

**RICO AUTO INDUSTRIES LIMITED**

REGD. & CORP. OFFICE : 38 K.M. 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

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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>
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Sub : **Transcript of Conference Call held on 31<sup>st</sup> August, 2020**

Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 31<sup>st</sup> August, 2020 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 FY’21 Earnings  
Conference Call”

**August 31, 2020**



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

**Moderator:** Ladies and gentlemen, good day and welcome to Rico Auto Industries Limited Q1 FY'21 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 touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Saurabh Bhavne from S-ANCIAL Technologies Private Limited. Thank you. And over to you, sir.

**Saurabh Bhavne:** Thank you. Good evening, everyone. Welcome to the Rico Auto's Q1 FY'21 Earnings Conference Call. On behalf of S-ANCIAL Technologies, I welcome you all. From the management, we have Mr. Arvind Kapur -- Chairman, CEO and M.D.; Mr. O.P. Aggarwal -- Chief Advisor, Finance and Accounts; Mr. Surendra Singh -- President and COO; Mr. Rakesh Sharma, Chief Financial Officer; Mr. Sandeep Rajpal -- Vice President Marketing; Mr. B.M. Jhamb -- Company Secretary. Now may I request Mr. Arvind Kapur to take us through his initial remarks? Subsequent to which 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 and my colleagues also there. We are all on different locations, but I would like to go forward. The first quarter was very eventful, in the sense, that we had lockdowns and all the issues that one can actually think of. But when the lockdowns opened up, we were surprised to see that the way the market actually reacted, and the way the pull for our vehicles in the two-wheeler industry as well as the four-wheeler industry suddenly started picking up. Because in the last days the BS IV stock was sold, we thought that oversetting must have taken place and there would not be a pull in the market for BS VI vehicles. And also because the BS VI vehicles are obviously more expensive than the BS IV vehicles, so we were expecting the market to be slow but to our pleasant surprise, there was a certain pull, lot of challenges actually came up because we all had to do a lot of monitoring as far as the COVID was concerned, the temperature check was concerned, lot of standard operating procedures were defined by the Ministry of Home Affairs as well as local district administration besides that Maruti, Hero and all of us, we actually put standard operating procedures together so that all the companies actually follow the same system. So we all in the month of May, that is when we started opening, we had to do a lot of preparation for the tunnels, for checks at every point and also recording, etc., And so it was challenging.

But then the other challenge was that a lot of labor that actually worked in the plants be it in Haryana or be it in Chennai or be it other places, lot of migrant labor, which is there and because of the uncertainty, many people had actually gone back. And so when we opened, we opened with average 65% people, but then gradually we did call some of our own people back and also, we hired new people and started training them.

And challenge was more mainly because the customers were demanding more and there was a pull in the market. And we had a couple of conference calls with the customers where even the dealers were there. And so, there was a lot of pressure from the dealers as the customers are

demanding. Despite the fact all over India, all the places are not opened, there was only partial opening and gradually, but then over time, there were areas which were again declared lockdown. So this up and down kept on taking place quite a while. And this actually impacted the production that could take place in the month of May and month of June primarily because if I take example of Hero or Maruti, we have suppliers supplying to them from all over the country, primarily for the Gurgaon facility but for the other facilities like there would be many in Gujarat, but there will be many who are supplying from Chennai or Pune to the Gurgaon plant or Haridwar plant so that the cost while it takes place, that is the way our supply chain work. But because of the lockdown that is taking place in various cities that actually impacted the production, otherwise we could have actually produced more in the first month itself.

So it was a combination of various things which happened. But the good problem that we had was that the demand was more than whatever we were supplying. So that is a good problem to have. The month of May was okay, and we did a turnover of about Rs.45 crores and month of June we did a turnover of Rs.199 crores and July fortunately has been better. In fact, for the month of July, we have actually crossed whatever we had done in FY'20, in FY'21, we've actually already crossed the whatever we had done. We are still behind the FY'18 figures, but just by about close to 6% but I think in the month of August, we should exceed those figures as well, that is '18 and '19 figures both we should cross. So fortunately, the market has been good. In the two-wheeler side, there is a lot of pull in the market. In the car side, Maruti is under pressure to make more and under all the constraints that we have for social distancing and also quarantining a lot of people in case there was anybody who is found with COVID and also if you have got temperature. So despite that there is a production are more stable now and there is a pull.

The unfortunate side is the commercial vehicles. Commercial vehicles are really down, and the three-wheeler is almost dead; there is no demand for the three-wheeler at the moment. And if we look at our portfolio, the bulk of it is two wheelers, four wheelers and commercial vehicles is less than 7% and the three wheelers, we just started making the engine components for Greece. And the total contribution for the three wheelers was zero, but this year I think we have put in about 0.5% or 1% contribution from the three wheelers side also. And the tractor market is good. At the moment we are not supplying tractors, but we are negotiating with various companies for supply of tractor components.

Now, coming to the exports side, what really amazed us was the way the market picked up for the exports. Whatever stocks we had, we normally maintain four weeks stock in our warehouses in Germany, England, and in the US two warehouses are there and the stock value started getting depleted very soon. And while the demand came up, there are various possibilities; one is that there was change in models primarily because certain components are probably not available from various countries and also various suppliers because of the lockdowns in Spain and France and other places and we filled in that gap and so much so that some of the customers actually started airlifting their materials to their warehouses. So, we are fortunate that the exports are good. The commercial vehicle, the Tata Cummins where we supply for the engine part, that is the market which is actually down. Otherwise, I think things

are shaping up well. In the month of August we should cross whatever we did in 2018. And after that, I think we will be much beyond whatever we had done in 2018. As per our budget, the turnover will be about Rs.1,470 crores, that is what we are targeted for this year. And we hope to exceed this because a lot of new orders which have also come in. Last time I did mention that the new order book is close to Rs.5,900 crores, out of which Rs.4,400 crores was a new business, that is a program life I am talking of. Program life normally will take five to six years depending on who we are supplying to. Placement of the current components is about Rs.1,500 crores. So if we turn it to annualized basis, it comes to about Rs.965 crores for the new components and Rs.355 crores for replacement components. We have got Rs.1,320 crores annualized business, but the increase in turnover would be Rs.965 crores and this would be in the peak year, at the peak year the previous orders I mentioned, some would peak next year, some would go the year after that. There would be some components which would also go to '22, '23. What I mentioned was up to 31st of March. Now after 31<sup>st</sup> of March, we have been fortunate to get further orders. These are all new orders that we have got from customers and Sandeep, you can fill up wherever I am missing out anything.

**Sandeep Rajpal:**

The program value for the new orders is 1,500 crores. Annualized comes to Rs.310 crores.

**Arvind Kapur:**

They will start delivering this year itself, that is the aluminum piece order we bought from Hero finally, and there would be some components that would start by beginning of next year, and some would start in '21, some in '22 and some would also start in '23. But the peaking by and large would be '22, '23, that is what we estimate. And we hope the market remains the way it is, and we should be able to achieve the targets that we have given.

On the CAPEX side, we had mentioned earlier also. This year, we have done a lot of CAPEX in the last two, three years. And that CAPEX is actually helping us to increase our turnover now, because the new customers that we had put in the PSA and Kia, they are doing fairly well, and we are also taking the advantage of that. This year the CAPEX that we expect will be less than the total depreciation; we are expecting around 40, 41 crores expenditure on the CAPEX. That would also include the maintenance capital that we would do.

The exports are panning out well. We have got new customers also and the new customers we have one is the wheel which we got from Hero, that is the old customer but a new component, then clutch business has also gone up and earlier we were supplying to 100, 110 cc, now we are also supplying for 125 cc motorcycles and soon we would also get into the other motorcycles. And the new customer we have added is North Brunswick, this is mainly for export and that should be another good market that we would develop. Sandeep, would you like to add anything?

**Sandeep Rajpal:**

Main thing is the peaking of these new orders, new customer addition of North Brunswick that we have done, and these are export orders for America. And this is just the starting for this business and there is a huge availability that is possible or opportunity that is there for adding many more similar product lines from North Brunswick. We are also trying to tap into the tractor market also and our company, Rico Fluidtronics, they are also bidding for a lot of new

water pump and oil pump business and the new Hero business for the alloy wheels, there is a huge potential with the company looking at import substitution. So I think all this augurs very well for us.

**Arvind Kapur:** So the import substitution of the wheels that we are talking of is primarily from China. China was actually supplying I think about 50% to 60% of the total aluminum wheels which are required for the two-wheeler industry in India. And now I think everybody is under pressure to actually replace that. There will be more Atmanirbhar produce in India rather than import from China. So we are fortunate that we have those capacities, and we were making those components. These are safety components. And it really takes a long time to really penetrate a customer...it has taken us more than three, four years, trying to get into Hero, but fortunately, we have finally got it.

I think we can open it for questioning.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question-and-answer sessions. The first question is from the line of Chandra Govind from Ashmore. Please go ahead.

**Ashwini:** This is Ashwini here. A couple of questions. Sir, if you look at the March '21, you mentioned a number 1,400 something crores is the budget for this year. I did not get the number. Is it for 1,470 or 1,417 crores?

**Arvind Kapur:** Rs.1,470 crores.

**Ashwini:** Rs.1,470 crores is your revenue budget for fiscal '21?

**Arvind Kapur:** Yes, we will achieve, that is for sure.

**Ashwini:** And how much would be exports out of this in the current year given the kind of strength?

**Arvind Kapur:** At the moment, what is the figure that we are talking of is now, this is a direct export I am talking of, I am not talking about indirect export, which takes place through Renault Nissan and through the other customers. The direct export is between 25% to 30%, that is the variation that we used to have. And indirect also, we were 35%, 37% that we would land up. Now the direct has actually gone up to 32%. But that is partly because there was a heavy demand for export and that export demand is going up further and the domestic demand is for Hero Maruti, Kia and PSA Other people are down. As soon as the other market also starts growing up, I think we would remain in the region of 32% plus/minus 1%. That is what we think for this year. This is the direct export I am talking of.

**Ashwini:** And your margins in the direct export business are much better than what you get from your domestic components?

**Arvind Kapur:** Certainly. We have had some issues as far as the logistics are concerned. Normally takes about four weeks for raw materials from warehouse-to-warehouse from India to Europe and about

six weeks from here to US. It is taking almost double the time because ships are missing imports and some countries are not allowing their ships to come in. So all that we are grappling with, and so as a result, we land up doing a lot of premium rates, because we cannot stop the customer line. Now, it becomes a separate fight with a customer that who is going to bear the cost. Actually they should bear the cost because this is force majeure, it is not our fault, they were not allowed to dock in certain part of US. So, all that is happening, but fortunately we are not making customers to wait, and we are meeting the demand whichever way we kept the material there. Even the air flights are restricted basis, but we are managing to send our goods there. Now it is getting better. And we are shipping both by sea and air and balancing it out so that we build up stocks there but our fight with the customer carries on that they need to bear the cost also of the air freight because this is force majeure.

**Ashwini:** Because last year, your margins took a big hit because of your component supply for the export market where you are forced to airlift some shipments because of production sort of bottlenecks at your end?

**Arvind Kapur:** This year fortunately, we have done away with those production constraints. And now, we were very excited that our margins are going to improve this year, but we will get over this also, I think by the end of September. And we would have settled with the customers also as far as the rates are concerned. Last year was our fault, so we took a hit on that, but this year it is force majeure, that is what the discussion is.

**Ashwini:** And sir, these new programs that you spoke about out of which Rs.4,400 crores of new orders plus Rs.1,500 crores of component orders, resulting in annualized new sales of Rs.1,320 crores, now some of this would actually be in lieu of sales that you are already making, right, because...?

**Arvind Kapur:** No, let me correct that. Rs.4400 crores are a new component and Rs.1500 crores are the replacement components; replacement is replacing the current components that we manufacture for the different models. So, annualize it comes to Rs.965 crores as new components and Rs.355 crores as replacement components. So, the value which adds up to the balance sheet is Rs.965 crores.

**Ashwini:** So, to put it in a simple way by March '23 if nothing happens, no new orders come in, March '23 your revenue should be somewhere in the region of Rs.2,500 crores?

**Arvind Kapur:** Yes, Rs.2,500 crores plus. This is what I mentioned in March. After March, we got further orders and some of them will be taken this year, some in next year and some in '21, '22. So this Rs.965 crores new orders that I am talking of was on 31st of March.

**Ashwini:** Yes, because after that, you have mentioned that there is another Rs.310 crores of annualized sales based on orders received post-March?

**Arvind Kapur:** Yes.

- Ashwini:** So, that adds up to roughly almost Rs.1,300 crores if I add the two together?
- Arvind Kapur:** Yes, absolutely.
- Ashwini:** So, 1300 plus 1400, so 2700, 2800 crores partly in March '22 and partly in March '23?
- Arvind Kapur:** We have the days planned out and we can be more accurate...
- Sandeep Rajpal:** I like to add here. See, this peak of various programs will happen at different time zones. It is not possible to put it all in '23. Even there are some programs which we have already been nominated which we start end of '23 and they will ramp up to peak in '25. So, it is a mixed plus in the next two, three years, some of the current programs will also die down. So when we talk about new business, and we talk about replacement, replacement is directly, you can replace with as the running programs go down, it goes up, and it starts to ramp up but new has a development cycle and has a launch cycle, start of production and ramp up. So just would like to clarify that as we are talking and the numbers that you are speaking that current year Rs.1,400 crores plus, it is not going to happen like that. Yes, already some of the programs which will start to produce and start peaking up, but exactly the numbers will not match.
- Arvind Kapur:** And in the process, we do pick up new orders also and then we also have opportunities there like to Hero their volume goes up, we are trying to be the share of business, that we have not factored in a peak.
- Ashwini:** Sir how much more CAPEX would you need to put into ground to realize these programs or all this CAPEX is already done?
- Arvind Kapur:** I think just balancing equipment that might come in for the replacement but there would be some balancing in the gauging and dyes and molds those are things will be required in any case for all new components if there are replacement demand or if they are absolutely new additions. That would happen in any case. But on the new component front, we are working out the data. We do have a project detail, but we have not consolidated to see what total thing will be, but we can come out with a figure on that.
- Moderator:** Thank you. The next question is from the line of Sanidhya Jain from KR Choksey. Please go ahead.
- Sanidhya Jain:** This is Sanidhya. I just wanted to ask you with respect to our investments in metal art, what are our key business objectives basically driving this?
- Arvind Kapur:** We had a joint venture with the FCC, Japan, which we separated in 2014-15 because we were together for almost the span of 29-years with FCC, for making clutches. So in that arrangement, we were making certain class of clutches. And whatever new clutches came into the market for two wheelers, they were taking the orders, and we were 50:50 participant, all went well. FCC is a Honda company. Honda after separation from Hero, a couple of years later, they started putting pressure on all their technology to move out of local joint venture



and start selling and be 100% independent. So they took over into the '14-15. There was a moratorium for two years that they were not supposed to manufacture. They were producing one class of clutches but beyond that they were not allowed to do it. Then that period got over and then we started doing, we spent a lot of R&D; I think we spent about close to Rs.20 crores on R&D, and we also hired some technical people from Japan and we started designing the clutches ourselves here. Now all this while, for precision material that we were getting was from FCC. And they were supplying the material. And once we separated, they increased the prices. So, there was a lot of pressure that they would put on us. The customer would not give us that price increase. So all that started happening. And so we started developing these friction materials separately, and we kept it totally under wraps without talking to anybody. We made the investment, but we are part of a small company, which is actually making precision material. Now, those guys are making asbestos-based friction materials which was not acceptable to us, it is a banned item, but in the open market, people are producing that. So, we had to convert the total plant into non-asbestos and get a new recipe with the help of our partners with the technology suppliers. It took us almost two and a half, three years to develop that to prove it because every time you change the recipe, the test is about 10,000 Kms on the road, then for the live test, we run it for about 30,000, 40,000 Kms to see how well the precision material does. And then the testing is also done with the customers. So it has taken us over two to three years to actually redesign the clutches with the new friction materials that we had. Now, this is to protect because what is happening is, they would increase the rate whenever they wanted and to Hero when they were supplying directly, they would reduce the rate. So I think anybody would do that. And so just to protect ourselves, we had to get into this. And so we did it very secretly. And now finally, after approval has taken place, for the first two or three years, we actually supply to the aftermarket and also got a feedback, but we bought I think 10 new motorcycles, we had people running up and down driving 10,000 Kms in all the terrains possible to make sure the product what we have is as good if not better than whatever we were buying from FCC. And clutch is the heart of the motorcycle. So, it took us a long time to do it. And now the friction material is the main thing, design a clutch of course, but the friction material plays a very, very important role. For that reason we had to make this investment very secretly. And now, of course, we need to protect ourselves, we need to take over the company, so this is what we have in plan.

**Sanidhya Jain:**

Also, would like to know any developments on the alloy wheel side. So what can be the upside which we can see in the coming three to four years because we already made a lot of investments for the alloy wheel, so can we see something around Rs.1,000 crores five years down the line?

**Arvind Kapur:**

The investment we did was to increase the capacity. In alloy wheel, there are two main things; one is the heat treatment shaft and heat treatment with the container furnace. So there we increased our capacity to close to 4 million. And of course, we were expecting the order of course to increase from Bajaj Auto and also for Honda and for Hero. But Hero took longer than they before they release the order. So we created the capacity. And today at the moment we are producing about 1.2 million, 1.3 million, that is what we were utilizing at the moment. Now it immediately doubles to about 2.5 to 3 million in any case with Hero order coming in

and we are confident that we will now pass the limit of 4 million capacity we have built up. And once we cross 3 million, then we would have to buy new furnaces, etc., And on this capacity that we have, I think we can be close to about 450 crores to 500 crores, that is what we are estimating. But seeing the demand for the wheels, we will have to expand capacity and you will find this project independently doing about 1,000 crores.

**Sanidhya Jain:**

But we already have the space and the plant ready for the expansions if required?

**Arvind Kapur:**

For 4 million, we have the capacity, up to 5 million we will be able to produce in the same facility, but for further expansion, I think we will have to think differently and set up another plant. And it is also closer to the customer because wheel takes a lot of space and so there is a lot of logistic cost also. So the customers to save the logistic cost, they want us to be close to the plant. So we probably do that.

**Sanidhya Jain:**

You mentioned that the three wheelers were contributing approximately 1%. So what will be the bifurcation?

**Arvind Kapur:**

Earlier it was zero, earlier we were not supplying to three wheelers at all. Sandeep, what would be the value that we have factored for Greaves?

**Sandeep Rajpal:**

In terms of the overall business turnover, this year we had originally targeted around 18 to 20 crores and next year almost similar, but we are in discussion with some new programs. So, once they materialize, this will go up.

**Arvind Kapur:**

Actually this is around 1.2% or 1.5% or whatever we are talking of our turnover.

**Sandeep Rajpal:**

Yes, so, this year, if the market is contracting by 30%, 40%, so it will directly impact us also on the same lines.

**Arvind Kapur:**

I would say that we would be 50%?

**Sandeep Rajpal:**

Around 10, 11, 12 crores which would be there.

**Arvind Kapur:**

So that is the impact that would be there in this, but we will compensate that with the two-wheeler program that we have by getting a larger share of the business.

**Sanidhya Jain:**

Sir, what will be the bifurcation between two wheelers, suppose 40%, 50% will be from two wheelers, can we say that?

**Arvind Kapur:**

At the moment because the two wheelers picked up much faster than the car, because car people were slower in starting of the production; Maruti was very slow and Kia was also a little slow because the opening and the safety and others that they were doing. Hero was the fastest, they ramp up the production very fast. So it is going to keep on varying from month-to-month. At the moment, we might be at about 40%. But average should be 35%, 37% I think we will remain.

- Sanidhya Jain:** And that will be like 90%, 100% from Hero itself?
- Arvind Kapur:** Hero, then Bajaj and Honda.
- Sanidhya Jain:** My last question will be approximately how much are we planning to do the additional CAPEX and the maintenance CAPEX?
- Arvind Kapur:** The total CAPEX, we would be under less than the total depreciation that we have which is about 60 crores, but I think we should be in the range of about 40 crores, but that also includes a lot of dyes and all, newer components, etc., where we would be investing. So, I think hopefully around Rs.40, 45 crores, that is where we will be including the maintenance CAPEX.
- Moderator:** Thank you. The next question is from the line of **(J Hanthara) 34:22** from Nirmal Bang. Please go ahead.
- (J Hanthara):** Based on the current gross block and our capacity, what is the maximum sales that the company can do? Now, if we ignore the dates of future orders, etc., just based on like theoretical capacity, what is the kind of top line we can do?
- Arvind Kapur:** It depends on the type of component we produce, there are some components which give us larger value and there are other components which give lesser value. And we had estimated that it could be in the region of about Rs.2,000 crores plus/minus Rs.200 crores. So that would be depending on the type of components that we put in if we do not make any investments.
- (J Hanthara):** And in this peak utilization, what can be the margins?
- Arvind Kapur:** Then the margin goes up dramatically, above 15%.
- (J Hanthara):** Because historically we have not witnessed this kind of margin, right, like in the past cycle FY'18-19?
- Arvind Kapur:** No, no, we have not seen that, but the COVID period has taught us is that there is a lot of cost cutting that is taking place, there is a lot of efficiency improvement that have taken place, the mode is entirely different at the moment. So, it is different ballgame. In the current quarter you will see the change.
- (J Hanthara):** So who are we top most customer and what will be the mix of revenue from that customer?
- Arvind Kapur:** Top most customer is Hero undoubtedly and then of course; we have various customers and...
- (J Hanthara):** In terms of percentage of revenue, how much would Hero be?
- Arvind Kapur:** 30% to 32%....it keeps on varying month-to-month, this quarter is an exception, and this current quarter I think would be more stable and will be closer to whatever the reality is.

- (J Hanthara):** Even in FY'20 terms, so, Hero would be around 30 plus and then number two would be?
- Arvind Kapur:** Number two would be like BMW, Renault Nissan, GKN, there are a couple of customers like that, these are all prestigious export customers, so these are the large customers.
- (J Hanthara):** In terms of electric vehicles, is there any threat to any of our products?
- Arvind Kapur:** If government mandate the electric vehicle to be produced from tomorrow onwards and ban these vehicles, then of course, we will be in trouble because all the components change. But having said that, this year I think our turnover would be quite substantial for the components of electric vehicles and this is mainly for BMW and PSA and next year you will find it doubling again. Of course, there are special alloys which are required for the electric vehicles, and we are a single source supplier to BMW and PSA for these components and also Renault for some of the components that they make electric vehicles. So we are deep into it. But having said that, it will take about 15 to 20-years before there is a complete switch off even more but we will also see that by 2030 or 2035, there will be a general growth in the auto industry. The best we have done is about 3.6 million or something, I am talking the cars alone and we by 2030 people are estimating 12 million, but I am estimating as 8 million. Even if 25% of the cars are electric which is which is very unlikely, the demand for the IC engine could have gone up even further. So this will carry on and there will be a gradual shift that will take place to the electric vehicles but there are other technologies which are coming in and which might also impact the electric vehicles. So, we are also in those. We are playing our cards very safely. We cannot stop investing for the IC engine mainly because the demand is actually going up. And for the electric vehicles, whenever we make an investment, that is a priority.
- Moderator:** Thank you. The next question is from the line of Vaibhav Sanghvi, an individual investor. Please go ahead.
- Vaibhav Sanghvi:** You mentioned that your Q2 July, August is panning out very well and you expect that to either match or surpass the sales of calendar Q2 2018, right?
- Arvind Kapur:** Yes.
- Vaibhav Sanghvi:** So, in September 2018, your operating margins were also pretty good like 11%, 12%, right. Do you expect that level of margins now or margins will be still subdued?
- Arvind Kapur:** No, like I mentioned that because of the COVID we did make a lot of changes in our system, etc., and a lot of cost savings that we try to bring about. You see we will be around that figure only and we want to see those figures and you will see the change coming about.
- Vaibhav Sanghvi:** At the same time, in the COVID impact notes which you have uploaded, it also says that due to the premium freight, right, which you are experiencing currently, the cost of shipping is quite sort of higher right now, and you also mentioned somewhere in the call today earlier that you are still negotiating with the customers to bear the cost. So right now, we are bearing the cost,

but the negotiation is happening with the customer so that that can be offloaded to them. Is that true?

**Arvind Kapur:** Yes, the first target to satisfy the customer. Being a single source, we cannot stop the line. That reputation we built up with them over last 12, 14-years of our dealing with them, be it BMW, be it GKN, be it Cummins overseas and Detroit Diesel or be it Caterpillar. So that is a commitment that we have always stood by. Many times in the situation where they pick up more material or there is a shipment delay, or there is some issue that comes out. And we always negotiate with the customer and they are very fair because it is a long-term relationship that we are talking of. So with that confidence, we actually take the plunge of doing it. Otherwise, if they were not fair, we would first settle and then we ship. So that can come because they are very fair people that way.

**Vaibhav Sanghvi:** When you are talking about better margins for Q2 onwards, you are already considering that the cost will be borne by the customers?

**Arvind Kapur:** Partly being borne by the customers, not fully borne by the customers, in the worst situation, partly borne, but if they totally bear, then of course, margins will improve even better.

**Vaibhav Sanghvi:** It can be even better than 11%, 12%?

**Arvind Kapur:** You will see the impact this quarter and more so in the next quarter.

**Vaibhav Sanghvi:** On the Dharuhera plant, right, there were voluntary retirement given to the employees. Is that all done? And I think there was also cost associated with that exercise? Is that cost still going on in Q1 and Q2?

**Arvind Kapur:** In Dharuhera, we cleared the accounts in July for 118 people and the total cost for VRS there was Rs.5.41 crores.

**Vaibhav Sanghvi:** And it is all done now or still something pending?

**Arvind Kapur:** It is all done now and now there are still about 100-odd people there and we got some production going on there and sooner I think those will also be settled. That is a large capacity plant and without making investment we would like to use that plant hopefully for the projects which are coming up now.

**Vaibhav Sanghvi:** Could you just give some color in terms of the export demand in terms of the month-on-month improvement in Q1?

**Arvind Kapur:** April was dead in any case, but we still export about Rs.4 crores or something like that.

**Sandeep Rajpal:** If we talk about our key export customers like PSA, JATCO, BMW, Cummins, for April, almost everybody was completely shut, May, some of the customers started in a small way like a single shift, but GKN also being one of our key customers was almost closed for the full

month of May also, PFA also started towards the last in May, Cummins was running at a slow pace started in May, but the ramp up has been very gradual.

**Vaibhav Sanghvi:** Apart from the qualitative, if you can also give some kind of numbers that in April was Rs.4 crores, can you give the numbers for May and June?

**Sandeep Rajpal:** Total will be around Rs.30 crores in July and similar numbers in August slightly better than that in August.

**Arvind Kapur:** These are only the direct exports and we are not talking about the indirect ones.

**Moderator:** Thank you. The next question is from the line of Chandra Govind from Ashmore. Please go ahead.

**Chandra Govind:** If I look at the depreciation for the quarter, right, Rs.14 crores versus last quarter of Rs.20 crores, was there any accounting change or is it any structural change that we are...?

**Arvind Kapur:** No, we never use the plant on one shift basis.

**Chandra Govind:** So, from next quarter onwards it should reach back to...?

**Arvind Kapur:** If we run the plant full scale, we will take it in three shift bases.

**Chandra Govind:** And how many people took VRS in Dharuhera?

**Arvind Kapur:** 118.

**Chandra Govind:** And another hundred people are left as of now?

**Arvind Kapur:** But they are still being used for production.

**Chandra Govind:** They will continue in that case?

**Arvind Kapur:** At the moment that is what the plan is, but we will see what shapes up.

**Chandra Govind:** So I am just trying to analyze what would be the incremental cost for the VRS?

**Arvind Kapur:** Not much, by and large we incurred the heavy cost.

**Moderator:** Thank you. The next question is from the line of Aditi Aggarwal from Kotak Mahindra Bank. Please go ahead.

**Aditi Aggarwal:** Sir, we expect sales of Rs.1,470 crores for this year. So, if you could probably share segment wise break up as in terms of what percentage approximately would it be from say PV, what percentage from two wheelers and so on?

- Sandeep Rajpal:** Two wheelers would be close to I think 35%. Including the wheels, it may go up slightly, you can say around 37%, 38% and pas cars would probably over 50% and CV and three-wheeler included will be less than three less than 10%.
- Arvind Kapur:** CV in any case for us is about less than 7%.
- Aditi Aggarwal:** What are the operating margin expectations for this fiscal?
- Arvind Kapur:** We are targeting 12.5% for this year despite the first quarter being slow and so we have a lot to recover but people are determined to it now. We have all the plans in place, cost cutting, etc., is in place. We are trying to reduce workforce, work with a smaller number of people and also lesser number of machines to be added and improving the efficiency of the equipment. There are a lot of changes have actually happened. Some automation that took place last year. We are actually getting the impact of it.
- Aditi Aggarwal:** What is the debt outstanding as on date broadly?
- Arvind Kapur:** Long term is Rs.235 crores and short term is Rs.174 crores.
- Moderator:** Thank you. The next question is from the line of Bhaskar D, an individual investor. Please go ahead.
- Bhaskar D:** My question is around actually defense related because now government of India actually giving orders to Indian companies. So, how we are looking at the defense side and also is there any chance of moving to railways also as you mentioned like two quarters back you are also looking at the Railways side?
- Arvind Kapur:** We have a separate company by the name of AAN which is looking after only defense and we have been on it for almost five years and we keep on doing work here and there. But let me tell you, Atmanirbhar is very important but Atmavishwas is also more important for the people to make decisions. And it takes so slow despite the fact that government is putting everybody under pressure to come into start manufacturing here. They know that we have the capability of doing it, but then they have to trust us to actually do it. And so it is so slow. To give an example, we filled up a tender three years back. And for some lame reason, they are withdrawing the tender. And why are they doing it now? So I would like for three years, it is a fairly large tender, total value was about Rs.1,000 crores for 10-years, that is the period that they would lock you in. But now they have just withdrawn the tender and we had a bank guarantee of Rs.105 crores and you would say most of that is happening. So those guys need to have that Atmavishwas that they can start producing in India. And they need to trust us. But the government is pushing but the people making decisions delayed, now three years no reason, and we are fighting for it, let us see what happen. We are doing it, but very slow process.
- Bhaskar D:** How much will be the improvement on year-on-year basis of electric vehicles components because in UK I see like lots of people actually stopped buying diesel or petrol, more people

are moving to electric vehicles, and like it will be more electric vehicles than conventional diesel and petrol vehicles at least in Europe side. In that sense, how we are improving the electric vehicle components in our company?

**Arvind Kapur:**

If we look at the Cielo electric vehicles in Europe, there is a lot of compensation that the governments are giving to the extent of €4000, €5000, €7000 And rightly so, in case they want to promote this, I think that sort of compensation will start coming in. And at the moment, of course, although cost of the vehicles is high, and that is probably the reason that this has been factored into the whole thing. And so the success of electric vehicles globally, wherever they are being sold well, is primarily because of the subsidies that the governments are giving. And in India, the subsidy is so low, that is one. Number two in Europe, they have also looked into the CAFE norm, what is the total carbon monoxide and other pollutants that one company generates in this total portfolio and they have given them a very tough target to reduce it or there will be penalties in billions of dollars. So, that is the other thing which is driving the electric vehicles in Europe at the moment. And so, people would like to have at least 10% or 15%, then go up to 20% of their total portfolio in electric vehicles, they are being subsidized at the moment, but also with the threat that the CAFE norms could impose a lot of penalty on these makers. So, they are under pressure to actually produce more. And so, that is how the electric vehicles there. In India, they do come up with individual policies like Delhi come up was a policy, Maharashtra and other places are coming up, but the fact is, if the infrastructure is not so great at the moment, it will build up, it will take some time, but Indians we are a reactor society, then we react and start producing things, that will happen and that is okay. But we are already in the electric vehicles. So we are supplying to BMW, global companies and Renault and PSA for the electric vehicles and we will continue to expand. We are okay. And the IC engine is also expanding by the way.

**Moderator:**

Thank you. The next question is from the line of Sandeep Patel from Sandeep Patel & Associates. Please go ahead.

**Sandeep Patel:**

My main question is who are our main competitors from India?

**Arvind Kapur:**

In our portfolio, various plants put together, we make about 500 different types of components. So one company making so many components is rare. So we have maybe about 50 or 60 different competitors who are actually competing with us in various pieces like in the engine block we are the largest in the country but we have Nemak which is a Brazilian company which set up a small shop in Chennai, this is our competitor. We have a competitor in Pune also. But we are producing 50% of the aluminum block which are required in India. And we are also negotiating with the other customers to supply the blocks. So we have competition. If I talk in particular the aluminum die casting component, the smaller component, many mom and pop shop which also compete with us, but if it is larger one, then the numbers are less; there will be two or three people who are competing with us. So that sort of a competition we have.

**Sandeep Patel:**

But then if the total market valuation is taken, what is our percentage of share in that approximately?



- Arvind Kapur:** Very difficult to judge. The aluminum market keeps on growing and the engine block that I referred to, earlier they were made of cast iron. Now they are still made of cast iron but the new companies with the BS VI that we are talking of, they all are going into the aluminum block. So, there is a shift that is taking place. And also for the management of the fuel norm, you need to lightweight the industry. So there are more and more aluminum components which are coming up. And so it is a very interesting time to be in the industry. And in many cases, we also help them to convert from the iron to aluminum component. So, it is a continuous process which is carrying on. And if you look at Rico's portfolio, our ratio of aluminum to iron is about 75:25 including the aluminum deals I am talking of. So, 25 is iron and 75 is aluminum. There was a time it was 50:50. So, this is a mix that keeps on taking place. But the bigger commercial makers they are still on iron inside. So, there is a requirement that is entirely different. Very difficult to judge what percentage do we control.
- Moderator:** Thank you. The next question is from the line of Vaibhav Sanghvi, an individual investor. Please go ahead.
- Vaibhav Sanghvi:** The overall target of Rs.1,470 crores this year right, in the last quarter we have done about 146 crores, which means for the next three quarters, we need to do the run rate of almost Rs.425 crores. Is that something really doable?
- Arvind Kapur:** No, we will exceed it, that is for sure.
- Vaibhav Sanghvi:** I think some participant asked the question about the EBITDA margin which you target for this year. I missed the answer.
- Arvind Kapur:** Despite the first quarter being slow, we are still targeting 12%-12.5% for the entire year.
- Vaibhav Sanghvi:** Sir, Dharuhera VRS, which has been taken, I think overall I understand last year the cost was some 20, 25 crores around, right and then in Q1...
- Arvind Kapur:** That Rs.20, 25 crores was loss, but VRS for 118 people that we had given in month of July, that is Rs.5.41 crores.
- Vaibhav Sanghvi:** This is all only in July, right? But what about the overall costs so far for VRS?
- Arvind Kapur:** We have declared those figures. There were some VRS that we had done in Gurgaon.
- Vaibhav Sanghvi:** That was actually my follow up question because I think last time you had mentioned that we are also planning to do something around Gurgaon plant.
- Arvind Kapur:** Yes, we had done that also.
- Rakesh Sharma:** Total VRS last year was Rs.6.8 crores for the group as a whole.

**Vaibhav Sanghvi:** This year right now is five point-something but then you expect some more by end of this year?

**Arvind Kapur:** I think major has already been done and there would be some here and there always carries on.

**Vaibhav Sanghvi:** Against this what is the savings or the advantage we are going to get because of the shutdown in Dharuhera as well as the employee costs which we will be saving, could you give me some idea that what will be the overall savings this year as well as next year?

**Arvind Kapur:** Last year in April we incurred premium air freight that we had incurred and this year there would be some, but it will be lesser, besides that the loss of about Rs.25 crores that we used to incur in Dharuhera this year, we feel that it will come down to maybe one-fourth or about one-third and so that would be saving. Besides that what has happened is that we are producing more from less, the number of people that we are engaging at the moment, they are producing more than whatever before. This is primarily because of the migration that took place, so hiring new people, new methods and new things have been done, so a lot of savings there also. So, if you see overall pictorial change, you see from this quarter itself that we are working in, and also the next quarter you will see the change is there.

**Moderator:** Thank you. The next question is from the line of Aditi Aggarwal from Kotak Mahindra Bank. Please go ahead.

**Aditi Aggarwal:** I wanted to know about the company Metal art Friction Private Limited, wherein we have invested Rs.5 crores...

**Arvind Kapur:** No, we have not invested Rs.5 crores. We requested the board to clear Rs.5 crores investment, which would be done probably in two or three years. But at the moment, that is not the requirement and I had explained the total lead that was necessary, that is the friction element that we had developed. If you want, I can list you the whole thing or can send you a note on that separately, and this is to protect our clutch business, this is close to Rs.100 crores a year and we were being put under pressure by the supplier which is a Japanese company, which has almost 70% share with the global two wheeler market. And now we have developed precision material which is as good, and it is asbestos-free and which we would be selling to Hero and the customers as well. And along with it, there is another material which is required to be developed. This is a paper type. One is cog-based, one is a paper type friction material. Now, we have taken the clearance for the next two, three years, because in that we will have to have a small paper plant capacity of about 2.5, 3x. But at the moment we are trying to defer that and trying to see whether we can get that paper to us specifically from outside. If that comes up then we do not need to spend, I do not think we need to spend over a crore rupee. But this expenditure is going to protect over 100, 150 crores of business that we are doing on clutches. I will send you a complete note on this.

**Moderator:** Thank you. The next question is from the Siddharth from Anvil Wealth. Please go ahead.

**Siddharth:** I wanted to know one thing, basically in terms of components for electric vehicles, where are we in terms of number of components that we are sort of offering to clients versus where can we be, so how many more electric components can we be present in with our clients?

**Arvind Kapur:** Sandeep, what would be our electric vehicle component turnover this year?

**Sandeep Rajpal:** This year overall, it should be over 75, 80 crores. Last year you can say close to 5%, 6% approximately.

**Arvind Kapur:** So that is the way we are growing in the electric vehicle components. And we will keep on expanding as far as electric are concerned. But you must remember one thing, electric vehicles mean light weighting, you need a vehicle which is light, because it is running on electric power and we are in aluminum. So wherever there is an opportunity, we will be the first one to actually do it. Unfortunately, in India, what we were doing is that the people are importing everything from China, assembling and then selling in the market. This is a two-wheeler industry I am talking of. Because of charging facility and the subsidies which are very difficult to get from the government, it is not getting so popular so far. It will get popular once there is a facility for charging, etc., and the prices come down. And as the numbers go up, we will certainly be there and like for the export components, we are a single source of light to these large companies for electric vehicle components.

**Siddharth:** So, also, I wanted to understand this same aspect from a product portfolio perspective. So, if for example, you can do 10 products and you are doing five as of now, there are five more products where you can sort of be present in with your existing customers. So, what is that opportunity in terms of product portfolio expansion?

**Arvind Kapur:** We got into electric vehicles, studying the whole thing. Every company has got their own different class and type of components that they are doing, but the main motor and engine and the main transmission that the electric vehicle has, we are making the housing and everything for that in any case. We will further expand it. Now, there are further components like the battery compartment, etc., which are huge components. But we will also do. One thing is that when you are shipping, you are shipping a lot of air, they require to be close to where the vehicle maker is. At the moment, in India there is none, not to scale, so it is not very difficult at the moment, but we are looking at various possibilities to see what combinations can be made.

**Siddharth:** So basically the product development is happening at our end. And that will be offered to customers over a period of time?

**Arvind Kapur:** I would say product identification is happening.

**Siddharth:** And how big could that overall opportunity be as in how many components we can do, what is let us say the overall value of what we can do and offer and at a certain market share?

**Arvind Kapur:** There are a lot of changes which is happening in electric vehicles. First, the battery compartment itself was made of plastic and now they have gone into aluminum. Now

similarly, if we look at the wheels, etc., they are all getting into aluminum, the braking system also into aluminum, then the knuckle, etc., there are a lot of things that are getting into aluminum. All these are happening and a very special alloy which have been developed and we are actually in those components studying the method. You must realize one thing. When we started export, the first question the customers overseas would ask us is, "Are you supplying to somebody in India?" So, by then of course we were supplying the IC engine components to customers like Hero and Honda and Maruti, etc., and Cummins in India. So, for us to sell components for IC engine overseas became easy after we started selling in India. Now, the electric vehicle components we got in primarily because of our reputation with our customers, because we had dealt with him for the last 15-years or 20-years like BMW, maybe customers since 2008. And we have been consistently expanding our capacities and our portfolio with them. So they have the confidence and they actually give us the orders. Then for the other people, we are dealing with them in India, Renault, they accepted our electric portfolio. So, it is not easy to sell if you are not selling in India. If there are no customers for the electric vehicles, what do we do? But still we are on it and our teams are very, very passionate about it, and they manage to convince the customers.

**Siddharth:** Finally, I just also wanted to understand this from a strategy perspective. In terms of diversification out of the auto comp industry, are we looking at that aspect as well?

**Arvind Kapur:** We keep on looking at that, but we are primarily into manufacturing of some engineering products. And we are looking at like defense I had mentioned, which has been a very, very, very slow process and we have been working around for the last five years. But any case, we know that it is 5% size demand actually comes in and now with the pressure from the government to the people to place orders locally, I think let us hope that we are seeing soon. So, I hope they get Atmavishwas to place the orders in India and currently we work in it. To be honest with you, auto industry is one industry which is a true representative of localization. The localization debate took place in the auto industry in India was amazing and that is because the government has restricted the imports. Now, we are a global player, we supply to the world and same thing would happen in the defense one day. .

**Siddharth:** And any inroads in the general engineering sector or the other like defense, non-auto?

**Arvind Kapur:** We do a lot of things. Our die making is a very big activity, very, very big. We are probably the largest producer of dyes in the country and we are looking at the possibility of selling dyes in India and overseas and then we make very special machines, like 18-axle, 16-axle CNC machine which are for high volume and very accurate machines. At the moment, we make up for our customers like BMW and GKN those sorts of customers and we are looking at the possibility of why not make these very special. We do not make the regular CNC machines. We are talking of this 16-axle and 18-axle CNC machines. So we keep on expanding our portfolio, but the first thing is to satisfy ourselves, then look at the outside market.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for the closing comments.



**Arvind Kapur:**

I must thank everybody, thank you so much for taking out time. And despite the fact the first quarter was a very challenging quarter, but a lot to learn and a lot of things got exposed and a lot of things actually happened, and I think a lot of learning for us. And you will see the changes even in the next quarter and we only hope that the shutdowns do not happen again and again, otherwise the market seems to be good. But if at all the government decides to shut down again and again, which always is a possibility because of the numbers that we are detecting on a daily basis. If that happens, that could actually bring down the market, otherwise, we think that we will far exceed whatever our budget is for this year and exceed whatever we had done in 2018. So, hopefully this year goes on smoothly and people remain healthy and we find a vaccine for COVID too. Thank you so much, everyone. And you are free to write to us. We will get back to you on anything that any questions you would have.

**Moderator:**

Thank you. Ladies and gentlemen on behalf of S-ANCIAL Technologies Private Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.