

# RICO RICO AUTO INDUSTRIES LIMITED

REGD. & CORP. OFFICE : 38 KM STONE, DELHI-JAIPUR HIGHWAY, GURUGRAM - 122001, HARYANA (INDIA)  
EMAIL : rico@ricoauto.in WEBSITE : www.ricoauto.in TEL. : +91 124 2824000 FAX : +91 124 2824200  
CIN : L34300HR1983PLC023187

RAIL:SEC:2022

November 16, 2022

BSE Limited Phiroze Jeejeebhoy Towers Dalal Street Mumbai - 400001  Scrip Code - <b>520008</b>	National Stock Exchange of India Limited Exchange Plaza, 5 <sup>th</sup> Floor, Plot No.C/1, G Block Bandra-Kurla Complex, Bandra (E) Mumbai - 400 051  Scrip Code - <b>RICOAUTO</b>
---	--

Sub : **Transcript of Conference Call held on 11<sup>th</sup> November, 2022**

Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 11<sup>th</sup> November, 2022 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 Q2 FY-23 Earnings  
Conference Call”

**November 11, 2022**



**MANAGEMENT:** **MR. ARVIND KAPUR- CHAIRMAN, CEO & MD**  
**MR. KAUSHALENDRA VERMA - EXECUTIVE DIRECTOR**  
**MR. R.K. MIGLANI - EXECUTIVE DIRECTOR**  
**MR. O.P. AGGARWAL - CHIEF ADVISOR (FIN & A/CS)**  
**MR. SURENDRA SINGH - CHIEF ADVISOR (HR & ADMIN)**  
**MR. RAKESH SHARMA - CFO**  
**MR. SANDEEP RAJPAL - VICE PRESIDENT (MARKETING)**  
**MR. B.M. JHAMB - COMPANY SECRETARY**

**MODERATOR:** **MR. VIJAY GYANCHANDANI – S-ANCIAL TECHNOLOGIES**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Q2 FY '23 Earnings Conference Call of Rico Auto Industries hosted by S-Ancial Technologies. 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 then zero on your touchtone phone. Please note that this conference is being recorded. And I now hand the conference over to Mr. Vijay Gyanchandani from S-Ancial Technologies. Thank you, and over to you, sir.

**Vijay Gyanchandani:** Thank you. Welcome to Rico Auto Industries Q2 FY '23 Earnings Conference Call. From the management, we have today Mr. Arvind Kapur, Chairman, CEO and MD; Mr. Kaushalendra Verma, Executive Director; Mr. R.K. Miglani, Executive Director; Mr. O. P. Aggarwal, Chief Advisor (Fin & A/cs); Mr. Surendra Singh, Chief Advisor (HR and Admin); Mr. Rakesh Sharma, CFO; Mr. Sandeep Rajpal, Vice President (Marketing); and Mr. B.M. Jhamb, Company Secretary.

Now I request Mr. Arvind Kapur will 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:** Good evening. This is Arvind Kapur, and welcome you all to the conference today. Sorry, we had to postpone with one day and hoping that we will all cheer for our Indian team yesterday, and we didn't want to disturb all our investors. But unfortunately, we did not fare well there. Very sorry for that. Having said that, the market has been good. As we've been talking to various people all over, the economy seems to be doing very well.

And we do talk to the bankers, we talk to the market and everything is doing well. And there are very few things which are not -- unfortunately, we had the festive season also and the festive season automobile, in particular, did very well. And this is the first time after a long time that the two-wheelers also rebounded back, and they also did very well. And we are hoping that the two-wheeler industry would also carry because almost about 25% to 30% of what turnover does go to the two-wheeler industry, even though we are growing in the two-wheel industry. So your Company has -- we have grown since last year.

Our revenues from last year was up by almost 24% and -- when you compare it quarter-to-quarter. And this quarter also, we seem to be -- there is a lot of pull from the customers, and we are hoping that this quarter should also be good. Even though we've noticed that the month of December is normally on the lower side. But so far, the customers are all bullish about. The car industry, in any case as a shortage and there is a waiting of cars. And so whatever Maruti and Kia Motors and Hyundai and Renault-Nissan produce, they are all selling. So we think that this quarter will also be as good, if not better than the previous quarter.

Our exports will pick up further, even though we have done better than before. Our growth over last year was over 22%, and -- we are hoping that -- our growth -- our share of exports at the moment is 26%. The slight practices taking place. This quarter, the exports were -- could have

been higher, but the month of September is the time when Europe goes on holiday and so the pickup is less. And -- but this quarter, again, we see a lot of traction that is taking place despite the tension and other things that are happening in Europe. We are hoping that the war will also get over soon and with the help of the Indian, Mr. Modi and the Indian team as well as the German team, we understand there is a lot of discussions that are taking place.

The commodities prices have started stabilizing. They've come down, and we are taking advantage of that. The semiconductor availability has also gone up for two reasons. One is, of course, the production, the volumes have gone up. And also the volume of some of the equipment which are used at the time of COVID, work from home or those that demand has come down and mainly the laptops, etc.

So availability is better. But we are hoping that the choice of that chips freely available by the end of '23 would be absolutely okay. But at the moment, the availability is bit better, and that's the reason you see the volumes of Maruti and others also going up this year.

Passenger vehicles are doing well, commercial vehicles are doing well. The exports are doing well. And two-wheelers fortunately have bounced back and we are hoping that the two-wheeler industry would stay like this. And, but we are still growing with the two-wheeler industry despite whatever little growth is that we have, our growth is faster than whatever they have done.

And the freights for exports have also come down, they have stabilized. And so we're taking advantage of that also, even though both of the customers did compensate us for the extra freight for the period that the freights went up. The commodities whenever they go up or go down, of course, those are adjusted, but there is always a lag of price and so that now we are taking advantage of that at the moment.

If you look at our customers, Toyota, their volumes are solid and they are going up. In fact, whatever investments we had done for the Toyota project. The demand, they have told us to ramp up the production by almost further 40% to whatever the maximum they had committed earlier. So that's a very good sign. So the acceptability of the hybrid is very good. That's the reason the demand is going up. We've also got a similar order from AISIN for, again, the electric vehicles and electrification vehicles. And that will go into for -- we will give the sample by early next year, and the production would also start next year. Okay.

And just three days back, we got another order for exports, again, for electric vehicles and that is from BMW. So your company is focusing on electric vehicles and electrification. And the total order book that we have is close to about INR 1,300 crores. That is the -- and the annualized value is about INR 200 crores a year, out of which almost 85% is for the electrical vehicles. So that is the change that you see. And we are negotiating further for some very-very large orders for, again, the electrical vehicle component. So our percentage of the contribution of electrical vehicle is going up. And we're hoping that by next year or the year after that, we are hoping to touch 40% as far as the components of electric vehicles are concerned.

Our debt-to-equity ratio remains within 0.5% - 0.6%, and we will continue to retain it here. Our board will not let us cross this. The capex that we do is primarily the balance sheet component, we are doing, but I think we will be doing some capex for AISIN and also for this new project that has come for BMW, but that will be done next year and the year after that. These are long-term planning that we have done.

Yes, that's it. And I mentioned earlier the festive season was very good, and I think all the companies the car, especially passenger vehicles and the two-wheel industry well this year. The monsoon has also been good. And as, even though the rains, which came later, they did destroy some crops, there will be some disadvantage there. But by and large, the monsoon has been good, and I think we will see the impact of that in the rural side also. And once the rural side picks up, then, of course, we'll see a big increase in the demand for the two-wheelers. We are hoping for that for a very long time now. And let's hope that it happen this year. That's it from me, and I am open to questions.

**Moderator:** The first question is from the line of Aman Vij from Astute Investment Management

**Aman Vij:** My first question is on our defense portfolio. So in February, you had talked about we have submitted our products for trial and it will take two, three months for the same. So any progress on the same?

**Arvind Kapur:** No. On the defense side, there were trials which took place, and there has been a lot of chaos that happened in that. And the – in fact, even today, my people are sitting at the Ministry of Defense, and there are discussions going on because there were some – they were trying to bypass the private sector, and they were trying to pass on the orders only to the public sector undertaking. So there has been some chaos there. And it appears that they'll have to recall the tender, and I think everything starts for fresh again.

So this is defense works and so that's -- we are fighting for it. And even though all this happens and everything have been submitted, but there was obviously some favoritism and some sidetrack on the component. But having said that, let's see what happens on this meeting, that is taking place in the Ministry. Because the army desperately needs the stuff that -- the fuses that we had offered. They needed very-very urgently and I don't think they can afford to wait for too long. Let's see what is the outcome of this. And so, but I am sure something will have to be done and it is at the Ministry of Defense at the moment.

**Aman Vij:** Sure, sir. So just to understand this more, we submitted bids for the fuses. Is it for the artillery fuses or for grenade fuses as well?

**Arvind Kapur:** It's mainly for artillery.

**Aman Vij:** Okay. And the situation you are talking about, so my memory corrects me right in 2011, 2012, the same issue has come up that most of the orders went to the public sector, ECIL, Bharat Electronics. So are we facing the same kind of situation?

- Arvind Kapur:** 2011, 2012 they were the only people who are authorized to make these fuses in India. And there was only allocation of suppliers, but not, there were no tenders as such. Earlier, it was only ECIL and later on then BEL also came in, and so they would only be allocated the suppliers. And not all the models, some of the models will be made by ECIL and some of them are made BEL.
- And now they wanted the private sector to come in and that was a very clear information that was in the tender that this is meant only for the private sector. Later on the meeting the public sector undertaking, but we said, okay, that is most welcome. And, but then there's got to be fair trials for all.
- You cannot favor anybody. And we were very confident because the company we tied up with they are supplying to NATO and they're supplying all over the world. And so we were very confident that we will go through, and but unfortunately, when the favoritism started and the failures started taking place in the PSU product, then they wanted to shortcut a lot of things. So, but in any case, if at all, there is some supplies that are required by the defense and the they, if they buy from these PSUs, we will be supplying most of the things in any case because we have the capacity to make those components.
- Aman Vij:** Just one final clarification on this part. So are our products totally indigenize, these products 100% indigenize versus PSU what I understood they were still importing. Is that the difference?
- Arvind Kapur:** The difference is that we have given the plan that within two years we'll indigenize everything. There was a clause in the tender that within two years, one needed to indigenize everything, including the electronic portion, which we said and the battery portion which we told them that we'll do it within a year, we'll localize that. We're already started taking the steps on that. And whereas the PSUs are still importing almost 60% of the stuff from South Africa and other places.
- Aman Vij:** I'm sorry, who are the other private players who bid for the same, sir?
- Arvind Kapur:** There were four other companies, but one withdrew, there was only three left. One was our company, HFCL (Himachal Futuristic Communications Ltd.) and one more company from Hyderabad, we were just the three companies who were left.
- Aman Vij:** So only three of us, and sir, you have talked about it is like INR 6,000 crores opportunity. So do you...
- Arvind Kapur:** Yes. It's closer, between INR 6,000 crores to INR 10,000 crores I would say. Over 10 years, by the way.
- Aman Vij:** Yes. But most of it is electronic fuses or mechanical fuses?
- Arvind Kapur:** These are all the electronic fuses.
- Aman Vij:** And do you expect private payer to have maybe 30%, 40%, 50% market share combined in this.

- Arvind Kapur:** Both, in this case, the tender would have been allotted to one company for supply. So that's for a particular model, if you put the whole bunch together, there were about I think 6- types of fuses. And we were focusing mainly on the INR 5,000 crores- INR 6,000 crores, and which constitute a 3 or 4 types of different fuses. And we were focused on that. And we would have definitely won the tender. We were the lead. But in any case, we are on it we're not going to leave it.
- Aman Vij:** This could be a game changer, whenever it happens for the company, is my understanding correct?
- Arvind Kapur:** No. It will be one of the additions. By then Rico itself would have also grown a lot. And we are exports by touching about INR 1,000 crores a year and our domestic market would be much higher also. And we would be in that almost INR 4,000 crores- INR 5,000 crores in any case. So that would be an add-on to the total business that we will be doing.
- Aman Vij:** But margins could be much better, right, in defense?
- Arvind Kapur:** Yes, defense margins are definitely better. That I agree with you.
- Aman Vij:** What kind of margin should we expect like 20% plus or higher?
- Arvind Kapur:** We will try to keep it 20% but ultimately only after it's made we will come to know. I think it's 15% + in any case
- Aman Vij:** And working capital, sir? How is it in...
- Arvind Kapur:** Working capital, to be honest, we haven't worked it out so much, but that we would have managed that very easily. There won't be too much requirement there. Because there are lot of advances that are given when the tender comes in. And there are certain percentage of advances which come in. So a lot of money, we would have got it, I think INR 100 crores as advance from there.
- Moderator:** The next question is from the line of Darshil Jhaveri from Crown Capital.
- Darshil Jhaveri:** Congratulations on a great set of numbers. Very happy to see our performance as we are growing quarter-on-quarter. Sir, I would just like to talk about what do we see as a sustainable commute rate because we've been doing great numbers recently. So -- what could we see in the next year and maybe end of this year, what kind of revenue are we seeing?
- Arvind Kapur:** This year, our budgeted revenue is about INR 2,400 crores. That's what our budgeted revenue is for this year. And we are fairly confident that we will be around that plus /minus INR 50 crores. That's what where we are. Because we've already done 50% of whatever in the half year. And we are fairly confident we'll be touching that.

And next year, we should be INR 3,000 crores+. That's what the lease that we would have, and we are still working out the numbers. Because this new order, which has come in the INR 100 crores order, that would add from '25 onwards, but we are getting similar orders from other customers as well. And those we are not factoring at the moment, but months of February, March, which we fairly clear as to what we would be doing the next year.

**Darshil Jhaveri:** That's great to hear, sir. And with this increase in our revenues, could we expect better margins like what we we've done historically as we gone above 10%. So can we see a growth or journey towards maybe 10%, 12%? Or could we just have some idea of what are we starting to a margin use to be?

**Arvind Kapur:** See, like we said that every quarter, you see a change, and our target is to be the first phase to be at around 12% and then go up to 14%. That's what we are internally working with. And on the export front, it is all above 15% in any case, but averaging out comes down. So as it has come down mainly because of the older components that we are supplying, which are at lesser margins. And so you will see a 0.5% to 1% improvement almost in every quarter.

**Darshil Jhaveri:** So the 12% target is for next year, correct, sir?

**Arvind Kapur:** Yes, that's the target for next year.

**Darshil Jhaveri:** Okay, that helps me a lot, sir. And Sir, sorry, but we are talking about some order books, so I could not get that. So we are talking about roughly INR 1,300 crores orders that you've received just from BMW or that was a total order book?

**Arvind Kapur:** No, that's partly BMW, partly AISIN, which is for the hybrid and electric vehicles, partly for Toyota, which is Musashi Seimitsu, a Japanese company, again for electric vehicles, from Maruti. One moment, I'll just give you the details. And then, Bendix is the other one, AISIN, Volkswagen is the other one. So they all come together. But BMW is the largest.

**Darshil Jhaveri:** So I think that helps me a lot. And so export target as you mentioned is to reach nearly INR 1,000 crores. Correct? So we will see an increase in uptake of our exports.

**Arvind Kapur:** Yes, on year-on-year you will see the increase and you will see that increase taking place year-on-year.

**Moderator:** The next question is from the line of Aditya Sen from Robo Capital.

**Aditya Sen:** Hello sir, this question is regarding the tax rates. As of now, as I see the tax rates are quite high and what could be the possible reason behind this? And until when do we look for or see this stabilizing?

**Rakesh Sharma:** See, in our case, the applicable tax rate comes to around 34%. So that is the rate you are seeing it here. But actual cash outflow is to the tune of around 18% because we are paying under MAT. So once we utilize whatever MAT credits are available to us, after that we are planning to adopt the new scheme, where the effective tax rate will come down to around 23%. So right now also there is nothing wrong about it. Actual cash outflow is at the rate of 18%, but we are utilizing



those MAT credits. So once that is over, we will adopt the new scheme where it will be around 23%.

**Aditya Sen:** So until when, approximately until when will this happen?

**Rakesh Sharma:** Two years more. So within two years, we will be switching to the new scheme.

**Aditya Sen:** And the other question, in your opening remarks, you said that Toyota will ramp up to 40%. Can you please explain this? I couldn't understand this part.

**Arvind Kapur:** The components that we supply for the hybrid vehicle, those are very large castings and fully machined components that we supply. And that's for the hybrid portion of the hybrid vehicle, which initially was being exported back to Japan. And now they are starting using it for some Indian models for supply to Maruti as well as Toyota themselves and also exports to Southeast Asia. So initially when this was a new hybrid transmission that they had developed and it's performing very well and the demand is more than whatever they had estimated earlier. Earlier it was around 11,500 or some components we were supplying per month. It has gone up to 16,500 components.

**Aditya Sen:** So just because their demand is increasing, so they have given us more orders like that?

**Arvind Kapur:** Yes, that's the reason it's gone up, yes.

**Aditya Sen:** We are single source.

**Arvind Kapur:** And this is the first time this hybrid components have been given outside the correct source or the Toyota owned entities, this is the first time these components have been given outside. So we are very happy that Toyota trusted our skills, our capability and engineering skills. And Toyota also gave us, they were very good partners with us and supported us absolutely in this, in the ramping up of the product as well as the ramping up of the total volume. We are very-very excited about this project.

**Aditya Sen:** Yes, actually that's a matter of pride for us. That's pretty great.

**Arvind Kapur:** Similarly, the electric vehicle components that we have just got from BMW, we are again single source for that. We've been supplying similar components to BMW since 2008 onwards. But these were very-very, the accuracy requirements were much higher than earlier. So our people, our engineers and our teams actually put forward a very good presentation which convinced them that we were the right company to actually do it.

**Moderator:** The next question is from the line of Anant Jain, an individual investor.

**Anant Jain:** Congratulations on a good set of numbers sir and thanks for the opportunity. I have some follow-up question on the fuses which Aman Vij had asked, and my first question is that the current issues that we have are they more technical in nature or are they like very similar issues to what we had 10 years back? So are we clear from a technical perspective?

**Arvind Kapur:** Technical perspective we are absolutely clear, but what is happening is that the fuses, when the selection of fuses was taking place, there were some preferences which were being, some of the private sector was being sidelined and preference was being given to the public sector. And when they did the testing of the public sector fuses, the failure was over 50%. And that made the fuses even worse because the public sector has been supplying the fuses for the last 15 years or 10 years.

What happens to the fuses which are in stock? Are they 50% okay or 50% which are not okay? So it's become a major political issue and a major issue for the defense people also. How can they possibly keep on accepting fuses which are not working or 50% only work? Whereas we were guaranteed 100% working. So there was obviously historical path which was actually going in favor of the PSUs, but in the testing they collapsed. So I mean like that went in our favor.

**Anant Jain:** My question here is that you know then like what is really scary also is that you know for the ammunition that is currently with the army most of the fuses coming from BEL or ECIL if the testing says half of them are like It's not working. It's a pretty scary scenario in that sense.

**Arvind Kapur:** It's a very scary scenario. That's exactly what we pointed out to them. That what are you depending on? So I mean like, the army is aware of it and the army is also very-very cut off about this. They want to make changes and amend it immediately.

**Anant Jain:** I mean ideally if there had been a private sector company, it would have been blacklisted, right? I mean that's what I would expect.

**Arvind Kapur:** If a blacklisting problem occurs, if it all blows up, there will be a lot of heads which will have to roll. Let's see what happens because we have represented right up to the PM and also to everybody. Even today there is a meeting going on in the Defense Ministry. And we have told them that one is fairness and number two is you cannot risk the lives of our soldiers.

**Anant Jain:** Absolutely, sir. I think this is fantastic what we have done. The only thing is it takes so much time that it becomes frustrating as a shareholder and for you as a promoter.

**Arvind Kapur:** You're asking us, we've been on this for almost five years now, 5-6 years, and we've been working on it and working on it. But anyway, sir, but anyway, for the defense of our country, if we sacrifice a little bit, we are okay with that.

**Anant Jain:** My next question on this is, between the three of the few companies that you mentioned, HFCL, HBL and AAN, which is also a 3G, are we present in the entire range of fuses or each of us will cater to, each of these three private sector companies cater to different specialties in fuses? I'm not too aware of it?

**Arvind Kapur:** So three of us were talking of the same fuses and in fact the first few tenders that -- the total tender was about INR 10,000 crores. Out of which INR 4,000 crores they delayed it and the balance INR 6,000 crores was mainly for the electronic fuses, but variety of electronic fuses. And so all three of us, private sector as well as the public sector, we are all talking of the same fuses.

- Anant Jain:** So the INR 6,000 crores which is INR 4,000 crores is delayed, INR 6,000 crores, which is there, we are three and there are two public sector companies, ECIL and BEL. The last thing which I just wanted to understand from you is that even for now these guys have been importing from South Africa, a lot of their important spare parts. So even if your PSUs get the tender or when the tender somehow will they now be buying from India or will they still be importing?
- Arvind Kapur:** The condition of the tender is that within two years, we've got to localize 100%. And so that is the condition. So -- and there are big guarantees with bank entities, which have been driven which would possibly be in cash in case we don't meet up for those requirements. We will not leave them, but we will also work on it for the betterment of our defense forces, definitely.
- Moderator:** The next question is from the line of Bhaskara an Individual Investor.
- Bhaskara:** Quickly on -- I think some time last year, you mentioned about the land sale in Noida and Gurgaon. Are you planning to sell that one because right now the...
- Arvind Kapur:** I couldn't hear you too well. Can you repeat your question, please?
- Bhaskara:** Yes, sorry. Actually, last year -- before last year, you mentioned that we had some land parcel in Noida/ Gurgaon, you are planning to sell it at the right time. As the interest rates are going up, are you planning to sell that particular land?
- Arvind Kapur:** This is a land where the factory is located in Gurgaon. And this is 27 acres -- also 26.5 acre land that we have here. And we are in the market to sell it because we've already made arrangements in all other plants. We have enough space and land bank available and buildings available where we can shift the equipment from there. But there should be somebody who should be able to buy. It's a large piece of land and a very expensive land. And so we are in the market and the day we get the opportunity, we'll do it. And the prices have gone up a little, and we will intact the opportunity whenever we can.
- Bhaskara:** And the other question is like we got order from BMW. I think last quarter or before that, you mentioned that you are planning to -- you are about to get some big product from BMW. Is that the same on order, you mentioned?
- Arvind Kapur:** This is the first order we got. I mean, there are others that -- our people are sitting there. Those are even larger than this.
- Bhaskara:** And the other one is like since last shareholder of this company, but we can see the increase in revenue, but we are not able to see the profit. At the same time, even though we're getting a good number of some other profit and net in standalone that we are losing money in consolidating. So what is the reason? How to mitigate that in coming quarters. Because we are getting a lot of revenue but not necessarily continue to profits, something unless we've grown show a net profit and people like me who are actually invested in last 10 years?

**Arvind Kapur:** Yes. If you see our console numbers also are improving quite impressively. If you see the H1 comparison with respect to the H1 last year, the revenues have grown by 32%. And the net profit has also grown by 208%. So compared to standalone also our subsidiaries are also doing good. So -- but of course, the progress, the increase in the percentages are quite low at present, which we are trying that it should increase at a faster pace.

See, one of the companies is Rico Jinfei which makes deals one of our -- so that has turned around and that has started making profit. And as the utilization of capacity is getting better and better there and you see the profitability also going up there. This quarter, they've shown profit. And the next quarter, then we show better profit because the utilization of the plant in comparative is much better now. Our capacity is close to about 4 million. And we are -- at the moment, we are at about almost \$2.5 million- \$3 million.

And as we have got more orders in that company and as we keep on ramping up the capacity and utilize the equipment better, you see the profitability gains there. So a lot of work is happening there in that particular front. And the other company, Rico Fluidtronics turnover -- after we split from Magna and the turnover came from drastically. Now the programs have been bought huge orders from Maruti in fact, we are single source to Maruti for the company for oil pumps and water pumps, which are the requirements for almost the next 8 to 10 years.

And we are single source supplier for almost all the models -- and that's going to be -- that -- those have kicked in and you see the turnover of this company from it has come down to about INR 45 crores - INR 50 crores is going back to about INR 100 crores this year -- INR 125 crores this year. And next year, we'll ramp will be going up further, and we are pulling up more orders there. So you'll see a change that is happening now.

**Bhaskara:** The main reason I am asking is because me and my family bought few shares now close to 0.3% of share. So I invested a lot that I haven't seen much progress. So that's the reason I'm asking these questions. The last one actually -- before last year, I think we closed one of the subsidiary, which is making loss around INR 20 crores to INR 25 crores. When we can see that coming into our...

**Arvind Kapur:** That is the plant in Dharuhera, which was like, which was not producing anything. And whatever we are producing, we're producing at a loss, primarily because, it was the oldest plant. And so most of the programs had almost ended and we were at the fag end or supplying only to the aftermarket requirement of the OEM. And the volumes have come down, the prices or the component was terrible, and the -- we had a huge workforce which we were paying for, and we were incurring a lot of losses because of the extra work cost. So we finally close that down and that is still lying close.

**Bhaskara:** Sir, so basically they should be getting more profit right because we close the loss making one INR 20 crores kind of plant then we go to...

**Arvind Kapur:** Every quarter -- The other thing that was happening was there was a lag impact of the raw materials. Most of the cases, it is a 3-month cycle when we get this month -- this quarter, we've had some advantage. Next quarter, we'll get even further advantage. But in some cases, the lag impact was up to 6 months. The change of pricing was taking place average of 6 months. That in fact will start coming from next quarter onwards.

So you will see that change coming because of the lag also and also because of the better utilization of the equipment all over and the -- with the volumes going up and also you'll notice that the investments that we are doing now is mainly balancing equipment, and it's not totally the way we have done in the past. We are utilizing our equipment much more efficiently and better. And most of the equipment we are invested in where some of the projects that got delayed, they want to kick in. So there's a lot of excitement that's happening in all the plants.

**Bhaskara:** Okay. Sir, one last question. Can I expect a better kind of revenue this quarter, this current quarter? September to December one compared to the last one?

**Arvind Kapur:** It will be better than before. You see a quarter-to-quarter change because we got to cross INR 2,400 crores. And for that, we'll have to have better revenue in this quarter and the last quarter would be even better.

**Moderator:** The next question is from the line of Aman Vij from Astute Investment Management.

**Aman Vij:** My question is on the EV side of the portfolio. So is it safe to assume the margins there will be like much better than our current margins? Or are they similar?

**Arvind Kapur:** Then EV margins, depends on who you supply to. The EV margins on exports is definitely better. And the EV margins on some of the domestic companies is not as good as the export, but better than the other domestic items that we supply.

**Aman Vij:** So BMW EV, which I think we'll be exporting will be the top end margin versus the other?

**Arvind Kapur:** Say, BMW EV we've been exporting for the last 5-6 years and by the way, and 6 years now. And we've been exporting to BMW. We've been exporting to PSA in France. And we were the first and single-source supplier for those components to these companies. So when they developed their EVs, we were the ones who actually developed those components for them. In fact, there was a lot of technologies that we had actually put in. And because even making the alloy, etc, but a very specific special alloys, which are made and now everybody in the industry is following that same alloy. And so we have been supplying for EVs for a long time. And -- but now since we are focusing more on EV, we are trying to -- of course, we don't leave the orders for the ICE engine, but we are focusing more on the EV vehicles now.

**Aman Vij:** My next question is you mentioned that the trials were done, the public sector had failure rate of 50%. But did the private players all have like 0% failure rate or did some players have higher failure rate and some lower?

- Arvind Kapur:** Well, one of them was on field absolutely. And we were okay and the ones -- that was his own technology, which he had implemented. So I don't blame up for that. But it was very interesting to see that somebody in India had done the total development and made investments. And the only thing is, we could not do testing mainly because you require a range and you require a gun to test it. So, he couldn't do the testing of that. But otherwise, it was every heartening to see that somebody had actually assembled everything and put everything together.
- Aman Vij:** This player is HBL or HFCL you are talking about?
- Arvind Kapur:** No, let's not take name.
- Aman Vij:** But the failure rate, we were 100% successful though other players...
- Arvind Kapur:** We were okay till they stopped our trials and when the whole chaos started taking place. So we were absolutely there. And we were confident mainly because the same products have been supplied to NATO and the NATO guns are using, all of the world are using this.
- Aman Vij:** Yes, yes, that we have a partnership with the Ukraine company, right?
- Arvind Kapur:** With the company and -- they are the leaders.
- Aman Vij:** And sir, there was a Defense Expo recently held in Gandhinagar were we able to do any MOUs with the different maybe companies like Initial India or maybe...
- Arvind Kapur:** There a lot of discussions taking place and a lot of interesting things are coming out. And so let's see what happens.
- Aman Vij:** No extra business because of the defense expo for us?
- Arvind Kapur:** The defense business if you starting, it is a five year cycle before you really get the business. So before you really start thinking of some returns. And actually part of the -- even the bureaucracy that is there, and now of course, they have started accepting the private sector as one of the major suppliers of defense equipment and we've seen the success of Mahindra, Tata. And so now the mindset is changing. But otherwise, it was very, very, very tough to really get into sensitive products.
- Aman Vij:** But sir, you were saying we have this backup plan, even if we don't get the direct orders, we'll be supplying to the PSUs?
- Arvind Kapur:** What I said was that, we don't win the tender. Somebody else win the tender, we will have to depend on us for the supply of the major part.
- Aman Vij:** But at the same time, we are saying we have not indigenized every part of the same, right? So won't we will go into...
- Arvind Kapur:** We have 2 years to indigenize.

- Aman Vij:** So you're confident in 2 years, we'll be able to...
- Arvind Kapur:** Yes, very confident. .
- Moderator:** The next question is from the line of Pritesh Chheda from Lucky Investment.
- Pritesh Chheda:** So last two years, we have seen our top line moving substantially from INR 1,400 crores now to INR 2400 crores, let's say, last 3, 4 years back. Ideally there should have been some margin expansion? And what I see is your entire operating bearing eaten away by gross margin reduction. So, it would be helpful for us to understand, first of all, why is this happening? And when you say that margin will move from 8% to 12%, is it a function of gross margin or is it a function of leverage? So these are two tough questions within the overall thing if you could answer?
- Management:** See, for the last more than two years, you would be observing that commodity pricing were increasing like anything. It was skyrocketing during this period and like MD explained earlier also that this rising price has lag impact on us. Although our arrangements with customers are back-to-back arrangement is there and we get compensation, but that price increase is effective post facto. It means, for example, we have quarterly arrangement. So last quarter's average will get next quarter.
- So whenever the prices are rising, we lose on that lag impact part. Now the cycle is reversing. So now the prices are coming down. So one major aspect is that we are now -- this quarter also, we have gained and we're expecting that we will keep gaining for some quarters at least. And apart from that, you would have seen that in logistics also there was a lot of problem. And because of COVID also, there were multiple issues that were there during this period.
- So that is -- these are the type of costs that have eaten away or the advantage that we should have got because of the higher revenues. So -- but in future, we are sure that these have been taken care -- and now we should be improving continuously. You would be noticing for the last four quarters at least our margins are also improving, although those are not improving at a very fast pace, but at a low pace, it is improving.
- Arvind Kapur:** So -- on the commodity front, what happened was almost for 2.5 years, it went up every quarter or every month, it just went up and went up. So we could -- earlier what would happen was one quarter it would rise and one quarter it would get low, average would balance but this time it just carried on increasing and increasing and increasing -- and I'd like -- the lag impact would get postponed and postpone and would keep on totaling up and it amounted to a huge amount almost INR 20 crores to INR 30 crores a quarter, it was impacting us. And now there, of course, the reverse is taking place, and we are -- you will see the results coming up now.
- Pritesh Chheda:** So there is no change in the nature of business and your 47% gross margin that we had is now down to about 43%, you will get that 4%, 5% of gross margin, that's how we should interpret?
- Arvind Kapur:** Yes, certainly.

**Pritesh Chheda:** Because 4% of. – When you say INR 20 crores, it means that 3%, 4%, right? Your INR 600 crore is there, and 4% is INR 24 crore, So you'll get that 3%, 4% gross margin back, right?

**Arvind Kapur:** Yes, yes. But that will certainly come back.

**Pritesh Chheda:** My second question is, sir, the asset that we have on ground, what is the utilization of that asset and what is the maximum revenues can you generate. And I see you continuously investing. There is a capex it goes on and on the other hand, you have all of these assets, which are unutilized. So first question here is, what is the revenue that you can generate on the asset what are the unutilized or unused capital that you are employed in your business, if you could just give-- and what are your efforts to address those?

**Arvind Kapur:** On the asset front, so we were investing -- 1 thing I'd like to clear here is we never invested in advance like or in addition of an order. We only invest after the orders come to us. That is very clear. And so it is always back to back to an order. It is not anticipating an order coming like BMW orders, we have not invested the single paisa on that so far. We'll start investing as and when required, when BMW requires it. But in case of BMW, they require us to invest at least about 8 to 9 months before the production actually above the whole production comes what we start to get in the component.

So that -- for the export front, it's between 8 months to 1 year, that's what the advanced investment takes is but it is backed by the order. It is not that we have done the investment, hoping that we'll get the order. So, we kept on investing. Now Toyota was 1 project which did not get delayed despite all the chip shortages and despite all the machinery not available in the world.

But the other customers – most of them delayed the deliveries. But they made us make the investments, they are all backed by the order. So fortunately, now all that started working and you'll find our asset turnover is going to be much better. We'll be flocking the assets much better than before. We can go up to about INR 3,200 crores in the current assets that we have, and even plus of that, but there would be some balancing equipment that would be required to backup the volume.

Now I'll give you simple examples. Like Toyota, they want to increase around 11,500 to 16,500. Now what we are trying to do is, can we do it in the same equipment that is there? Or do we -- what is the minimum of come that is required. It is not only a proportional to the equipment that we had made investments initially. So we are minimizing the investment that is required to reach those peak levels. So only balancing equipment would be added on.

And it would be, I would say, 10% of the total investment we would have done otherwise in case we have taken a new project. Now in case of now coming to Rico Jinfei Wheels -- the investments that we made long-term back, but the capacity we came to over 4 million, 4.4 million or something, that was the capacity has created but that is for mainly the painting area and also the heat treatment area. And we could not utilize those capacities -- and because we did not have the orders, we had COVID and other things actually coming up.



Now since we are now utilizing those capacities, you will find the asset turnover far improved than whatever was earlier. So these are a couple of places I'm talking about. Then the foundry. Foundry in one place, we were going to expand further in the probably iron foundry. We were going to expand further in the iron foundry thinking that the capacity requirement is -- in that you require a plant, it's not that we can add one or two machines.

But over time, we have been able to improve the efficiency so much that we've actually been able to free up on about 30% capacity there, but producing more. And now today, if you ask me five years back also, the product -- the foundry was being utilized about 70%. Today, again, now we're saying we utilize the foundry only 60%, but our turnover is higher than before, because we are producing more on the same equipment that was there. So we are changing, adding new technologies and other things so that we can better utilize whatever equipment.

Now that touching the INR 2,400 crores, there is hardly an investment that we're going to make and for the new AISIN order that we have got, we're trying to take out at least 50% of the inside the plant, our equipment are all flexible. Okay, 80% of component is flexible. We can switch from one component to the other component by changing only the fixturing and the tooling. So we have that advantage of flocking the equipment the best in areas wherever we require the volumes to go up.

So a lot of work is happening in the engineering people are on the job. Even today, people are sitting in our plants to see where all we can save an equipment. And -- because our determination is to use the equipment to maximum possible. Total flexibility in our equipment, we can put all the same switch to Maruti component to BMW component to PSA component on the same equipment by changing the fixtures and tooling.

**Pritesh Chheda:** So your incremental capex will be less than at ratio?

**Arvind Kapur:** This year, I think it will be around that only, about depreciation. It won't be INR 150 crores, INR 200 crores like last day.

**Pritesh Chheda:** It is valid for INR 3,200 crores revenue this year or next year, or it is normal.

**Arvind Kapur:** The Toyota thing we -- what we did was the equipment we had planned for Toyota we started producing most of the component in the current equipment that we have. And before the newer equipment because the suppliers all delayed the suppliers of equipment, especially the entire casting machines and other and each machine cost of about INR 30 crores. And those machines got delayed. So we actually start utilizing our other equipment wherever capacities were available. Now since the volumes are going up, we delayed those are compared to be delivered from last year to this year and some of them on this year to next year.

So that the investment in that particular. So a bit carrying forward for the Toyota project in which we had invested INR150 crores. And so -- but that is on the previous of 1,500 or 11,500 sets of components that we supplied. That is what that. But for 16,500 sets our investment has got to be minimal, hardly I think not even 10% of the total investment.



*Rico Auto Industries Limited*  
*November 11, 2022*

**Moderator:** So it seems like we lost the connection for Mr. Chheda. As there are no further questions, I would like to hand the conference over to the management for their closing comments. Over to you, sir.

**Arvind Kapur:** Well, thank you so much, and if there any question by anybody, please write to us, and we will certainly like to -- even call us up and we would like to talk to you and share to you whatever happening in the company. Fortunately, the market is good, and we are all very excited about all the possibilities. Every quarter, you will see the profitability going up. And hopefully, we should be around 12% soon and we like to make further improvements.

With the newer components coming and, of course, there would be further additions that will keep on coming. And INR 2,400 crores this year, that's what we are targeting. And the next year is INR 3,000 crores plus. And hopefully, we will exceed that also, but the current situation of the orders which are coming in and the demand from Maruti and others, the way it's coming in. Very excited about what is happening. Thank you so much, and have a good day.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of S-Ancial Technologies, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.