and that benefit obviously will come to the company then. Then ultimately, the money that we would be spending on freight would be lesser than the money that we spent last year. Now, this is what the guesstimate because there is a lot of work going on there is a separate task force which is on this and they wanted to start work, they wanted to start implementing this and that is the target we have given them and we are very confident we will achieve it. Please also understand that our export is going up by almost 30% this year and the freight also goes up but we are going to try to keep it there.

Rahul Singh: Thank you from my side.

- Moderator:** Thank you very much. The next question is from the line of Chandra Govind from Ashmore Group. Please go ahead.
- Chandra Govind:** Sir, good evening. Sir, one question that I had was on Dharuhera plant closure cost. What was the cost that we incurred in 4Q FY2021 which will not repeat going ahead?
- Arvind Kapur:** It was about Rs.2.5 Crores to Rs.3 Crores, that we incurred this quarter.
- Chandra Govind:** The extraordinary expense of Rs.1.7 Crores does this include that Rs.2.5 Crores, or is it?
- Arvind Kapur:** Yes.
- Chandra Govind:** So, the EBITDA line we include Rs.80 Crores extra expenses for Dharuhera plant?
- Arvind Kapur:** Yes.
- Chandra Govind:** Second question that I had was on the raw material cost. You said few customers consider three months average, few customers do take six months average and you also said out of Rs.40 Crores – Rs.50 Crores that you spend on raw material only Rs.17 Crores been collected. So, when do you see the raw material cost expenses to normalize or will you have benefit for the next year because you collect the remaining amount?
- Arvind Kapur:** The remaining asset was Rs.17 Crores out of the Rs.42 Crores – Rs.45 Crores, which we should get. So that is one and number two, normally what we see is that over the years the raw material prices fluctuate between 5% and 7% to 10% maximum. This year it was exceptional. It went up by 40% and it kept on going up. Normally it goes up and down, the graph goes up and down, so adjustment of that is happening around but by the end of the year, there is not too much minus that is left behind. But this year has been an exceptional and we are also looking at how to make a change so that in future this does not impact. Now, the problem is that they are prepared to make a change today. If they make a change today then we would probably lose a lot of money for the advantage that we want to take when the prices come of the commodities. So, we are not agreeing to at least today we will agree to a change to bring it on to a month or month and a half or maximum two months when we have recovered the Rs.17 Crores – Rs.18 Crores that we have put in and we are hoping that this year there will not be a major fluctuation as far as the raw material is concerned.
- Chandra Govind:** Okay, got it and on the capex side, what kind of capex that you are looking for FY2022?
- Arvind Kapur:** Normal capex that we normally have is about Rs.50 Crores as a maintenance capex and other some balancing and some like we have the Maruti orders the volumes have gone up and for that some of the capex going to need to come in. But for Toyota there is a separate capex and the total would be spread over two years and partly this year and partly next year. It is about Rs.65 Crores to Rs.70 Crores this year and balance would be next year.



- Chandra Govind:** Okay, how much would be the balance?
- Arvind Kapur:** Beg your pardon?
- Chandra Govind:** So, Rs.65 Crores to Rs.70 Crores for this year and what would be the FY2023 the balance the other expenditure?
- Arvind Kapur:** That would be about Rs.45 Crores to Rs.50 Crores. Let me add here that Rs.45 Crores to Rs.50 Crores that we are talking of that is also again we are talking of very large die casting machines each machine cost is about Rs.23 Crores–Rs.24 Crores but installed machine is about Rs. 30 Crores–Rs.35 Crores and we already have about four of them, we are adding two more machines and these machines would also be used for further products of Toyota, which are again large projects that they are coming up for the electric vehicles and also hybrid vehicles and we would also be making components for that and that turnover we have not taken at all in this present business and that the turnover that is be going to happen this year.
- Chandra Govind:** All this guidance does not include dies capex?
- Arvind Kapur:** No, dies are the customer places, they come into approach, but the customer advances for die for the first two sets of die, the third die is about we start investing and which get amortized over the life of the die. There would be jigs and fixtures as well are anything specific for a component which we cannot use for another customer we always press the customer to pay for.
- Chandra Govind:** Thank you, Sir.
- Moderator:** Thank you very much. As there are no further questions, I will now hand the conference over to the management for closing comments.
- Arvind Kapur:** Thank you so much. Once again, I would like to thank everybody who took out time to participate in the meeting today. We have been promising from many quarters that we would give a better performance but at this time the topline growth is pretty good and despite one quarter missing we were able to increase our turnover more than previous years turnover and this year again we expect a major jump in turnover and you will also see a major impact coming in the bottom line as well and there are lot of costing measures and etc., that we have actually undertaken. A lot of trainings etc., that are actually happening, and you will see those results coming every quarter you see some changes coming about on that. Thank you so much once again. Stay safe. Stay healthy. Please get reserved and isolated and all the best.
- Moderator:** Thank you very much. On behalf of S-Ancial Technologies Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.