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Sub : Transcript of Conference Call held on 17th February, 2021

Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 17th February, 2021 with the Investors.

This is for your information and record.

Thanking you,

Yours faithfully,
for **Rico Auto Industries Limited**



B.M. Jhamb
Company Secretary
FCS : 2446

Encl : As above



“Rico Auto Industries Limited
Q3 FY2021 Earnings Conference Call”

February 17, 2021



MANAGEMENT: **MR. ARVIND KAPUR – CHAIRMAN, CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR**
MR. O.P. AGGARWAL- CHIEF ADVISOR, FINANCE & ACCOUNTS
MR. SURENDRA SINGH - PRESIDENT AND CHIEF OPERATING OFFICER
MR. RAKESH SHARMA – CHIEF FINANCIAL OFFICER
MR. SANDEEP RAJPAL– VICE PRESIDENT, MARKETING
MR. BM JHAMB – COMPANY SECRETARY

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



*Rico Auto Industries Limited
February 17, 2021*

Moderator: Ladies and gentlemen good day and welcome to the Q3 FY2021 Earnings Conference Call of Rico Auto Industries Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to the Mr. Saurabh Bhave from S-Ancial Technologies. Thank you and over to you, Sir!

Saurabh Bhave: Thank you. My name is Saurabh Bhave. On behalf of S-Ancial Technologies I welcome you all to Rico Auto Industries Limited’s Q3 FY2021 earnings conference call. From the management, we have Mr. Arvind Kapur – Chairman, CEO and Managing Director, Mr. O.P Aggarwal- Chief Advisor Finance and Accounts, Mr. Surendra Singh, President and COO, Mr. Rakesh Sharma, CFO, Mr. Sandeep Rajpal – Vice President Marketing and Mr. B.M. Jhamb – Company Secretary. Now may I request Mr. Arvind Kapur to take us through his opening remarks subsequent to which we can open the floor for Q&A session. Thank you and over to you Sir!

Arvind Kapur: Good evening. My name is Arvind Kapur. I am sitting here with my colleagues in Gurugram. I also have Mr. Sethi and Mr. Jhamb who are also here in the room along with Mr. Rakesh Sharma, Mr. Sandeep Rajpal, and Mr. O.P. Aggarwal.

This quarter has been good and by and large the auto industry had been faring very well. The tractor industry has done exceptionally well and the two-wheeler industry is showing ups and downs, but the car industry is doing exceptionally well. The commercial vehicles have also picked up and so by and large there is a lot of pull in the market. At Rico Auto also, we have consolidated revenues from last year third quarter to this year’s third quarter, we grew by almost about Rs.100 Crores and from the Q2 and the Q3 of 2021 we grew by about almost Rs.47 Crores.

We fared better. In terms of the premium freights, the last quarter as we had mentioned that we would be touching a figure of about Rs.13 Crores and we actually spent about Rs.13.5 Crores and that 0.5 Crores of extra maybe because of the availability of the containers coming on time, number one. Number two, the ships, which are sailing from here, they are not touching the ports on time, and all the shortages of containers and also the ships bypassing ports is happening and because of that we had to send about Rs.50 lakhs extra than whatever we had budgeted for the Q3.

For the Q4 we had estimated that we will not be spending any money at all, but we have done a capitalization that is both pull from the market for the exports, we would be in the region of about Rs.4 Crores to Rs.5 Crores that is what we are estimating would be the expense that we will be doing on premium freights. That is what probably the last and we are hoping that even if there are shortages of containers, we would have shipped enough materials to maintain stocks there so that if at all there is any scheduling change by the shipping companies that does not impact our shipments from here. We have factored Rs.5 Crores, but hopefully we will not be spending so much, but this is what we have factored for the Q4.

The run rate that we have today, by March we should be crossing whatever sales we had done last year. This is despite the Q1 being almost a washout and the run rate that we have today is close to about if you look at this quarter's turnover that we have we would be crossing Rs.2000 Crores next year definitely and the market seems to have a lot of pull in the market and we are hoping that this will continue for a longer period and with the vaccine coming in I think there is more confidence that is coming in but the other side is that there are also rumours that there could be another wave of COVID that could hit India. We are hoping that we all remain healthy and remain safe and remain away from COVID so that there is no lockdowns which come in again into the country, which would be very damaging for all of us.

The exports have also been good. Our exports this year is close to about Rs.111 Crores in this last quarter and the market is growing even further and we are shipping more and more. Of course the challenges of containers are always there, but we are managing to produce more and ship more. When the premium freights come in, when the air freights start coming in, we had a choice last year rather than spend money on the premium freights we could have actually taken advantage of the COVID situation, we could have told our customers that sorry we cannot ship, because of the COVID situation.

It is a force majeure and the customers had also written letters to us on force majeure that they may not be buying enough, but looking at our relationship, the customers like BMW and Cummins and GKN we thought it right to ship the goods, since their requirements were there, and rather than not ship the goods, and we have been in relationship with BMW since 2006 and our shipments have been up, our business has been since 2008 with them and we would have lost this relationship, because of this extra effort that we have put in, we have been awarded new businesses from both GKN as well as BMW and that was a confidence that we should actually build with our customers that we are there for them. We were happy that their requirements were there, but unfortunately because of various situations which happened here, one is of course the migration of labour that where we got stuck a little and number two the change of labour, the training of the new people, all this consolidated and that resulted in a lot of air freights that we had to do.

By and large, we are out of it now. It is only the emergency that actually takes place and hopefully that would be the last quarter that we do the premium air freights. Next year the turnout we are expecting is above Rs.2000 Crores. The profitability would be better primarily because the air freights will not be there, then besides these premium air freights there was a lot of extra manpower and the extra equipment and extra resources that had to be put in because we wanted to get out of the air freight situation as soon as we could and so as a result of which our cost of production actually went up and now since normalizing we will see one is of course the premium freights getting out of the system and also the costs of productions coming out, our manpower costs will also come down from the previous year and we will also find the other costs better utilization of equipment, etc., for the coming years.

We have been compensated by some of the customers and we are still talking to them and I think in about two month's time the travels will also start from here to Germany and etc., and we will

be talking face-to-face with our customers and discussing to what extent they can compensate us. We have been compensated with some of them and in some places, they have adjusted the peak prices and some places, they have given up the compensation, but in many cases we had to bear the cost of the premium freights. The commodity prices have been going up for the last almost six, eight months now and in fact, there is the profitability this month, if I take into consideration the commodity composition that we would have got, the profitability would have been even higher because there is always a lag of in case of all the customers, most of the customers is three months, all the customers, in case of Hero it is one month and Bajaj it is one month, but in case of Renault it is six months lag that we have and that is going to have a major impact on the profitability but it takes almost a six months' cycle to recover most of the commodity price increases that the compensation has been exceptional. We are talking to Renault and we are pursuing them to compensate us for the commodity prices in this quarter rather than giving us an average of six months which they normally do.

Commodity is one thing that is hurting us at the moment. Profitability would have been better by at least about 2% if the commodity prices and we are compensated in this quarter. That is what I had to say and I think I will open it to questions and answers.

Before the question comes in on the capex front, I would like to say that we had said that our capex would be in the region and it is normally the depreciation that would be normally spent and this year the spend would be about Rs.10 Crores more than the depreciation primarily because Maruti, the investors we had thought for making a Maruti in the next year that is in the month of May, June and July they preponed their requirements and so we were required to make urgent investments for the Maruti lines and the productions have already started, the equipment which came in the utilization started immediately. So that is on the capex front. Next year we are expecting the growth is primarily from the side of Toyota and if you look at the total businesses that we have got this year, that is financial year 2021 the total business we have received per year is Rs.363 Crores this includes from BMW, from GKN, from Maruti Suzuki, and Toyota, and Caterpillar, Knorr-Bremse this is only for financial year 2021, I am talking of these 10 months and the total business that we acquired from 18 to 21 is about almost Rs.8000 Crores and annualized basis it turned out to be almost Rs.1308 Crores a year and out of it about Rs.355 Crores would be replacement, replacement has all been implemented and that has already replaced the current businesses. Many of the businesses have started, but most of them would start from 2022 onwards. Like Knorr-Bremse we would be starting now. BMW of course is ongoing. Renault has new businesses. Maruti Suzuki they have preponed a lot of their businesses that we were going to start delivering from next year and Greaves and Cummins all these are new businesses, which have already started. Toyota would be starting by the end of next year but the investments would start coming in somewhere in the month of May for Toyota. Tata is we have added more business of Tata as well including Volkswagen and Daimler. These are some of the new businesses that we acquired this year.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Sachin from HDFC Bank. Please go ahead.

- Sachin:** Congratulations for a good set of numbers. Just a small query on premium freight you are talking about. As we remember from the last call, there was a cost of Rs.5 Crores in Q1 and then 18 Crores in Q2. Just want to ask first thing, what is the cost in Q3 and the premium freight just because of nonavailability of containers and the shipping or is it because of the quality or the teething issues that we faced for any components that were exported? Thank you.
- Arvind Kapur:** Like I mentioned it was a combination of one is manpower, which has migrated. These are the people who are coming from Bihar and UP and other places, the trained manpower that we had so new manpower had come in and so we had the quality issues because of the new manpower that we were required to hire to meet the customer requirements. That is one. The shipments, of course is a big challenge these days and it has been a challenge for last couple of quarters now and the freights have gone up dramatically and getting containers is so difficult, and normally it would take us five weeks, I am giving you an example, shipments from here to Europe it takes us normally five weeks to six weeks for the containers to reach there, this is from India to the country and these days it is taking us almost 8 to 10 weeks and many times they skip the ports. Last week what happened there were 12 containers on two vessels and both these vessels bypassed the port and to meet the urgent requirements we had to make adjustment immediately so that the lines do not stop. Since we are single sourced suppliers to our customers in Europe and in America, so we need to have the lines running at any costs, so that is what is our obligation is and that is the least they expect from customers like us. Of course , if we stop the lines, they do not say that Rico is bad, they say that the Indian suppliers are bad. That is obliging, and that is the main reason for our air freights.
- Sachin:** What is the cost that you incurred in the Q3, like Q4 you said it is Rs.4 Crores to Rs.5 Crores?
- Arvind Kapur:** In the last conference call that we had, we had said that we will be incurring premium freights for about Rs.13 Crores. The total we incurred was Rs.13.5 Crores.
- Sachin:** Rs.13.5 Crores in this quarter. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Chandra Govind from Ashmore. Please go ahead.
- Ashwini Agarwal:** Good afternoon Kapur Ji. This is Ashwini here. Decent numbers in a very challenging environment, I suppose. So, two, three questions; like you correctly mentioned the labour costs are a huge challenge because they used to be roughly about 13% of revenues in the past 12% to 13% which is now 15% to 16%. So, obviously it is a function of the retraining and the high turnover and absenteeism, etc., but will it go back to 12%, 13% or will it now remain stable at these elevated levels?
- Arvind Kapur:** Most of the plants were like in Gurgaon the labour cost was touching close to about 14.5%, 15% and in the last quarter, they have actually come down to about 10.5% or 11% that they have achieved, and this current quarter, our target is to come down to 9% there, so we are controlling that labour, we put in, extra labour everywhere, partly because of the fresh labour and partly

because of in Bawal plant where most of the air freights were actually incurred, it was a deferred situation to see that the goods go out, and so we did not want to fall shortage of labour, we did not want to produce less and that extra labour we started removing now and all we are producing more than before at the same level, so all that that is taking place now you see the labour costs coming back to about 13%, 12% that would be the overall average. In some plants it will be less than 10% and some plants will be about 13%, 14%.

Ashwini Agarwal:

Sir, if I just look at the slightly long-term, I mean, two, three years ago when we used to speak, the whole objective was to get to closer to Rs. 2000 Crores, to get exports as a percentage of revenue to 30% or higher and therefore move your EBITDA margins which was stuck in single digits to 12% or maybe even 14%. Do you think that is possible or maybe those kinds of numbers are difficult and we should stay put with same 9%, 10% even in an optimistic scenario because there are things that keep happening sometime material prices go up and sometimes shipping costs go up, labour availability so how do you feel about in the past, you used to be very optimistic about your margins outlook, how do you feel about it now?

Arvind Kapur:

The labour portion was an exception this year because of migration that took place. It does not happen and it has not happened. I have not seen it before the extent of migration. It is almost about 40% to 50% of the labours that went away. There was a time there was only 20% who went, but then when they opened up all the transportation, like how the rail links, etc., all of a sudden there was a drop of another 30%, 40% and so that actually shook everything. So, labour is not a regular feature. This happened as an exception this year. As far as the exports are concerned, where most of the exports are in the region of about 18% to 20% to 22% that is the range that we are normally working on and this year because of the air freight there has been a total loss, but thank God we kept up to the commitments that we had given to our customers and which was very, very important and critical and to give them the confidence that we are there. They knew we were very transparent with them as to what all we were going through including the change of labour etc., and also inefficient running of the plant also because of the new labour that has come in, so we were totally transparent to the customers and thank God we never stopped anybody's lines, be it PSA or be it BMW or be it GKN, we kept all the lines running and the demand was good and we kept the portion good. But we thought long-term and that is the reason we carried on this year but I think the quarter's spread you see the percentages that will come about and I am talking about January, February and March quarter you will see a change that will happen, but next year you will see a dramatic change that will take place. The commodity prices are pass through in any case. The only thing is there is a lag, but this time, what has happened is normally there is a variation of 3%, 2%, 5% as far as the aluminium prices are concerned. This time there is a change of almost 30% and steel prices, rubber prices have gone up dramatically, so that is having a major impact on the balance sheet itself. Now we are waiting for a time when the prices start coming down and then we get advantage of that one quarter or two quarters but that seems to be far away. This quarter again, the prices of aluminium have gone up so there is a lag that is increasing that is what is hurting us at the moment, but this has been exceptional, I think the jump has been there is no reason for and it is not that the demand for aluminium has gone up. I think it is only the investors who have put in a lot of

money in aluminium and in iron and in other businesses where the prices have gone up. Otherwise, there is no reason for the commodity prices to go up to this extent. The other thing that happened was at the time of COVID, lot of shipments from aluminium and aluminium alloys have been done from overseas and a lot of Indian companies here did not honor those contracts and as a result of which a lot of material had to be diverted to other countries, etc., and because of the divergent there was a shortfall of the aluminium in India and therefore the shipments were to restart again and to bring the confidence back into the shippers who are shipping the aluminium from overseas, the traders here would like to come a while before they actually to pay cash payment etc., to take out the materials. So that also led to the shortages of raw material. These are stabilizing now. Now only some things are coming in, our lines are not stopping because of raw material. There was a time, when we had for a couple of bars, the line would stop, because of shortage of raw material. So that phase also we have gone through the importers, there were aggregation of some contract etc., so all that will happen, but that is the past, now things are seeming more normal than before but as far as the prices, pass through there is a lag that lag this time is having a more impact on the modern line than ever before.

Ashwini Agarwal: Sir, you alluded to this swing in depreciation because of Maruti bringing forward some of their programs which required you to make some investments on a very urgent basis. So, this depreciation number which used to be quite stable at about Rs.20 Crores, has now gone to Rs.23 Crores. Now is this a one-off or now it will stabilise at Rs.23 Crores, Rs.24 Crores going ahead?

Arvind Kapur: Normally it is around here only and for Maruti we made an investment which was required to be done in the month of May, June and what they did was they had first announced that the Gujarat plant the expansion, etc., will not take it for a while. Now they have started expanding all of a sudden and they want materials to be shift from here and 1200 numbers if they jump up to 2400 numbers, now they want 3200 numbers, they love this business, we love Maruti's business because the growth and investment takes immediately and then the turnover also will start getting impacted immediately. It is the exports business where invest almost one year in advance and then the turnover comes one year or one and a half years later. In case of Maruti we were very happy to invest for Maruti in advance. So, what I said was that normally we invest up to the depreciation that we have every year Rs.50 Crores, and Rs.60 Crores or Rs.70 Crores that was the investment we normally make and this year we had to prepone the investment that was required in terms of Maruti so our investments would be about Rs. 10 Crores more than the depreciation that we normally have. So that is what I had said.

Ashwini Agarwal: But then why has the depreciation suddenly increased from trend of about Rs.20 Crores a quarter?

Arvind Kapur: That is the capex that we are doing for other customers where the turnover actually comes in much later and sampling, and this and that, small production start, and what the peak of their requirements comes in a year later, so you will see the percentages dropping dramatically next year.

Ashwini Agarwal: But this Rs.23 Crores, Rs.24 Crores will stabilize here on?

- Arvind Kapur:** Yes, around the year only.
- Ashwini Agarwal:** Thank you and all the best.
- Arvind Kapur:** You will see the margin changing this quarter also and also from the next quarter onwards, hopefully everything else will be behind us and we should come back to our normal and even better than normal.
- Ashwini Agarwal:** I am really wishing all the luck because it has been a very tough period for you. So, I hope things start to play themselves out.
- Arvind Kapur:** You said, the signals are good, but they should be much better. We are expecting much better results than this.
- Ashwini Agarwal:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line Jyotivardhan Jaipuria from Valentis Advisors. Please go ahead.
- Jyotivardhan Jaipuria:** One of my questions got answered, but if we just look at the last 3 years, and I guess, you know you do various factors, our plans has not got achieved, and if you look at ROEs, ROCEs, are quite poor, so one way it will grow up obviously is if margins come back to a higher level but is there something you think you need to do in terms of the business plan change it a bit, change of focus on something else, or you are thinking it is fine, because if you look at your competitors, some of them have done much better in the same period.
- Arvind Kapur:** There are lot of changes that we have brought about and we have identified many businesses, which are very old businesses, which we have told our customers that either price increases or we getting out of the businesses. So that action has started and we hope that before the end of March we will have a decision on this and the newer businesses that we are picking up we are actually saying no to the old businesses that are there and there is a clear case that we have built up and given to the customers and Maruti as well as Hero and others we are discussing with them and I guess there will be an improvement in the pricing and/or we will like to defer those businesses. The new businesses are all we are very happy with those businesses and those domestic businesses are at lesser EBITDA. They are at EBITDA about 12% to 14% whereas the export market, those are 20% plus or minus 2% that was the range is normally. Our exports is going up and we are hoping that at the moment we are at about direct export is about 25% to 30% that is the range that we are in, but the indirect export, when I say indirect export those are the exports which we work on directly earlier, but now the consolidation is taking place in India and when the companies are shipping out so it is through that we are in the region of 34%, 35% exports. So that is what the export trend is but as more and companies consolidated India than of course our export come indirect through those companies. The other thing that has impacted the margin is that the MEIS which the Government of India they put a restriction of Rs.2 Crores that we could this quarter and we should have got Rs.3.5 Crores, but we bought only Rs.2 Crores, we are

fighting with the Government to give us those incentives that the Government has committed to us, actually it is in the month of March, we should actually get those incentives and they have not been replaced by the new incentives, which we are hoping that they would replace very soon, till then we are hoping that the government will actually give us the incentives, which are at due to us. These are some of the changes that have been taking place, but these are challenges and that is with the Government that we will keep on fighting and try to get our rights back there. We will see a lot of these loss making items or the old items which are very the EBITDAs are around 3%, 2%, or 4% because there is some items which are 15 years old and they might either come down to 14% to 15% but we will be able to get them to 10% plus minus 2%. So, you will see that having a major impact on this.

Jyotivardhan Jaipuria: Thanks. Good luck.

Moderator: Thank you. The next question is from the line of Yash Chaudhary from Param Capital. Please go ahead.

Yash Chaudhary: Sir, just wanted to know what will be the capex for this particular financial year like FY2021 and what is planned for the next year FY2022?

Arvind Kapur: FY2021 we have done Rs. 55 Crores and I think about Rs.60-65 Crores is what we expect for this year.

Yash Chaudhary: For FY2022?

Arvind Kapur: For next year, there could be major investments for Toyota and there we expect around Rs.80 Crores to Rs.90 Crores.

Yash Chaudhary: So, Rs.80 Crores to Rs.90 Crores for the next year that would be the capex. What is our long-term and the short-term debt levels?

Arvind Kapur: Debt equity ratio today is less than 0.5%, 0.47% or 0.48% and the total limit we have is about Rs.449 Crores which is what we are utilizing that includes long-term and short-term.

Yash Chaudhary: So Rs.449 Crores is both long-term as well as short-term?

Arvind Kapur: Yes.

Yash Chaudhary: Sir you were just mentioning about some figures earlier on this call like Rs.366 Crores for BMW and Rs.800 Crores something replacement related. So can you just repeat it that for me again?

Arvind Kapur: These are the new businesses that we got. This year I am talking of this year from April onwards despite COVID times, our people have been, marketing people have been very aggressive and talking to our customers over Zoom calls, etc., and we picked up per annual business per year is to the tune of Rs.363 Crores we have already picked up till now. These are the businesses that

some will start next year. I think Maruti some business has already started and some bit there is an increase from the current components that we are producing right from 1100 it went up to 2200 then now 3200 we are looking at. So those have already started and where we started making investments and the other businesses will start from next year onwards and some of course the year after that that is Rs.363 Crores a year that is the business that we picked up. These are all new businesses. These are not replacement businesses and if you look at the program it comes to about almost Rs.1700 Crores for five years term that we normally see, the life of the business. So, this is the business that we picked up this year and besides this we have picked up almost Rs.6250 Crores of business from 2018 till last year and in that case, many have already been implemented, the replacement business has all been implemented to the extent of Rs.365 Crores so these are basically shifting from BS-IV to BS-VI. So, those businesses have all been implemented and that annualized business was in the region of almost a Rs.1000 Crores per year out of which Rs.355 Crores was the replacement business that has been done already and out of the new businesses there are many of them which have started getting implemented as we have started deliveries but most of it would start by middle or end of next year. When I say replacement business this is replacing the BS-IV and/or some other components we were making into either BS-VI and/or newer components were made, but it is the replacement of a component which we were already manufacturing. When we say new business it is absolutely additional business that we are getting in the company.

Yash Chaudhary:

That is great. Thank you very much. All the best.

Moderator:

Thank you. The next question is from the line of Bhaskara Datla an individual investor. Please go ahead.

Bhaskara Datla:

Good afternoon. I am a retail investor. I am investing since 2012 and being adding shares since 2012 and until now I have almost 200 shares. So since last three years, I am actually following the meetings, conference calls etc., you are always hoping that we get some results, in the next quarter, but till now we are not able to give any good results in last especially three years. So my question is like at least from next year you will be able to give good results, from next year, next quarter onwards?

Arvind Kapur:

Sorry that we disappointed you in the last two years, but let me assure you that you will see this year has also been very tough, but this quarter like in the last meeting I had also mentioned to you that the third quarter would be better and the fourth quarter would be even better but for the next year you will see a dramatic change right from the first quarter itself. We are hoping that we encourage you to invest more and more in Rico shares and we will not disappoint you as far as the performance in the company is concerned. There are lot of changes we have made and lot of opportunity levels we brought up. Like I mentioned many old components we have either we are leaving them and/or we will get a better price and so we are hoping that next quarter, hopefully the commodity prices would also stabilize and this impact of commodity which is coming in also in the bottomline that also will get diluted.

- Bhaskara Datla:** Thank you. That is it. Because I will continue with the same as to invest in almost 10 years, so just want to see turnaround in your company.
- Arvind Kapur:** Thank you so much for supporting us and we assure you that we are doing a lot in the company and lot of new changes will come about and let me tell you in the couple of years, we have made a lot of investments and to the extent that one year it was Rs.200 Crores, second year we have Rs.165 Crores, and all those if you see the turnover going up today the next year we will be crossing Rs.2000 Crores very comfortably and they are after that there should be more than 20% increase that we are estimating and this is based on the orders that we picked up last year and the year before last year. In many cases some have started and some will be starting this year and some would start next year. So, if you put all of them together you will find a major change that is coming about, but these are all newly priced fresh components that we have picked up at better margins.
- Bhaskara Datla:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.
- Bajrang Bafna:** Sir, if I see the run rate, the run rate during the quarter has improved to almost Rs.445 Crores so you already indicated that next year you will be comfortably closing to Rs.2000 Crores and year after that maybe 20% and the new orders that you have booked are at better margins. So, broadly is it possible to guide some sort of margin trajectory because you had indicated that some orders are at better margins so we are at let us say this quarter 8%, so some guidance on that will be really helpful?
- Arvind Kapur:** If I take the premium freight and put them aside, if the premium freights are not there, then those freights would have gone to the bottomline and if you add those we would be in the region of about almost 10% or 11%. That is what we will be at. So we were around 11%, I would say and with the other efficiency levels that have been brought up in the last six to eight months, let me tell you we put extra manpower etc., so the costs were on the higher side and we have already started taking care of that and you will find our labour costs and other costs also and better utilization equipment in the coming quarters and you will see the margins, our first target is to cross 12% to 12.5% and as exports are picking up more and more and all the exports are in the regions of 20% plus minus 2% so that is how our costing are done and as more and more exports pick up you will see the average also going up. You will see a change. I do not want to make a major announcement that actually will we do it and we will show it in one or two quarters so that the confidence level is there.
- Bajrang Bafna:** Sir, in this budget and maybe over the last one year we have seen there is a lot of schemes that the Government is talking about especially for this auto line sector, the PLI schemes and everything that has been talked about, so some ballpark judgement that you could make out how this is going to change, the pace and how you are seeing companies going to be benefited by that will be really helpful and we also heard and seen in the media that a lot of businesses are moving

out of China and the China sentiment is working for our country, for a much better means, so some comments on that and may be the Government explains how do you see a change for this sector and maybe for our company will be helpful?

Arvind Kapur:

We are all very excited about the PLI scheme and we are hoping that this gets implemented fast but as this being done, we are also getting information that there is some issues they have with the WTO compliance, so there could be some changes that will come about in the PLI schemes so all that is also happening. So we are not similarly for the export front we have a lot of schemes that they have come out with and we were hoping that January 1, 2022 the announcement will take place and again there is some issues, which are happening there. Someone actually needs to start putting them, they are very good scheme, excellent schemes and I think it is important that the Government actually pushes this scheme and we are waiting and hoping to take advantage of these schemes, they would be benefit to the manufacturing here. Many companies have started resourcing the projects from India. We have taken advantage of that. Many companies have started, companies which we were buying from China, they have started resourcing from India and there are many more enquiries which are coming in. We are also looking at that. This is as far as exports are concerned and as far as the imports, as far as the investments are concerned, we find a lot of companies actually looking at investment in India now and which is also very good time for us. India has got to become a major manufacturing hub and we are hoping that from the farmers we shift to the manufacturing which is very critical and important. The other new policies that the Government announced were the scrappage policy. Now we have been discussing with the Government about the scrappage for almost four years or five years and for the last seven eight months, they have been saying, "we are announcing the policy next month." This time the announcement of the budget they are coming up with a scrappage policy, but we are waiting for this scrappage policy to come because there are some issues that the Government has got, as far as how do you scrap a vehicle. Who actually takes the onus of scrapping the vehicles and making sure that the registrations are not there, and who will make the responsibility that the engine is actually scrapped and it is not used in some other vehicles and the pollution spreads again. So, there are some issues that the Government is grappling with and this is the end of the scrappage policy, they initially announced that 20 years would be the time before retesting the vehicles and recertify the vehicles and I think it is a good start. Let them start with 20 years and gradually I am sure they will bring it down from 20 years and bring down to 15 years and gradually about 12 years or wherever they stop. But it is a good start. At least the government is thinking in the positive side, now they have waited for it to get implemented. This will have a major impact on the auto industry in India and will have a major impact even on the environment or the pollution that takes place in the country. So, I think these are very good policies that the Government has come up with. We are hoping that they get implemented. We are waiting for the implementation. That is the most important thing. On the advantage of China, the disadvantage and advantage of people buying from India, like the addition of wheels, we have set up a project almost about 10 years back and we have been trying to get orders from various customers here. It is only after the government took a tough stand on imports and also on China that all of a sudden our wheels turnover from Rs.50 Crores a year they will go up to Rs.300 Crores a year and we are now looking at further expanding the capacity of the wheels plant and otherwise almost 80% or

70% of the wheels which are being used in India for the motorcycles were being imported from China. So the dealers and changes that are actually coming about and people are also looking at localizing Atmanirbhar that we are talking off so people are looking at that and I think people are getting serious at this now. We see the change happening there.

Bajrang Bafna: Sir when you talk about Q4 kind of revenue, what proportion is they will be driven by the export, just a ballpark number because that attracts better margins as compared to the domestic business. So some point on that will be helpful. Sir, when we talk about let us say end of almost Q4 till the next year, what proportion it would be given by exports because as I understand from your remarks that exports attract better margins as compared to the domestic one?

Arvind Kapur: Our export business 30% and above will be exports.

Bajrang Bafna: Above Rs.2000 Crores next year we are guiding.

Arvind Kapur: I am talking about the direct exports, indirect export of course it will be another 5%, 7%, 10%. That is the number.

Bajrang Bafna: Got it. When we talk about in terms of competitive intensity, apart from anti-China sentiment, do you really see that some of the segments where we are getting really competitive in terms of pricing and in terms of quality because that is really more important from a Government perspective?

Arvind Kapur: In India we are very competitive as far as the engineering part is concerned, engineering we have come out pretty well and this strength that we have is not only the labour, it is also the engineers and the middle level and upper level people that we have in India who are excellent in their work but as far as electronics is concerned that I think India used to make a lot of investments and that is where we are actually going to suffer and that is in fact having an impact on some of the carmakers in the world because of availability of electronic items, etc., the chips, etc., which is an important thing and I think in the next one or two years there should be a total focus on manufacturing of chips and boards in India so that we can actually become Atmanirbhar as far as electronics is concerned otherwise in the mechanical side we are very competitive and we are doing very well on the electronic side, I think, we need to tie up with countries like Taiwan, etc., and make serious investments in India. There are many Companies which are looking at the possibility at the moment there is mainly the finished goods which are being manufactured here and assembly of cell phones etc., but I think we need to go to the greatest trough of getting the electronics right. I think that is where the focus needs to be and the Government is also looking at that. There is lot of incentives which the Government is offering for setting up those plants, but I think it takes time to set up those plants, but I think we need to start now. We are already late on that.

Bajrang Bafna: Thanks. Best of luck for the future.

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

Ashwini Agarwal: You had a longer term question. Across Europe, the shift to EVs is gaining momentum and even in India, Tatas have had a reasonable success with couple of their models and increasingly that shift will gain momentum as it appears, so if you look at your whole portfolio, obviously wheels and great components and some other things won't get impacted but how do you feel about this. I mean how is Rico positioned to handle this migration from internal combustion to electric vehicles. What kind of challenges do you foresee over the next two, three years.

Arvind Kapur: See if you look at our portfolio we are deeply engaged in engines, yes that is a fact but we have started diversifying a lot in the non-engine components as well which includes the braking system, we are very large suppliers of braking system to the two-wheeler industries and the aluminium wheels you mentioned, of course we need to those wheels to keep the vehicles rolling in any case and even the wheels is expanding maybe auto is going to the four wheeler aluminium wheels and besides that we for the last almost five six years, we have been working on electric vehicle components. In India at the moment the demand is very low as far as electric vehicle is concerned, so developing components for the Indian industry comes out very expensive for the entrepreneurs and also the companies there in India. So, what they are doing is actually they import the bulk of it and they assemble the vehicle here and start selling it here. We are exporting a lot to BMW to PSA. In fact the first electric vehicle made for PSA it was Rico component which we were the joint developers of this component for the motors that they were building in France and we have been shipping to them for almost about one-and-a-half years and the volume is going up by almost I think 25% to 30% every quarter and that is mainly because of the subsidiaries and the Government of France is getting to the sale of electric vehicles there and same is the case with BMW and we jointly developed the first three four different engines or the motors which were developed for the electric vehicles and we are shipping to them on a regular basis. Those are very special components, special metals which are used in those components and we have been very precise components and we are shipping them for the last and that is the confidence that the customers show in us when we develop those components. We are picking more and more components so in our portfolio you will find brakes, you will find wheels, you will find the electric vehicles components that we are producing and we are waiting for the opportunity of making a complete system for the Indian market as well, but as the volumes improve we would certainly do it, but having said that I think the volume can continue increasing for the next 15 years at least because demand in India at the moment is pretty low and the demand will continue going up and the number of cars which will be produced in India and also the motorcycles will go up further and by 2030 we will produce about 10 million cars in India. At the moment we are in the region of 3.2 million, 3.5 million cars and even if 20% or 25% are electric vehicles because there is lot of infrastructure etc., which is required. There is a huge growth I am saying at least in the IC engine as well and we foresee I say 20 years, but I would say safely 15 years that the IC engine will continue growing and thereafter we might see a leveling of that start taking place. I think that will give us enough time to actually also penetrate the electric vehicle market as the time goes by and we will continue on more on the non-engine component as well but we are at the moment also, we are investing very heavily in the hybrid vehicles. Hybrid is going to be the future that actually is going to come up and now before electric actually takes up completely we find that we will have hydrogen or any other fuels that

might also come in. So, there is a lot of developments that is actually taking place. Let us not be sure that only electric will be the future. It will be a combination of various things that will happen and we are waiting and watching but at the same time we are also investing.

Ashwini Agarwal: Thank you for the detailed answer. All the best.

Chandra Govind: This is Chandra from Ashmore. You were telling about the closure of Dharuhera plant by Q3. May I know what is the status now?

Arvind Kapur: Dharuhera plant we still are running the plant. It is primarily because there are two primary components which are being manufactured one is for exports to Cummins and that to the Turkish plant and we tried to shift that components but the shift in the auto world shifting a component is very difficult, it has a whole process and the Cummins people in Turkey did not agree for us to shift there. So, we were compelled to keep on running the plant. We are losing money there, but we have told them that in the next two, three months we are going to shift out of that plant, whether you like it or not, and you need to come and approve. Because the people could not travel obviously the approvals also could not come about. Now we are hoping that we would have some interactions taking place and/or the Cummins in India will have to approve. Other facilities are approved by Cummins in India but not Cummins Turkey, but we are going through the cycle. Now we have one, one is that and one is the Maruti component which we will be shifting out soon.

Chandra Govind: So, will there be any one time expenses related to this?

Arvind Kapur: One time we have done already. The major expenses we have done already and major amount of labour has already been removed from there. Now we have about 46 people who are working there and we have retrenched 118 people in the month of July.

Chandra Govind: So, we will not be incurring any losses from FY2022 from Dharuhera plant?

Arvind Kapur: There would be working losses, not one time expenses, but there would be some loss because of the investment is huge and that plant used to bill Rs.300 Crores worth of goods and now it is producing that is about rarely Rs. 1 crore about a month.

Chandra Govind: One last question, the tax rate for the quarter was slightly higher, 49%. Was there any reason for this?

Arvind Kapur: Come again please?

Chandra Govind: Tax rate for the current quarter was slightly higher at 49% of the PBT?

Rakesh Kumar Sharma: That is because of the deferred tax aspect. If you see for the last about three quarters we were having negative tax because of the deferred tax, so this time it is profitable so because of that it is

looking like that. It is not 50% actually. It is the overall tax that has been calculated and based on that it is coming.

Chandra Govind: I will take it offline. Thank you Sir.

Rashi: Sorry this is Rashi, we are just all on the same call. By when should we expect the Dharuhera plant to be completely shut?

Arvind Kapur: Rashi we were hoping that we close it by December, and it was the last quarter but now we are hoping that in the first quarter of the next year the operations will shut, before that we should be able to shut the plant.

Rashi: What would we be doing with the plant after we shut it?

Arvind Kapur: After shutting it we are going to revamp the whole thing and we will be utilizing that place again. There is a lot of equipments which are there, lot of flexible equipment which is there then a lot of new components that have come in, we would not need to make too much investments in some of the new components and we will start producing from there.

Rashi: Thank you Sir.

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

Arvind Kapur: Thank you so much. Some of you were very kind to say that the figures were better. Okay, they were better than the last few quarters, but we are still far away from whatever we want to achieve and you will see a lot of improvement coming at this particular quarter, the last quarter and from the next quarter itself you will see a lot of changes that have come about and that we have made there and those would be reflected in the figures that we would be showing you. The order book is very good and we are getting more orders also from our current customers as well as from new customers and more than that we could provide to the customers at a very expensive cost of air freights and premium freights etc., has given a lot of confidence to the customers that we would stand by them, but let me tell you we are trying to get lot of that money refund from our customers, once the travel starts I think we will be able to get touch with them to compensate for those expenses, air freights that we have gone through. We will get something in any case, but the one thing that we have learnt is primarily the confidence of our customers which we could have lost within a minute in case we have stopped the supplies and as far as exports is concerned, we are single source suppliers of the component. If we do not supply, the line will actually come to a halt and I think it is our obligation that we keep all the lines running at any cost, very expensive. We will try to get back the money but fortunately now we are out of it, it is just a last traces which is there and which we are doing well now. Thank you so much everyone. You are free to write to us, free to call us and any other clarifications that you would like us to give you. Thank you.



Rico Auto Industries Limited
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Moderator: Thank you. On behalf of Rico Auto Industries Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.