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Sub : **Transcript of Conference Call held on 15th November, 2021**

Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 15th November, 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
Q2 FY2022 Earnings Conference Call”

November 15, 2021



ANALYST : **MR. VIJAY GYANCHANDANI - S-ANCIAL TECHNOLOGIES**

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. RAKESH SHARMA - CHIEF FINANCIAL OFFICER
MR. SANDEEP RAJPAL - VICE PRESIDENT (MARKETING)
MR. B.M. JHAMB - COMPANY SECRETARY



Moderator: Ladies and gentlemen, good day and welcome to Rico Auto Industries Limited Q2 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 call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference over to Mr. Vijay Gyanchandani from S-Ancial Technologies. Thank you, and over to you, Sir!

Vijay Gyanchandani: Thank you, Operator. Welcome you all to the Rico Auto Industries Q2 FY2022 earning conference call. From the management we have today Mr. Arvind Kapur - Chairman, CEO & MD, Mr. O. P. Aggarwal - Chief Advisor (Finance & Accounts), Mr. Surendra Singh, President & COO, Mr. Rakesh Sharma – CFO, Mr. Sandeep Rajpal – Vice President – Marketing and Mr. B. M. Jhamb - Company Secretary. Now, I request Mr. Arvind Kapur to take us through the key remarks after that we can open up the floor for the Q&A session. Thank you and over to you, Sir!

Arvind Kapur: Good evening. This is Arvind Kapur. Thank you for joining us on today’s call and the last quarter has been a little tough though and primarily because of the popular word now is 3Cs that is COVID, the Container problems and Chips problem, primarily the chips problem, and but some of our customers are done still well and we are very happy about that and just to give you a snapshot of what has been happening.

In the two-wheeler industry we see a downturn and we do not see much improvement actually taking place and it is primarily because of the rural area income being low and that is one area which is not impacted because of chips but primarily because of the demand requirement, coming to the passenger vehicles fortunately the demand is there and here the delivery was an issue and companies like Maruti and Mahindra and others. There is waiting of almost seven to eight months to ten months depending on the type of vehicles that are there.

Commercial vehicles fortunately are picking up and we are very happy about that and just to give you gist as to how Rico did compared to how the industry fared if you look at the total industry, in the two-wheeler there was a degrowth from last year and there was a flat growth in the two-wheeler and if you look at the four wheelers there was a growth of only 0.74% from the previous year but your company grew by almost 49% in the four-wheelers, in the car industry and this was primarily because of the KIA Motors. Maruti also picked up a little but they are lower than the previous quarters in



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any case and if you look at the commercial vehicles the industry grew by 25% but your company Rico grew by 126% in the commercial vehicle.

It appears that this quarter also see some further growth taking place in the car industry. Maruti is picking up, they are managing to get more chips into the system and we are hoping that this quarter should be better than the previous. The next three months should be better than the previous two months definitely but as a quarter also it should be a little better but fortunately for us our customer Renault and Hyundai they have also picked up and this quarter I think they are doing pretty well. Hero at the moment, the two-wheeler industry is still down and it is although flat but we are able to maintain, and we are very close to the budget that we are prepared for the supply to the two-wheeler industry. We are around those figures only and Toyota the demand has gone up and they are actually picking up more than what we had budgeted and whatever the demand that Toyota had indicated they scheduled a much higher than before so we are very happy about what is happening in some of the makers and Maruti is also there, demand is going up gradually as the more and more chips coming to arrange.

Commercial vehicle is showing a very good sign and we are shipping much more and we are thinking on diverting resources to meet the demand of the commercial vehicle requirement. In the electric vehicles the demand is going up and our sale has also gone up and we are very happy that we have engaged this electric vehicles in a big way and we are engaging ourselves with all the manufacturers for further expansion to take place in the electric vehicles.

Finally what I would like to say is that as the chips requirement eases the car industry is improving, the electric vehicles are improving further because even in the electric vehicles what we supply to France, they had shutdown their plant for couple of weeks in the last quarter because there is a shortage of chips but they managed to ramp up chips now as the PSA plant in France is running pretty well.

So we are happy about that also but we are really hoping that the two-wheeler industry sees a turnaround and that is the only disturbing factor. So our two-wheeler sale for quarter 2 last year we were 41% share of the turnover and this year it is 34% only.

The four-wheeler last quarter was 39% and this quarter we are at 49% now and in the commercial vehicle from 3% we have gone to 6% of our turnover and the others we are about the same. So that is where the total mix is at the moment and the expansion is taking place in the electric vehicles and electrification.



The project for Toyota that we had announced in the last quarter, the investments are taking place, the building is almost ready, some of the machines have already been placed and the initial trials have also been conducted by Toyota and the components have been approved and we are hoping that the project goes in time and we are hoping there is no shortage of chips as far as this particular vehicle is concerned and the launch also takes place in the next year. The investments are taking place there and the machines and equipments are in place there, despite the rains and the adverse climatic conditions that were there in Chennai. We are as per our commitment that we have given to Toyota. So that is from our side and we are open to questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Vibha Batra from FairConnect. Please go ahead.

Vibha Batra: Just to know some outlook on your topline and also on operating margins. Obviously there has been some setbacks in two wheelers but how do you see the demand and also you are seeing quite flexible in getting some supplying to two-wheelers versus four-wheelers so in light of that what could be our outlook and also your EBITDA margins are in single digit versus lot of auto component suppliers which are in double digit do you think you can do higher on value chain going forward?

Arvind Kapur: As far as the EBITDA margins are concerned you are seeing a change but this was not enough this quarter. We actually lost about 100 Crores of sale in consolidated basis and if that sale was there our EBITDA margin would have been much better than whatever we have indicated here and the next quarter we are seeing the market actually improving and you will see the change as far as EBITDA margin is concerned and if you also notice the other reasons why our margins are coming down was primarily because of the air freights as we were incurring and those have also come down drastically and hopefully by end of November they should end and the shipment that were taking place by sea those have increased but the only problem is that the timing of 5-6 weeks from here to Europe have went up to almost 9-10 weeks. Now we see some improvement taking place there and hopefully our air shipments will also get eliminated primarily because of the sea shipments are also reaching in time and the same thing implies for shipments to USA, from 9 weeks to USA it went up to 13-14 weeks and now we see some improvement there and the congestion at the ports in US is there and we are hoping that soon that would also get clear because there is a 7 day around a clock working that has started there in most of the ports in the US. So we are hoping that also improves but having said that there is a shortage of trucks in US and that is also transporting the goods from the ports to the customer or to our warehouses, which is also becoming a challenge but anyway we are facing that with aggression. You will see a change coming into our margins and this quarter is better and next

quarter should be even much better and the double digit you will see it coming in the next quarter.

Vibha Batra: What will be your outlook for FY2023 both on sales and EBITDA margin?

Arvind Kapur: We will share with you in the next quarter when we discuss about it but we are hoping to get all those about 22% - 25% growth next year that is if the market is normal and in the two-wheelers pickup then of course the growth will be much higher then we should be in the region of about 30% - 35%.

Vibha Batra: What is your capacity utilization? Would that be a constraint there over next two years?

Arvind Kapur: We keep on adding capacity as per requirement but whatever capacity we had we keep a lot of flexibility, to your previous question if the two wheelers are down what we do with the capacity that gets vacated. We have lot of flexibility on changing those equipments for utilization into wherever the demand is more. To give an example for Maruti Suzuki one particular engine they kept up producing higher than whatever was the demand so we did divert some of the machines from two wheelers into that capacity so we keep on doing this and like the commercial vehicles all of certain that the demand started going up so we did utilize the capacities that the surplus capacity we had in the two wheelers so it starts right from the die-casting to the machining so die-casting in any case is totally fungible with whether we produce the commercial vehicles or whether we produce the passenger vehicles and all two wheeler components and also the electric vehicle component. So that is a flexible capacity that we have. There are very few equipments which are totally committed mainly the inspection equipment and final assembly equipment and testing equipment which gets committed only for a particular vehicle others by and large we maintain flexibility in our system.

Vibha Batra: One more request like we have generally have a lot of results over the weekend and there are three concalls happening at 4 o'clock today so and it is very difficult to choose from them, there are a lots of midcaps also having the concall would it be possible to shift the call timing to maybe 10'o clock in the morning when there are least number of calls so that there are no conflict if it is possible?

Arvind Kapur: We have no issues in shifting the call but we leave it to our advisors who tell us that 4 o'clock is not the best time because the market is close and the market is open up and we are open at 10 o'clock, 11 o'clock, 12 o'clock we are open anytime. Thank you for joining us today and choosing our company over the others.

Before the next question comes this is again Arvind Kapur, I will just brief you about the investments which are taking place. So the primary investments that have taken place now are for the Toyota projects which is being set up in Chennai and the equipment and the building as I mentioned earlier is in place and the further equipment would also come in before the production lines actually comes in. The low volume production trials have already taken place for four out of the six components, so the investment is in Chennai and partly for the iron components in Pathredi plant and everything is taking place now. So we are there for the eligibility so that is the low volume trial that has taken place. I think next month onwards the high-volume trials will start taking place in December and January. The Toyota teams are there sitting in our plants and helping us supporting us and also monitoring whatever the progress is taking place despite the heavy rains that are taken place there. Pathredi has already done the executing and now we will be ready for the high-volume production trials.

Vibha Batra: Thank you so much ad all the best.

Moderator: Thank you. The next question is from the line of Vishal Mehta, Individual Investor. Please go ahead.

Vishal Mehta: Good afternoon Sir, and congratulations on a good set of number. Sir my question is on the new business front on the major development can you throw some light on the potential business with the customer under discussion?

Arvind Kapur: See you are talking about new businesses in hand.

Vishal Mehta: Yes, Sir.

Arvind Kapur: We are constantly discussing new businesses with our customer but for your information this year we have already picked up businesses, the program value of about 700 Crores and if you take a yearly it is about 169–170 Crores would be the add-on turnover once this businesses go into production. These businesses have already been picked up, we have received the letter of intent and everything and so this is a constant exercise for expanding our customer base and also spending our businesses with our customers.

Sandeep Rajpal: But also right now further discussion for new projects is going on with GKN, BMW, Norgren and some others even in case of non-automotive we are trying to pursue on customer so let us see how the progress happens in the coming years.

Vishal Mehta: Okay. Thank you so much Sir.

Arvind Kapur: You must also understand that there is a certain change that is taking place people who were sourcing from China they are actually diverting their attention to India and so that is also having impact and we will see that fructifying by next year definitely.

One other thing I would like to add here is that this year we had mentioned in the beginning that we would be crossing 2,000 Crores and we are in the ballpark and we should, despite the chip shortage and the two wheelers not performing as expected and what we have taken in our budget, we are still in the ballpark and we should be 2,000 Crores plus minus 5% that what the range is.

Moderator: Thank you. 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 and we were actually hoping to have more interactive sessions but the last quarter was difficult primarily because of the chip shortages in the passenger vehicles sector and the chip shortage, the availability of chips is improving but it is expected that the shortage will continue till almost the middle of next year but there is an improvement that one sees on a daily basis. It has actually come down to daily basis because in Malaysia their plant have started working and the other plants in Malaysia, they had shut the plant mainly because of COVID and now those plants have started working and the other plants in Italy and other places are also working now. So availability is improving but the demand is also going up tremendously. What has happened they say that it should be close to normal somewhere in the middle of next year and but so the extra demand for the cars, the Maruti production going up and KIA and others also Renault also increasing the production and the electric vehicles in Germany as well as BMW where we supply and also PSA that we supply and Renault for the electric vehicles their demand is also going up tremendously primarily because of the CAFE norms that they are require to meet in Europe but they are hoping that in the next 5-6 months' time their volumes would go up and the availability should be even better but the demand is going up tremendously and the stability would probably come after the middle of next year but we are hoping that sooner the better. The other thing that we are hoping is that the two-wheeler industry starts bouncing back, we expected a bounce back during the Diwali time. It has come back but not with expectations that we all wanted at least but as I said that in the two wheeler we have been able to increase our share of the business with the current customers and we are very close to whatever we had budgeted for the supplies to them and we are still working on it and to see that we can increase further share so that we actually increase the budget that we had done but if the market improves of course there will be a tremendous improvement that will take place. Thank you so much for joining us today



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and any other questions you can write to us and we will respond immediately and we can also have a one-to-one talk with you all. Thank you so much.

Moderator: Thank you very much. On behalf of S-Ancial Technologies Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.