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Sub : Transcript of Conference Call held on 16th August, 2021

Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 16th August, 2021 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
Q1 FY2022 Earnings Conference Call”**

August 16, 2021



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

**MANAGEMENT: MR. ARVIND KAPUR - CHAIRMAN, CEO & MD
OF RICO AUTO MR. O.P. AGGARWAL - CHIEF ADVISOR (FIN. & A/Cs)
MR. SURENDRA SINGH - PRESIDENT & COO
MR. RAKESH SHARMA - CHIEF FINANCIAL OFFICER
MR. B.M. JHAMB - COMPANY SECRETARY**



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Moderator: Ladies and gentlemen, good day and welcome to the Rico Auto Industries Limited Q1 FY2022 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, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand over the conference over to Mr. Saurabh Bhavne from S-Ancial Technologies. Thank you, and over to you, Sir!

Saurabh Bhavne: Thank you so much. I am Saurabh Bhavne and on behalf of S-Ancial Technologies, I welcome you all to Rico Auto Industries Q1 of FY2022 earning conference call. From the management we have Mr. Arvind Kapur - Chairman, Chief Executive Officer & Managing Director, Mr. O. P. Aggarwal - Chief Advisor (Finance & Accounts), Mr. Surendra Singh, President & COO, Mr. Rakesh Sharma – CFO and Mr. B. M. Jhamb - Company Secretary. Now, I request Mr. Arvind Kapur to take us through the key remarks subsequent to that we can open up the floor for the Q&A session. Thank you and over to you, Kapur, Sir!

Arvind Kapur: Good evening, my name is Arvind Kapur and I have my colleagues also sitting here, colleagues from marketing, from the finance and I have got the COO and all the finance guys also sitting here. This quarter as we all know that we were in the midst of the second COVID wave and I did address in the last meeting also, but at the cost of repetition, we were in the midst of the second COVID wave, so what happened was we lost almost five to six weeks of our revenues primarily because some of the OEMs were shut and Karnataka was one state which did not allow manufacturing at all so Toyota that was shut absolutely and also some of the component makers in the whole Karnataka were also shut, but fortunately in North India and in the rest of India, all the factories were running and we were fortunate that we were allowed to run because we could then meet our export obligation, but at the domestic site because of the requirement of oxygen, the OEMs had decided to close their plants ranging from two weeks to three weeks and some cases there was even longer, so as a result of it in the console our total sale is approximately 400 Crores and we lost approximately 100 Crores of sale, which we could have done very easily because the capacities are in place and the other requirement for the material as well.

But we were still fortunate that we could touch 400 Crores and that was primarily because of the exports and also getting a larger share of whatever the domestic market was available for that particular period, but the month of May was definitely stressed period. Beside that the market is a little challenging at the moment, the passenger vehicles do have a demand and as everybody would be knowing there is a shortage of chips and some of the car makers



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are reducing their volume of production in some plants and or diverting the chips to the more popular models so that the numbers could actually sustain that. Fortunately, Toyota does not have a shortage of chips because about two years back when there was a fire in one of the plants so after that they decided to derisk and so they started stocking for almost six to eight months all the chips they have, so Toyota has been the fortunate one which has not seen any shortfall, but having said that all the others are definitely feeling some shortages.

The Korean are trying to help the Korean makers in India, but I think everybody would be impacted to some extent. In the two-wheelers they did not see the same rebound that we saw after the first wave of COVID and at this time what has happened is that it has been not very aggressive market in fact it has been on the lower side, but the rains have been good at this time and the output of the agriculture is also doing well and so we are hoping that the rural demand will pickup again because the two-wheelers does depend on the rural demand and at this time of course the COVID have did hit the rural sector as well and that probably is the reason I think that the demand has been a little subdued as far as the two-wheeler is concerned. Commercial vehicles, and the smaller commercial vehicles the demand is picking up and in the larger commercial vehicles it is there but it could be better and off road vehicles also we find that it is subdued at the moment and we are hoping that in another months' time, let us hope the third wave does not hit and if that does not come we would be in a fortunate situation and we are hoping that August onwards and with the festival season is also coming around the corner, I think the total market should start picking up in this.

Of late you must have heard the Government announcing the scrappage policy, so finally that policies are in place and it will take some while before it actually gets implemented because we need to have a complete process of how to scrap the vehicles, how the numbers will be deleted and how the recycling do take place, so a couple of plans will come up and we are hoping that within a years' time there would be some activity that would actually start coming and within a year and year-and-a-half there would be activity that would take place, so in the long run this would actually benefit the industry because there would be some incentives that would be given for scrapping the older vehicles and then recycling would take place of almost all the materials including the electronic parts, etc.. So, at the moment we are hoping that the market pickup and we are waiting for the season to come, but what will happen about chips shortage we are not very certain, but all the companies are working on it, some companies say that it is another five to six months before the chips availability would be there, some say it might take even nine months to one year.

So, we are hoping it sooner than later and because of chip shortage we do not have any shortage of vehicles in the market that is what we are all hoping that this would happen, but fortunately the demand is there for the passenger vehicles definitely and the funding and the



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financing has also started happening and the exports are very good and we are very happy at the demand and the pull that is happening there and let me tell the chip shortage is also hitting those people, BMWs and PSAs and in fact PSA had to shut the plant for two weeks primarily because of the shortage of chips and that is the electric vehicle that they are producing for which we are supplying a lot of components and all this is happening in the market, but still despite that our exports are higher than before and our domestic market is okay. I think that is what I had to say and at this time the profitability there was a net loss of 1.21 Crores that is primarily because of the less productions or less utilization of the capacity in the month of May and have we done the 100 Crores more we would have had good profits in this quarter, but we are hoping that this quarter would be even better. Over to you, I think we can have the questions and answers.

Moderator: Thank you very much, Sir. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

Arvind Kapur: Before anybody ask questions I can also talk a little about the electric vehicles, the Government is also encouraging the electric vehicles in India and all the State Government have started offering and even matching the subsidies as the best offering and for the two wheelers as well as for the passenger vehicles and for the buses and others of course there is a state buying that is actually taking place and we are only hoping that the infrastructure which is required that also starts developing, that will take a while, but I am sure in about two, three years or four years' time there would be more charging stations available to the public and the over the years the charging would become much faster. At the moment it might take a little while before the charging takes place, full charging happens, but soon many people are looking at other options, one is swapping of the batteries which would be very fast, which will take this about three to five minutes that is the time that normally takes to fill up a tank in a passenger vehicle and even two-wheelers and the other is of course a charging stations and fast charging station where the requirement of power is very heavy and since the government has determined and I think many companies are coming up and in India OLA in setting an example for setting up such a large capacity two-wheeler manufacturing. We are engaged with them also, and the electric vehicles will pickup, but by 2030, I still stand by what I had said the total sale of vehicles would be around 15% plus minus 5% would be the total sale of vehicles, electrified vehicles that would be sold in the market.

Moderator: The first question is from the line of Chandra Govind from Ashmore. Please go ahead.

Chandra Govind: Sir, the question that I had was, data keeping question, what was the domestic sales for the quarter?



- Arvind Kapur:** The domestic sale for the quarter was 302 Crores.
- Chandra Govind:** Sorry?
- Arvind Kapur:** 302 Crores.
- Chandra Govind:** Sir, on Dharuhera project we again spent 4.4 Crores in this quarter for the VRS, so are we done with VRS?
- Arvind Kapur:** I should have mentioned that earlier, we done with, we have closed the plant, in fact we settled all our people, of course there are cases which is still going on, but we have actually paid up everybody and anybody there, so the 25 Crores to 30 Crores of loss that used to occur every year that would not be there anymore, but in Dharuhera one portion of it we have actually setup COVID care center because in the month of May like as everybody knows there was a tremendous shortage of beds and oxygen and medical staff that is required, they are still holding on even though we have no patients now but we have made all arrangements for generating oxygen and also having concentrators, etc., etc., and if at all there is a third wave we are fully equipped to cater to the requirements of the public.
- Chandra Govind:** Sir, another question on the raw material costs, so last quarter we were impacted because of the price escalation and there was a lag to pass on the cost, so this quarter gross margins are almost back to the normal, so do we have any products left with price escalations or are we done with passing on the costs?
- Arvind Kapur:** The companies like Renault where it is six monthly cycle, all the other places the price revision has happened, there is a lag of almost 17 Crores which is there pending from last year because of the variation of reprices of the raw material prices we are suppose to get, now, how do we get, we get it in the prices adjustment, that actually prices takes place today and we are hoping that the prices actually start dropping so the averages actually go in a favor, last year they were against us that is the reason there is a 17 Crores lag which is still pending and 14 Crores we have recovered and once that is done, even with Renault we are going to request them to bring in down to three months rather that six months average.
- Chandra Govind:** On the export side, how was the freight rates this quarter?
- Arvind Kapur:** The freight rate, that is a big challenge for the freight rates that has happened and what is happened is that the container availability is a challenge and then the number of days that the savings are taking, the last time when I spoke to you I had mentioned to you it is taking seven to eight weeks, now it has gone to 10 to 12 weeks and the shortage of container, the prices are going up so the longer the goods stay on the sea the challenges increase manifold, one is of course the wooden pallet, etc., and also the packaging that we provide and the



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protection that we give to the components they last normally 8 to 12 weeks on the sea and the sea atmosphere is very difficult there, so that also becomes another challenge for us and number two, the stocks in our warehouses that last year we had lot of difficulty and actually filling up those also reduced, so premium freight then taken because we cannot shut the lines of the customers so instead of 8 weeks now it has taken 10 to 12 weeks for the goods to reach our destination, but having said that the freight rates have also gone up, but what we are doing is that we have taken an internal challenge that whatever freight rates we had spent last year I am talking of the sea freight rates, we have taken a challenge to reduce it by at least 30% to 40% and that we are doing by better utilization of containers, by combining all our iron and aluminium in the same container so that the stuffing could be better and more economical and we are awaiting for some permission from our customers so that we can ship one place rather than two to three different plants so all that is happening and these days Europe is closed, Germany is closed and hopefully in another two weeks time we should get all the permissions and I think that should also take and pending that stuffing of the container has become more aggressive and we are actually putting an almost 30% to 40% more material into the container if its pure aluminium or it was only iron, so all that has started already and we will make it even better in about another two weeks time or three weeks time.

Chandra Govind: The extra cost that we spent on this freight because of all the difficulties that you have had?

Arvind Kapur: We spent 2.5 Crores extra on the air freight, but now this is not our fault so we told the customers that they will have to pitch in, we cannot bear these cost .

Chandra Govind: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Satish Gupta from IndusInd Bank. Please go ahead.

Satish Gupta: Good afternoon, Sir. Sir, just wanted to know, if you can give any guidance on the profitability front that how is the current quarter shaping up, already Dharuhera plant is closed so how do you see this quarter to shape up in terms of profitability?

Arvind Kapur: Now, the quarter is going good and if at all we have done 100 Crores excess in the last quarter, we have added another 25 Crores to 30 Crores plus at the bottom line because all the expenses had already been incurred, but we could not produce the goods so now from that you can judge as to what this quarter would be and the following quarters would be, the only thing we are afraid of is the third wave and let us hope it does not hit India and does not hit us here and appropriately we would be much better, we would be back to what we used to have many years back, if not better than that.



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Satish Gupta: Right, any other expense, which you are currently incurring in which you expect it will be more you will have to incur in the future?

Arvind Kapur: See, some of the things that one is the Dharuhera saving, that I am telling there would be a saving of at least about 20 Crores at Dharuhera and in the air freight last year we incurred a lot of the air freights and there would be a saving at least about 20 Crores to 25 Crores there also and the recovery of the lag of aluminium that of course is the other thing that would impact us this year and in the packing and freight we are targeting to save with the better utilization we already have a plan in place, we have already started making the shipment about 10 Crores there also and of course balances of course more efficiently using our current equipment that we have so there are some of the direct savings that happen without any extra effort that we need to put in, besides that let me tell you that we have already been able to reduce like last time what happened was that because of the COVID situation last year we went into a panic mode and I am talking about last year, a lot of our people had left and gone to the villages, the migrant labour so that the migrant labour we have to hire more people and we hired almost 400 to 500 extra people, we have reduced the people by almost 400 already and there is a target of reducing the people by another 200, as most of the people have come back number one, number two we have been able to better train the people that we have hired fresh, so that is 400 people have already been reduced, so these are the savings which are already there now.

Satish Gupta: Right, Sir. Thank you.

Moderator: Thank you. The next question is from the line of Vivek Singh an Individual Investor. Please go ahead.

Vivek Singh: Sir, good afternoon. I have few questions, can you share the revenue for FY2022 and what are the margins are we expecting for FY2022?

Arvind Kapur: See, like we have mentioned last time maybe plus 2000 Crores this year and we will exceed the 2000 Crores in any case and we had mentioned in the last meeting also that we should be back to our EBITDA margins of 11% plus.

Vivek Singh: Sir, I have another question, you earlier have indicated a capex of 80 Crores to 90 Crores, so will it be remain same for this year as well?

Arvind Kapur: Now this year, we had mentioned all this last time also, but I am repeating it again my friend, normally what we do is we do whatever our depreciation is, that is what the board has given us permission now for, but this year what is happening is there is a special project of Toyota which is coming in mainly for the electrification of vehicle, these are for the hybrid vehicles and we will be the first ones outside Toyota company anywhere in the



world making those big components for Toyota and those are made for Toyota as well as Maruti Suzuki and also for exports back to Japan and also to Southeast Asia, so we will be making investments for that, the turnover of that will come only next year so I must tell you that, but the investments has started happening this year, so we are expecting an investment total of about 110 Crores this year and then balance will be done in the next year before the production actually start by June-July next year so that would be the special Toyota project, that is a complete new project that is actually come up.

Vivek Singh: And one more question I have, can you share me the export number in percentage of revenue what are we expecting this year?

Arvind Kapur: Normally 25% to 30% that is where we are and see what happens is that we are talking about only direct export, if you look at indirect export, when it is a indirect ship to PSA in India and PSA ship from further and or ship to Renault and Renault ship this further, earlier we were shipping to Renault and France and Morocco and other places, but now Renault has started consolidating and started shipping from here, I am not talking of the vehicles they are assembled with the component, I am talking the components which are ship from here to the other countries to Brazil and other countries and all, we do not include those in exports those we regard as domestic component so whatever direct export that is around 30% of our turnover.

Vivek Singh: Thank you so much, Sir. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Bhaskara Dakda an Individual Investor. Please go ahead.

Bhaskara Dakda: Sir, actually coming through this conference call since last couple of years, especially in the last three years actually we are having some issues related to process so have you ever considered actually to take some kind of consultancy help to strengthen the processes just to avoid any kind of losses that we are at?

Arvind Kapur: One minute, I thank you for asking this questions, in the electric vehicles there are components which are made of very special, metal this is not the normal aluminium metal which we use on a daily basis for all the auto components and this metal base is entirely different where is the temperature, where is the pressure it will give reverse pressure and absolutely and we have gone through that cycle for almost about a year now and we had a lot of rejections and a lot of challenges there, we mastered that now and we are very confident that we would get out of it and let me tell you our customers also help us in that, BMW was involved and even PSA was involved because for them also it was a new metal and they also did not have the experience, but jointly I think our teams have done a very good job and I think another in a month time or so you will see the massive change that will



happen in the rejection that has actually happened so it has been internal team as well as BMW team as well as PSA teams which have worked together to actually do it. For systems we regularly have consultants so who help us in the system that we engage in any case and even now we have because whatever system we have that can always be a better system so for that we believe that there should be somebody who should be guiding us and holding our hand to make sure that we go to the next level. We are also taking up a project with BMW jointly to go to the next level of manufacturing so that is the other project that is coming up, so this is a constant effort that we keep on having on updating our manufacturing facility.

Bhaskara Dakda: Sir, mine is like more of the process like how you procure, how you time lines and everything kind of estimating what is going to happen if something like COVID happens in the future so if we have the processes in place then we can mostly avoid the loss?

Arvind Kapur: See, even if we are very good processors, but when you start operating with the metal with the experience that actually we thought it is going to be normal aluminium and that would be as normal as earlier, but it really surprised, PSA surprised, BMW as well and now all of us actually put our heads together and we are able to design a better process now, we do not hesitate to ask for help let me be honest there, in case there is an issue we are open to consultant, we are open to our customers who also have excellent manufacturing strength, we are open to consultants who come from Germany, so we are open to all and on a regular basis do it so that we can go to the next level of manufacturing.

Bhaskara Dakda: And one more question is like as a retail investor actually I invested in last 10 years, but I have seen in the last quarter most of the whether it is mutual funds they all actually moving out of our company like they sold, so what you thinking is lacking and that we are not able to actually attract any mutual funds, any big funds to invest in our company, what could be the reason things are like, why we are not able to attract any big investment to invest you or part of our company because it is mostly like 50.3% is promoter remaining everything is with retail investors like me?

Arvind Kapur: We are glad that we have many retail investors, but having said that there are mutual funds who started entering again and now because of COVID of course travel was restricted, so normally we would actually go to Mumbai and other places and actually have conferences, etc., and have one to one meeting with all the investors and those had stopped for the last two years, we will start doing it again because we are hoping that the third wave don't come and we would like to get all the mutual fund back into our fold, and we are fairly confident, I think when they see the performance of the company in this quarter and the next quarter and we will also do marketing and meeting all the people there.



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Bhaskara Dakda: One last thing from my side, I have seen a couple like one to two years, you have a related party transactions kind of it is not a huge amount, it is kind of 200 Crores on an average, do you think it is going to go down and one of these things may actually will come to investors may not encourage to invest in companies...

Arvind Kapur: Let me give you a clarification the related party transaction that we talk of is almost 100% or 98% subsidiary that Rico Auto owns and if you would recall we have sent a notice to the Stock Exchange and even at this time we put our results, we have written that we are collapsing all the company back into one and so all the related party transaction from that itself will drop by almost about 90% to 95% and subsequently there will be three companies left, one will be Rico Auto, we may be collapsing RASA, RAFA and RIL back into the company and besides that after this process is over I think in another two years time there will be two company left one is Rico Jinfie which is a separate company making Wheels and there we have a partner about 2.5% to 3% ownership there, but as an independent company making one particular component, which is the wheel of two-wheelers and then we have Rico Flutronics which is a pump manufacturing company, which we acquired, we were 50% partner there and now we bought over the company because Magna wanted to sell to one company in Korea and they offered us whether we wanted to buy or tag along, we offer to buy their share and that company also I think soon or later we will merge into our system, so we would like to operate minimum order company so that the intercompany transactions are not there or a related party transaction also not there, we also do not like it and we want to get out of it.

Bhaskara Dakda: That is case, okay thank you sir?

Arvind Kapur: They are only company that would remain independent is AAN which is the defence outfit and we like to keep it independent because the companies do not like to operate with companies which are dealing in defense like some of the OEM companies so that company would remain separate, but let me tell you, but besides that we have two subsidiaries, one in UK, one is in US and these UK and US subsidiaries we had to bring them up and now they are fairly old, they are over 15 to 20 years old, the UK earlier we were shipping a goods from here as they were giving to our agents and agents were delivering to the customers and so we were actually losing control of the goods and the payments that were coming to us would be delayed by six months, three months, four months, eight months and then setting up accounts become a big challenge, so now when you ship, we ship to 100% subsidiary in the UK and or US and the goods are totally under our control and those companies that deal only with Rico, we ship to them and they ship to the customers, the money comes in that company and the 100% money come here and there is no other transaction that takes place in those companies there, but having said that we are trying to reduce that also because now some of the customer have started accepting their consignment sale and like BMW and



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some of our big customers, so we are shipping directly to them, not to our subsidiary so that we can avoid that and we might even shut down one of the UK subsidiary soon because there are two to three customers left, we are pursuing even now to buy directly rather buy through our subsidiary in UK. In the US we supply to all the companies through a subsidiary there and that also we are pursuing with the companies that they should buy directly rather than through our company where we would not like to maintain it, but we are doing it so that we do not lose control over the goods that is the main thing, these are the two subsidiaries we have overseas, the transaction is 100% with Rico Auto in India and nobody else in the world.

Bhaskara Dakda: Thank you very much for detail.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Arvind Kapur: Thank you so much ladies and gentlemen and we are very confident we are back and the premium freight, etc., that we had lot to spent last year we are getting absolutely out of those and the plants are performing much better, the profitability of individual plant is monitored for databases and all the companies are doing well, fortunately the demand is there in all the plants and the pressure is on us to meet the total demand of all our customers and even in the two-wheelers despite the market not picking up we have been able to get, the two-wheelers they normally have a policy having two sourcing or three sourcing suppliers and we have able to get a larger share of business so we actually despite the month of May actually being a washout and most of the OEMs are closed in the month of May, our sales have actually gone up in the two-wheeler business also that is primarily because of larger share of business and in the passenger vehicle also we are getting more businesses and larger share of businesses and so we are very aggressive and utilizing our capacity to the full and fortunately this year the commodities are more stable and we should be able to recover our total losses that we had last year and besides that we are going to shorten the period of the commodity, it is a pass through fortunately but the pass through should happen sooner than later, in six months we will bringing down to three months and three months we started talking to customers that can be make it monthly, one or two customers have agreed, actually Hero has agreed and we started doing and Bajaj is also doing it, but the car makers at the moment are still on the monthly commodity price change and once you recover the amount we still keep on putting pressure on these companies so that the pass through can happen much faster rather than get delayed by three to six months besides that our focus is on the technology items like we are talking of like we mentioned the Toyota project that is going to be a very, very prestigious projects that I had mentioned earlier also that was allotted to us in competition with the Japanese makers in India and also in Japan so actually got three sets of dies made from the company who were going to supply and we were the



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first one could deliver and they were delivered on quality on those highly technical components, its die would weigh almost 50 tonnes and die cost is about 4 Crores to 5 Crores each so you can imagine the scale and price of the components and we were the ones who are successful and we finally got the total order from Toyota and the commitment that in case they don't sell in India and the first place they are exporting to Japan and then continue to export to Japan and Southeast Asia, but they are very confident that in India also the sales will pick out dramatically and they would like to use this in all the smaller passenger vehicle or be it any other vehicle, so I think we are in this year and next year onwards there is going to be a very aggressive growth and profitable items that are actually coming up. Thank you so much. We hope that there is no third wave and I would want everybody to remain safe and be healthy and wear a mask always irrespective of whether you have got the double dose of vaccine and please be safe. Thank you so much.

Moderator:

Thank you so much, Sir. On behalf of S-Ancial Technologies Private Limited, we conclude this conference. Thank you for joining us. You may now disconnect your lines.