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Sub : Transcript of Conference Call held on 2nd August, 2019

Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 2nd August, 2019 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 FY2020 Earnings Conference Call”

August 02, 2019



ANALYST: MR. SIDDHARTHA SINGH - S-ANCIAL TECHNOLOGIES PRIVATE LIMITED

MANAGEMENT: MR. ARVIND KAPUR – CHAIRMAN, CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR
MR. O. P. AGGARWAL- CHIEF ADVISOR (FINANCE & ACCOUNTS)
MR. SURENDRA SINGH – PRESIDENT & CHIEF OPERATING OFFICER
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 Q1 FY2020 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddhartha Singh. Thank you and over to you Sir!

Siddhartha Singh: Thank you Aman. Good evening everybody. I am Siddhartha Singh on behalf of S-Ancial Technologies welcoming you all to Rico Auto’s Q1 FY2020 earnings conference call. From the management team, we have Mr. Arvind Kapur, Chairman, CEO and Managing Director, Mr. O. P. Aggarwal, Chief Advisor (Finance and Accounts), Mr. Rakesh Sharma, CFO, Mr. Surendra Singh, President and COO, Mr. Sandeep Rajpal, Vice President, Marketing and Mr. B. M. Jhamb, Company Secretary. May I now request Mr. Arvind Kapur to take us through his initial remarks subsequent to which we can open the floor for question and answer session. Over to you Sir!

Arvind Kapur: Good evening. My name is Arvind Kapur and along with my colleagues good evening to all of you. We first must apologize, we are about running 15 minutes late, our board meeting got extended and so we were little late in actually filing and sending all the information to the stock exchange, etc.

Having said this let me start with, if you look at the general scenario here the auto industry is going through quite a bleak face, the market is down and the sentiment is also down and if you look at whatever is reported in the press, the performance of various companies, all the car companies, all the motorcycle companies, the tractor companies, commercial vehicles and the two-wheelers are all down at the moment.

We at Rico, the budget for this year we are going as per our budget. In the first quarter we could not achieve the budget that we had projected and this is primarily because everything is in a chaotic situation at the moment.

Having said that at Rico this year, if you compare quarter to quarter, fourth quarter of last year and the current quarter, our sale has gone up by about 3.6% and this is primarily because of the new components that have been introduced, new customers that have been introduced and also despite the fact some of our main customers like Hero and Maruti were down.

In the case of Hero we could retain the sales that we have done to Hero in the last quarter and also what we had done in the first quarter last year. We have actually exceeded that despite the fact that Hero was down by almost last month the impact was 20%, 21%, down and that was possible primarily because our people, our teams could actually get a larger share of business, larger share of the materials that we are supplying to Hero so we have been able to retain that and despite the downturn we have been able to maintain not only our share but exceeded our total



sales from the previous quarter and also the first quarter last year. If you look at the other customers like Reno, in Reno also our sales has gone up.

I am sorry, we got disconnected, there was a cross connection. I will start with, I was at Reno, Reno despite the fact that Reno did not perform well in India, we were fortunate because of the platforms being common with their platforms in Turkey and Brazil and Morocco and other places. We were able to pick up a lot of the export orders for the same component we were supplying in India and so hence our sale to Reno has also gone up more than whatever it was last year it went up by almost 5%.

In the case of Hero our sale went up by 12% compared to the last quarter and the case of Reno our sale went up by 5%. In the case of Maruti our sale has come down, but our share of Maruti is about 6.5% of our total or maybe around 6% of our total sales it came down by about 24% in the case of Maruti, but we are fortunate to cover up a lot as far as the other customer is concerned and if you look at our exports they have gone up, our exports to BMW and GKN they have also gone up and the new customers that we have added where the supplies have started now, one is Kia and the Reno for export, of course that is the positive for this year. BMW has increased, GKN the ramp up has taken place has further increase in volumes and the TSA and the Greer are the other customers that we have added.

Greer the production will start by the third or the beginning of the fourth quarter, but TSA it has started, GKN has started ramping up, Reno exports have already started, the Kia is the big increase that will happen this year, but the production had just started and I think the ramp up would start taking place within a month-and-a-half to two months onwards.

Kia primarily is exporting most of our components were large components that we have send it to them and they are exporting them at the moment and later on of course when they start assembling vehicles in India they start using the components in India as well.

So, if you look at the long-term this year the challenges that we would have is one is Maruti. Having said that there are new components because this year I think we all aware that BS-VI would also kick in by the end of this financial year on the April 1, 2020 and so the production would start somewhere, in some cases in the third quarter, in some case the fourth quarter of this year, so that is the challenge that we are facing a lot of investments in dyes and it is open that is taking place for the BS-VI vehicles and we are hoping that there would be a prebuy, so BS-IV will also sell and then BS-VI takes over ultimately. So the challenge is Maruti this year of course in that case also, in the case of Maruti also lot of BS-VI components are kicking in, but most of the production in case of Maruti is starting in the fourth quarter of this year. Tata and Tata Cummins are also low and these are the challenges that we have at the moment.

As far as our profitability is concerned, despite the fact that the part of our plant was not in operation as far as Maruti is concerned and some other customers Cummins and Tata were concerned our EBITDA came down by 0.8% and we would have done much better in case

everything was gone, but having said that we would be able to cross whatever we did as the best that we had done in the last year.

Our second quarter and third and fourth quarter are pretty aggressive and aggressive based on the new customers that we are adding, the new components that we are adding and also the current projection that some of the customers had given us, which have been discounted to quite an extent and besides that our exports are going up. Export this quarter we crossed 70 Crores and last quarter it is 62 Crores, so it has gone up substantially, it is almost about 15% and this year I think our exports will go up by 15% to 20% that is what we are targeting and there is further new businesses, which have been nominated partly are because of the Bharat Stage-VI component in case of Hero, in the case of Cummins also, Kia of course besides the block the orders for which we have already received. There is a new block being finalized and that would also add to about 85 Crores turnover per year, but that would start from next year onwards. The total program life of the new components we have picked up this year in this first quarter is close to 480 Crores.

Then there is a replacement business, some of the old components have become obsolete because of BS-IV and new components have come in, that replacement business is to the extent of 215 Crores that includes the Cummins and BMW. These are the new programs, which are coming in and new program, which are kicking in.

There are further discussions, which are on with companies like Maruti, GKN, Volvo, Toyota and Cummins. The total program life of those businesses is about close to 750 Crores and per year comes to about 140 Crores. I am not saying that we will then order them, but we are fairly close to closing these businesses.

The other disruption that might take place is that people are talking about is electric vehicle and we have started supplying components to various customers for the electric vehicle that they are manufacturing either in Germany that is BMW and/or France and Reno in India. We are picking up more and more components in the electric vehicle as well as the hybrid vehicles. The unfortunate part today is that the volume is not very large as far as the electric vehicles are concerned, but the hybrid the volume would be fairly large and we are hoping that we will get into both the hybrid as well as the electric vehicles. So we are looking at a substantial increase in our sales. The investments are taking place for the newer customers, but we are also shuffling the older equipment into the newer projects, which are coming in so that we can utilize our equipment better than before, manpower is also being more rationalized and more automation is also being done in the system I think that is what I have to say.

There is another component we have built up, which has become mandatory as we have mentioned this last time also that is the CBS that is the combined braking system for two-wheelers it is compulsory for vehicles, which are 125cc that is in full production now and I think 60% to 65% of we meet the requirement of Hero. We have expanded our engineering capabilities and automation capabilities in all our plants, we are expecting further to meet the ongoing customer **new sect** and new car components, which are coming in. That is what I have to say and I am open to questions.

- Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Bharat Gianani from Sharekhan. Please go ahead.
- Bharat Gianani:** My first question is that we have seen a very sharp increase in the depreciation expenses in this quarter, so it has gone up from like 14.6 Crores to about almost 19 Crores, so it is pretty much a very huge jump, so what is the reason for that if you can just highlight?
- Rakesh Sharma:** The reason for increase in depreciation is basically we have capitalized FX worth around 135 Crores last quarter and this quarter also around 28 Crores of capitalization is there, this equipment is like we have been telling in earlier conferences also, this is for new capacities that we have been building, and some of the components have already started production. So depreciation is on that account basically.
- Bharat Gianani:** I am saying this depreciation is sustainable because it is further capacity addition right?
- Arvind Kapur:** Yes this is capacity addition, the new investment we had done last year and also the capacity addition we have done this quarter.
- Bharat Gianani:** And Sir my next question is that we had a very aggressive revenue guidance target for FY2020 and obviously things have changed pretty much if you see last three months the domestic OEMs virtually kind of showing a double digit kind of design even if you see the numbers of July also there has been a pretty much deep drop, so in such a scenario your revised growth guidance if anything you would like to comment on that?
- Arvind Kapur:** See there is a slowdown like I started with that, but we are hoping I think from the next month or month after that onwards there would be a change one is of course it is a festive season and the other thing that is the prebuy that might take place and because of the Bharat Stage-VI and Bharat Stage-IV vehicles. All the customers are down despite that like in Hero we have been able to maintain whatever we had budgeted and we are right there and with Maruti we are down, with TCL we are down, with Tata it is down, but our exports are doing better and fortunately we are there. So we had given a guidance, our target is FY 2020 - 2000 Crores that is what we had said, but to be honest with you we should be between 1900(+)/(-)50 I think that is where we would end up.
- Bharat Gianani:** And Sir just last one from my side, what would be the export contribution total in our consolidated thing as of now?
- Arvind Kapur:** Turnover or profit?
- Bharat Gianani:** No, no, turnover export contribution.
- Arvind Kapur:** Yes, export last year was 29% and this year I think would be around 30%.
- Bharat Gianani:** Fair enough Sir. Thanks Sir. All the best.

Moderator: Thank you. The next question is from the line of Raghu Nandan from Emkay Global. Please go ahead.

Raghu Nandan: Thank you Sir for the opportunity and thank you very much for the comprehensive introduction and explanation. Sir again going back to where you started from, what has changed in the business environment in recent months and can you share your insights as to how you see things panning out over the next few months?

Arvind Kapur: We have been talking about quite a while and we always keep on hoping that the next month would be better than the previous month and internally we thought that June to July onwards the market should start seeing an upturn that is what we had thought, but it appears that in July we bottomed out the lowest level we have ever reached and we are hoping that this is the bottom and now onwards it should start growing and personally if you ask me the aspiration of people to buy a car does not die that is still there and at the moment the financing is one of the major issues that is in front of the customers who want to buy cars and Hero is seeing more customers, Maruti is also seeing more customers walking to the showrooms and now the thing is to get them converted into the actual sales. So all this is happening and what we feel is that August or September onwards I think the U-turn will take place the market should start improving and I do not think we can go lower than whatever has happened, but we have factored not a major growth and all the current customers, the growth we factored is all the new customers and other customers. So as far as the Rico is concerned we are hoping to achieve it 1900+50 Crores that is what we are expecting, but the market is going to be tight for a while and still the financing actually comes in, that is the domestic market. Having said that we have picked up many components for Bharat Stage-VI the components we were not making earlier, so that will add to a turnover as well, even with the current customers, their sales are lesser than before, our turnover with them would be similar or will be the same and or exceed whatever we did last year for them.

Raghu Nandan: Thank you Sir, thank you so much, that was comprehensive. Sir on exports company has been successful in increasing the share of revenue from exports how do you see the potential here over the next three to five years?

Arvind Kapur: See our focus is exports and if you look at the total Indian market of auto component we are just about under 2% or 2.5% of the global market, and the opportunity that we have overseas is much greater than the opportunity we have here in India. We have tremendous opportunities in India, but the opportunity is greater overseas. So our focus is in the overseas market and our target is that we should take this export from 30% to 50% of our total turnover that is what we would like to achieve and our focus is on that, our commitment to the customer is in that direction and we have been designated as preferred suppliers to some of the major OEMs overseas.

Raghu Nandan: And Sir coming to the margin side, the company has been taking initiatives to support margins led by a better mix, headcount reduction, other cost reduction efforts like productivity improvement can you give some inputs on progress of these initiatives?

Arvind Kapur:

Yes some of the major action that we have taken is one is to improve the productivity on the current lines that are adjusting so if there is a line of 15 machines in one line our target is how can we takeout 15% to 20% of the machines on the line that means that you are increasing your productivity by 15% to 20% so that is very clear that we have been successful and couple of lines and we have done it I think over 15 lines or 16 lines, but we are visiting all the production lines to see where all we can save, our capex is reduced and we utilize the current capex to the maximum extent and this also helps us in using the manpower cost. Today we have close to 4880 people employed in the whole group, our target is 4800 people with a growth of almost about 18%-20% in various plants, in some plants it will be more. So that is what our internal target is and that would per manday the turnover will be higher than by all is about 25% from last year. So that will be better utilization of manpower that is when the line come into production, but the other side is that if you look at the lines we are setting up for Toyota and some of the other customers major customers like BMW, they expect us to train and hold people 5 to 6 months before the production actually starts. So that actually pulls us down, but anyway that is part of the process and even though we would have increased our productivity in many of the lines and in those lines of course the productivity would improve once the production starts and like Toyota production suppose to start next year onwards and in some of the BMW cases it is end of this year or beginning of next year, in case of TCL and some other customers from the new lines the production start somewhere in January, February. So those are the challenges we have, but those are good challenges to have because we know that those lines will become productive very soon and then as far as power is concerned we are working on the power, we are signing up solar and that should also reduce our power cost to quite an extent and the new plants we are setting up there is a lot of automation, lot of robotics and other things, which are being used, so all that is happening and strengthened our manpower as far as the automation side is concerned so that the implementation is much faster than what we could do earlier. So these are some of the steps we have taken and it is never enough, we need to take more and more steps to become more and more productive and more cost competitive than the others.

Raghu Nandan:

Sir Can you give a broad sense, how is the segment wise margins - ferrous, aluminium casting, exports and also in the new products how the margins are better compared to the conventional ones?

Arvind Kapur:

On the aluminium side the margins are definitely better than the iron side and it is a very mixed bag, some of the export components are having a very good margins and some of the Indian components also have good margins, but the older components which are for the older models that we used to make those do not have major margins, but fortunately with BS-VI coming in many of the components will die and from next day you will find us making only the newer components and that is I think would help us a lot in improving our margins.

Raghu Nandan:

Sir how do you see the content per vehicle increase in the BS-VI and how do you see the EV opportunity, that is my last question. Thank you so much Sir.

Arvind Kapur:

We have been fortunate to get major business from Hero in the two wheeler side for components, which we were not making earlier and BS-IV, but now we will be making them for BS-VI. BS-

VI requires a lot of precision and engineering and that is why we actually come in. So we are happy that we have got those components and in the case of Maruti also in the case of Tata Cummins again we are going to make a lot of components we never made before. So all these opportunities are there, but then running them parallelly investing in the newer machines for the newer components, we are getting new equipment that has become a big challenge these days because we would be freeing a lot of capacity of BS-VI components once we stop making them so we try to see how we can balance out the lines by utilizing the older lines as well as the newer lines. So all these challenges are happening, but it is a good challenge to have and we are happy that we are being trusted by our customers for making larger number of components over whatever we did supply earlier and on the EV front at the moment the volumes are low, some of the exports has surprised us. Earlier the components that we had committed was about say about 55000 to 60000 pieces a year, now those numbers have set off there are five or ten components, those numbers have certainly gone up to 150000 components by year and going up further, so EV we are present in a small way at the moment, but as the volume is going we are deeply involved in developing newer and newer components, these are for the cars mainly. So we are engaged both in the EV as well as the BS-VI components for the future.

Raghu Nandan:

Thank you Sir. Thank you so much and all the best Sir.

Moderator:

Thank you. The next question is from the line of Sanket Sanghvi from Sanghvi Capital. Please go ahead.

Sanket Sanghvi:

I just have two questions Sir. Sir what is the capacity utilization that we have for this quarter?

Arvind Kapur:

What is your second question?

Sanket Sanghvi:

And Sir what is our capital expenditure that we expect for this financial year and what will be the distribution in it?

Arvind Kapur:

The capacity utilization, if you look at some of the components of Maruti there the capacity utilization earlier was 90%, but now it has come down to close to about I think 60% or 55%, in some of the cases where the market is down and in some cases it is even lesser especially the vehicles like, some of the vehicles of Maruti is shutdown, Omni, etc. So they are being utilized for the spare market, but we have started withdrawing machines from the line so that the new capex that we are doing we supplement that with these machines that we pickup from the older lines, so this is one of the actions that we have taken and if you look at Reno and others despite the fact that the domestic market is down we are investing to almost triple the capacity of the component triple to even quadruple the capacity for exports and we are doing it in a war footing because we have already started picking up the material for the export market and so we are making further investments for that customer. So it depends on customer-to-customer how the capacity utilization taking place. In the case of Tata's there is absolutely collapse, there is no pickup at all so we are diverting those capacities into newer components that are coming in. So it is a mix, now if you look at the export market almost all the lines are working on full capacity

and in some cases we are enhancing our capacity to meet the increase in volumes of our customers, but in the domestic market Tata's is down and commercial vehicles are absolutely off.

Sanket Sanghvi:

Sir what about Hero?

Arvind Kapur:

Hero I mentioned despite the fact Hero is down by 20%, 25% even this month, we have been able to supply a larger share of the business, Hero has 2 to 3 suppliers for the same components. So what we have been successful is getting a larger share of the business from Hero and I think that is where good quality component pay and that is when the customers also decide to have more dependable sources. So we have been fortunate there, our turnover is not down with Hero and in fact we have grown with Hero.

Sanket Sanghvi:

And Sir could you just help me out with the capex number?

Arvind Kapur:

Yes, Capex the initial investment this year was 135 Crores, but now we have revised it to that is because some of the capacities, which are not being utilized those have been diverted. We are reviewing actually on a monthly basis and from 130 we came down to 120 then now we are at 112 and out of which 75 is for capacity enhancement then I think two or three is for the building and about 24, 25 is for maintenance capital. So this is the broad distribution, total is about 112.

Sanket Sanghvi:

So basically from the commentary that I have heard we are mainly focusing on export business rather than gong for the domestic one right?

Arvind Kapur:

No, we are focusing both, our preference is for export business, but we do not leave business whether it is a domestic business or export business and now with the global platforms were taking place even the domestic business turns out to be export business because you are actually bidding for business to be made in India as well as also to be exported and since made on a common platform in Turkey and/or in Brazil the same component get exported also. So we bid for both but we prefer direct exports in any case.

Sanket Sanghvi:

Thanks so much Sir. Thanks for your time and all the best in the future.

Moderator:

Thank you. We have the followup question from the line of Bharat Gianani from Sharekhan. Please go ahead.

Bharat Gianani:

Sir just one question in Q1 FY2019 we have delivered a revenue growth of about 5% crystallization on a Y-o-Y basis. So I just wanted to know there is a breakup between the domestic and the export, so export has grown by what percentage and domestic if there is a decline on a Y-o-Y basis?

Arvind Kapur:

In fact both group if you look at Q4 to Q1 this year.

Bharat Gianani:

Sir if you can give me Y-o-Y from Q1 FY2019 to Q1 FY2020.

- Arvind Kapur:** Q1 FY2018 was 270 at domestic market and the domestic market went up to 299, and the export there is a slight difference from 83 it is come down to 70, but factually the export has gone up because earlier last year when we were exporting we were shipping direct to our own company in US and/or in Germany. Now we are sending for them on timely basis directly to the customer and that if you put that consignment the material that has been dispatched from here and also we were close to 90 Crores that would what have happened. Only thing is for accounting purposes the consignment, which goes in as a consignment is taken as stock.
- Bharat Gianani:** So that thing has made a difference of 20 Crores.
- Arvind Kapur:** That made a difference of more than 20 Crores because the export has gone up factually the shipment that has taken place from the plant has gone up, but for the accounting purposes that could not be captured here, but that will get captured over time.
- Bharat Gianani:** So if we exclude that adjustment that you are saying, so domestic market then would have been seen a drop, so if you can quantify what is the drop from there?
- Arvind Kapur:** The domestic market has grown now from 270 to 299.
- Bharat Gianani:** But so then in 299 we have an element of that adjustment of export that we now include in the domestic?
- Rakesh Sharma:** As far as domestic sale is concerned that is intact so that is nothing to do with consignment basis, what MD wants to explain is that consignment sale was not there in the first quarter last year, this time it is there, so that 20 Crores had that been exported in the way we were doing in the first quarter of 2018 it would have increased our export figures. Now it is lying in our stocks, which will get realized.
- Arvind Kapur:** Despite that if you look at the total turnover we have increased our turnover by 4.5% total of export and domestic which are bind up together increased by almost 4.5% to 5%. We have taken the consignment sale also in to this our turnover could have gone up by almost 12% to 13% actually.
- Bharat Gianani:** That was one thing I wanted to understand. So thanks so much for your clarification and all the best.
- Moderator:** Thank you. The next question is from the line of Aswini Agarwal from Ashmore. Please go ahead.
- Aswini Agarwal:** This question that the previous participant asked and your explanation about consignment sales is it something to do with Ind-AS that you cannot recognize consignment shipping?



Arvind Kapur: Earlier we were shipping to Germany and to US to our own companies that the Rico Auto Inc., 100% subsidiary of ours in US and Rico auto in UK and from there we were billing to the various customers and subsequently what happened was in the US we were selling under GSP.

Aswini Agarwal: Generalized System of Preferences.

Arvind Kapur: Preferences and there was no duty on there. Now what has happened is that they were more than 2.5% and even in Europe they are charging 2.5% they have reduced that so that was coming on to us. Now with the consignment now they are paying the duty done. So we wanted to pay that 2.5% rather than shipping to our own companies there. So now we ship the goods from here, the billing takes place the day they pick it up from there. It lies on the warehouse there, there the billing will start taking place only when they pick up the material from there and so earlier we would just bill our company so we would book it as a sale right from here as an export, but today we ship it, it lies in the warehouse the day the customer picks it up that is the time the billing takes place and that is when the sales also come into our book. So we have factored it made the material and we have ship the material.

Aswini Agarwal: So this is actually in some very weird way it is a destocking of sales if I were to think about it. So sales were being booked but end customer was seeing the sales later and now you are seeing only end customer sales, so to that extent the year-on-year comparison number does not reflect the reality, which is about 13%, 14% revenue growth?

Rakesh Sharma: Yes, you can say that partially yes because earlier it would have been shown in the export itself when we ship it from here. While now it will reflect in stock for sometime till the time customer picks it up and then bid for, but in consolidated sales there is no impact because in consolidated it was eliminated. In standalone it was reflecting as exports.

Arvind Kapur: Yes, in standalone, but in consolidated of course gets eliminated. Secondly if you look at it in the larger picture we have been doing this for almost about right from I think about 15 years now so that we are acquired to maintain 30 days stock there and that is in our warehouses and we are supposed the shipment time from Gurgaon factory to the warehouse has also got closer 30 to 35 days. So 60, 65 days is less period and then another it takes 30 days the payment factor is almost 90, 95 days because the customer after picking material gives us the payment in 90 days, the total payment was about 90, 95 days, but the fact that the goods under our control would remain with us for 60 days as 30 days in transit from the sea shipment that required from sea and the train shipment that is required from our plants to the warehouse and from warehouse to the customer. So this has been carrying on for 15 years so this has become a part of the system. Now all of a sudden we had to change it rather we were losing 2.5% duty that was being charged by the customs authority there that customer it does not make a difference now because they pick it up they pick 2.5% duty they get a refund whenever they export any vehicle or anything from their country so they get a refund in any case.

Aswini Agarwal: Sir in a more strategic basis you earlier to response to a question you spoke about all the efforts you are making towards more efficiency, automation, reduction of manpower, increasing

productivity per line, etc., so in the auto business how much of these efficiency gains in the long-term gets passed on to the customer versus what you are able to keep?

Arvind Kapur: See, once the prices are settled we have a very clear settlement with the customer with the discount structure in place, the first one year or two years there is zero discount then there is a 1%, 1.5% of discount that they factor in, if I made 5% they are not bothered and of course I need to be competitive that is very clear, but the 1% or 1.5% that we agree that is agreed upfront and that is given to the customer, which is factored in our budget and in everything we factor that, but our attempt is always to gain more than whatever we have got from the customer.

Aswini Agarwal: Thank you so much Sir. All the best.

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

Siddharth B: Sir I wanted to ask you a couple of questions, primarily I wanted to understand in light of the underlying turmoil in the auto industry how do we look at our margin shaping up over the next four, eight quarters or let us say two to three years because that is one of our objectives going ahead, so I just wanted to understand that?

Arvind Kapur: You will see a change from what is happening is that this last year we invested almost close to 160 Crores and though the capacities are started now producing in most of the cases this year we are investing 112 that is the target, but we are monitoring around a monthly basis to fine tune whatever the least we can actually invest. From this quarter onwards you see the margin changes because of better utilization. For us of course the efficiency and other those are ongoing things that keep on happening here, but now the challenge for us is to utilize the equipment and start producing the equipment and more we produce better the margins like you are seeing major change coming in this quarter you see even a more positive change coming in the third quarter and then the fourth quarter we have already done budgeting and we will surprise you with the margin that we would get from the equipment that the investment that we have made.

Siddharth B: Sir my next question is we were also looking to monetize some of our un-utilised assets so what is the progress on that?

Arvind Kapur: What the assets that we monetize are basically land bank and you know what the real estate market is, so we are hoping and wishing that the market improve, but having said that we have started preparing all the documentation, etc., and all the documents, which are required for whenever the sale actually fructifies, so we have already started preparing so that our paper work is absolutely ready, but we will obviously like to get the best price for the company and let us say we are getting ready for it, but let us hope the market improves, which it does not seem like it will improve in the next at least one year to two years, but we are taking steps in that direction.

Siddharth B: Are we in talk with anybody as of now for doing that?

- Arvind Kapur:** No, at the moment we are doing our homework to get all our paperwork right and the papers, which are missing and we get those and this and that, which is to be corrected in the corporation so all that is happening and I think that should be over it will take us another two months or three months to do that and thereafter we are going to start taking some steps.
- Siddharth B:** And do we have like a ballpark number in our mind because trying to get the right price is a never ending process?
- Arvind Kapur:** The thing is that it is not only based on the market price around, but since we have a very good land bank we would like to put around option or something and try to see how the bidding because we are going to give a very clean piece of land that is where a huge piece of land that we are going to get and so we will get the best price that is for sure.
- Siddharth B:** And any timelines we can attach to this as of now?
- Arvind Kapur:** I hope that the market grow within a year; year-and-a-half and then we will push it so that is where we would like to do it. The transfer of equipment that is required to be done from that premises. We have by and large already planned it and in some cases we have already done it and so we are in that board and we will have to fast track it once that is something when there are light at the end of the tunnel.
- Siddharth B:** Thank you so much for answering my questions.
- Moderator:** Thank you. The next question is from the line of Mukesh Modi from Modi Fincap. Please go ahead.
- Mukesh Modi:** I think a couple of questions have already been asked by my previous speaker. Now what I want to ask you Sir about our after sale target, which we had around 200 Crores are we on track to that figure?
- Arvind Kapur:** The target for this year we have kept is 100 Crores and we would like to achieve 200 Crores over the years, but let me tell you we are far off from the target, the aftermarket scenes were just crashed, normally we would think that when the OEMs are not doing well when the new vehicles are not selling the old vehicles would actually start selling more, and the old vehicles obviously require replacement of components, etc., and we though the aftermarket will pickup, but what we find is the aftermarket is crashed even more than what the OEMs and how the OEMs are come down as far as sales are concerned, so that has really surprised us and a target of 100 Crores I don't think we will be able to achieve it, it is a total collapse that has happened. We are working on it, but achieving the target would be very, very difficult, this year's target.
- Mukesh Modi:** And Sir last time you told that one of the reasons for decrease in the EBITDA margin was employee and manpower cost, so this quarter also it has risen, so this run rate is okay we can count on this run rate?

Arvind Kapur: Se there is two, three reasons why the manpower has risen, the main manpower increase that has taken place is primarily I am talking of in the engineering side, we have strengthened engineering because now we are talking to companies like Toyota and others who require lot of engineering inputs and the robotics, the automation that we are doing, these are some of the areas we have added a lot of manpower there. Our production manpower has gone up, but that is to the extent of the new lines and the new plant that we have set up, which have come into production next year, but we were acquired by Toyota and other customers to install the equipment now. We have installed the equipment, we are running the equipment on trial basis and giving samples, etc., but the two products start production from next year onwards. So that is why you will see our manpower going up, wherever the new projects being introduced the startup production time is three to six months before the manpower start getting utilized. So this is the challenge that is there, that is a part of the user training, etc., for the manpower, which is required for our shop floor. So we are working as the turnover start increasing you will see the manpower drop.

Mukesh Modi: And Sir now what about Magna Rico and Rico Jinfei statuses, where we are in this year, how we are planning about them?

Arvind Kapur: Magna Rico is now Rico Fluidtronics, the turnover of the company this quarter was 20.61 Crores and the EBITDA was 16.5% and the PBT is 11.6% in Rico Fluidtronics that is the new name of Magna Rico and the Rico Jinfei last quarter we made a loss but this quarter we have the turnover 33 Crores despite the downturn and the EBITDA is 11% and the net margin is 6.6%. No, it's a typographical error, the figure is 0.6%. So we have returned positive in Jinfei also.

Mukesh Modi: Okay we are starting making money on Jinfei now?

Arvind Kapur: Yes.

Mukesh Modi: I think that is all from my side. Thank you very much and wish you all the best Sir.

Moderator: Thank you. The next question is from the line of Nishit Shah from Edelweiss. Please go ahead.

Nishit Shah: I had a specific question with respect to gross margins so in Q1 FY2019 our gross margins were around 47% and in Q3 they drop to 44% and in this quarter as well it is around 24%, so could you attribute some of the reasons for the same?

Arvind Kapur: There is a one miss of component, which has changed slightly. There is a combined braking system that I mentioned earlier also that we introduce that is CBS it is basically collecting the parts and establishing them, our contribution is minimal and mainly it is being a safety component this was thrust upon us even though we told them that it is only something we do not do, we do manufacturing of that anyway. So this component we are supplying almost I think 65% to 70% of the supply and the margins where the material content because everything is bought out and it is directed by the customer. The material content is almost about 89% and being a safety component for the first year we do not want to change anything because there should be no new design component and now our teams have started looking for how to reduce the cost of

purchase that we have from our suppliers and we are confident that we should be able to bring out from 89%, our target is 80% raw material in this particular component because the customer also know this was totally assembly that we are doing and everything we bought out directly by the customer whereas the other component we manufacture ourselves we buy the raw material ourselves, we do the manufacturing ourselves, it is all our control and there raw material is much lower. So this has actually changed everything if you look at the overall picture, but having said that we are determined to get back to 47%, 48% you will see that possibly in the third to fourth quarter.

Nishit Shah: Sir basically you have been supplied materials from Hero, is that correct, the material is being supplied by the OEM?

Arvind Kapur: I will tell you. Earlier it was coming from OEM then they directed us to pick up the material from them this is one and number two there is another change they brought about both after the GST introduction took them a while, but finally they had to do it because of GST. Maruti Suzuki we make the oil pumps, the gears they were supplying to us free of cost and we were just assembling and send it back and so it was okay the material cost would never come in. Now we are buying the material by supplying it and giving it and they know the price so we cannot clear on this, same thing with the clutch gear so these are some changes that took place because of GST etc., but anyway that is a good challenge, our goal is to come back to the old glory and we will do that.

Nishit Shah: And what proportion of the revenue is CBS contributing?

Arvind Kapur: 47% margin.

Nishit Shah: No, what proportion of revenue is CBS at this point of time in this quarter?

Arvind Kapur: It is 20 Crores sales.

Nishit Shah: 20 Crores is CBS and are we expecting this to grow?

Arvind Kapur: So 20 to 25 Crores per quarter.

Nishit Shah: Another broad question would be with respect to the auto slowdown so if we do not expect the slowdown to pickup from Diwali onwards so what would be a worst case scenario in terms of revenue for the company?

Arvind Kapur: Let us hope there is no further slowdown, but anyway one direction we have taken is to export and either margins are better and that market for us is growing because of the new component that is happening and even on the domestic market we have picked up newer component from Kia and other I had mentioned earlier the Kia and TSA and also Reno for export so all these component have also come in and if there is a further slowdown with Maruti, Maruti I think is what we are supplying is the lowest we have ever supplied I do not think we will go lower than



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this and Hero case also fortunately we have been able to supplement by taking a larger share of the business and that is what we are pushing in and now if there is another 20% dip in turnover with these customers that obviously will impact us also.

Nishit Shah: So our normal guidance would be around 1900 Crores as you stated earlier that will remain our guidance if everything goes well from Diwali?

Arvind Kapur: Yes.

Nishit Shah: Thank you. That is it from my side.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to Mr. Siddhartha Singh for closing comments. Thank you and over to you Sir!

Siddhartha Singh: Thank you all for joining in the conversation and that is it from today's conference call from Rico Auto.

Arvind Kapur: Thank you so much everyone. Thank you for participating.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Rico Auto Industries Limited that concludes this conference. Thank you all for joining us. You may now disconnect your lines.