

RAIL:SEC:2019

November 18, 2019

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Sub : Transcript of Conference Call held on 11th November, 2019

Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 11th November, 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
Q2 FY2020 Earnings Conference Call”

November 11, 2019



ANALYST: MR. SAURABH BHAVE - S-ANCIAL TECHNOLOGIES PRIVATE LIMITED

- MANAGEMENT:**
- 1) MR. ARVIND KAPUR – CHAIRMAN, CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR**
 - 2) MR. O.P. AGGARWAL- FINANCIAL ADVISOR**
 - 3) MR. RAKESH SHARMA - CHIEF FINANCIAL OFFICER**
 - 4) MR. B. M. JHAMB - COMPANY SECRETARY**



Moderator: Ladies and gentlemen good day and welcome to the Rico Auto Industries Limited Q2 FY2020 Earnings Conference Call hosted by S-Ancial Technologies. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to the Mr. Saurabh Bhawe from S-Ancial Technologies. Thank you and over to you!

Saurabh Bhawe: Thank you. This is Saurabh Bhawe, on behalf of S-Ancial Technologies welcoming you all to Rico Auto Industries Ltd’s Q2 and half-year ended FY20 earnings conference call. From the management we have Mr. Arvind Kapur – Chairman, CEO and Managing Director, Mr. O. P. Agarwal – Financial Advisor, Mr. Rakesh Sharma – CFO and Mr. B.M. Jhamb – Company Secretary. Now may I request Mr. Arvind Kapur to take us through his initial remarks subsequent to which we can open the floor for Q&A session. Over to you Sir!

Arvind Kapur: Good evening. My name is Arvind Kapur. Glad to be back again. This quarter has been challenging, despite the challenge we have shown some good result as far as the turnover is concerned. Many of the companies have had a sharp drop but we managed to just about touch whatever we had done in the past. We could have done much better, the increases that has happened is primarily because of the newer components that have been introduced, the new customers that have been introduced and the production thereof, the customers like Kia motors, PSA-AVTEC etc., and also the exports have improved. We could have done better but the commercial vehicle market as well as the car market and the two-wheeler market was really, the second quarter was a big challenge for everyone.

Despite that we have been able to maintain our turnover but the bottomline has impacted. Our bottomline would have been much better but this time what happened was in the export front there was a new components and also we had some issues, quality issues also one of the consignments and so we have to airlift the components so there is an element of air freight, premium freight that we have to pay, because we cannot hope to shut the lines of our customers and these are the new components mainly for the electric vehicles that we have started shipping and that had some impact on our bottomline and this would continue for some time for this quarter for some of the components and we are determined by December we will get out of the premium freights of air freight and come down back to the normalcy freights for exports.

These are some of the challenges of export but we are in it and we are determined to give our best performance and also have maximum profitability from our domestic as well as the global markets. This quarter start off like I mentioned earlier newer components mainly Kia Motors, PSA and some components of Hero and now there will be further addition of new

component as far as the BS-VI models are concerned. This quarter has been challenge because of the doubts in the minds of many people whether BS-IV or BS-VI which one that they should start buying and we thought there would be lot of prebuying that would take place in BS-IV that has not so far happened and surprisingly in the other countries this is a very normal thing that prebuying takes place whenever there is a change of this standard because the cost obviously goes up but surprisingly here the prices have gone up, the prices are more but the customers are by and large stepping the BS-VI also that is what very surprising but we are glad that the BS-VI will do well and so this downturn that we expected, in case there is a pre-buy that takes place in this quarter and the next quarter, there would be a slowdown that would take place in the month of April-May-June that might not take place now. I think we will continue with the same or expanded volumes.

We were happy that in the Diwali, in the festive season all the people could get reduce their inventories to quite an extent, be it the two-wheeler or be it the car people, the commercial vehicle people of course will under bit challenge and I only hope that we are able to dispose off all the BS-VI vehicles by March 31, where the total change over is going to take place.

We are hoping that from, we will see some changes this month also, I think we should be, I am talking the manufacturing side, the manufacturing would be above the same as last month and the sales will not match the festival season but I think they should show an upper trend if you look at the averages of the last one or two quarters and from the month of December end, January onwards, we were hoping that June this year the current year the sales would have picked up but I think our estimation was wrong now we estimate that January onwards hopefully there would be a trend of sales going up.

The export front is good. Fortunately the luxury vehicles are doing well and so there is a pickup of our goods and we are happy with the export and we are adding more component, even today we will discussing that, almost 40 new programs which are on the shop floor which are in the advanced stage of we call it PPAP and advance stage of trials etc., and for the samples to be submitted to the customer. That is it from me. I think we can go to the next level of question and answers.

I may add one thing here that in the first half, we have been nominated for new businesses worth about 750 Crores and out of this 750 Crores there is 215 Crores which will be a replacement, basically BS IV to BS VI, so 215 Crore is the replacement business and balance is the new business that we would be adding.

Moderator:

Ladies and gentlemen, we will wait for a moment while question queue assembles. The first question is from the line of Chetan Dhurva from Blue Banyan Advisors. Please go ahead.



- Chetan Dhruva:** Good evening. Thanks for the opportunity. I had, that is in terms of the growth projected I think the management I mean last time Mr. Kapur had stated a target of 2000 Crores for FY2020 as well as in one of the interviews I think just to reconfirm, so just wanted to check that is still on the cards and we are expecting a significant recovery in it too or if not what would be the new number you are looking?
- Arvind Kapur:** Yes, we had, last time what we mentioned that our target is 2000 Crores and the orders and everything are placed except that some of the customers are postponed their requirements that has what has happened and we would love to maintain the target that we had promised but at the moment what we estimate is that we would about 20% to 25% plus whatever our turnover was last year so it would be in the region of about 1700 to 1800 Crores.
- Chetan Dhruva:** Okay understood. And in terms of margins Sir EBITDA margin will you be able to increase beyond last year?
- Arvind Kapur:** Even this quarter our EBITDA would been better but because of the premium air freight phase, that we have to incur and despite some of the older components not going well and the contribution by the newer component but having said that the newer component for export and are definitely a better margin than the older components, so we were hoping to improve our EBITDA and our internal target were to touch 15% but this year under the circumstances we would cross whatever we did last year.
- Chetan Dhruva:** Okay understood Sir. Thank you Mr. Kapur and good luck for the next quarter.
- Moderator:** Thank you. The next question is from the line of Mukesh Modi from Modi Fincap. Please go ahead.
- Mukesh Modi:** Good evening Sir. I have got couple of questions, the other expense this quarter has increased substantially, is it all because of this answer which you have told Sir?
- Arvind Kapur:** Yes, that is mainly because of that.
- Mukesh Modi:** Because that is almost 6 Crores on sequential basis and 4 Crores on Y-o-Y basis Sir?
- Arvind Kapur:** Yes, the air freight has been huge this quarter and it will also continue this quarter, we are hoping that by December 31, should be the last airlift consignment and because parallely we have started shipping the goods by sea as well and sea takes about almost to Europe it takes about 30 days and for US it takes about 40-45 days for the consignments to get there so we need to buildup that stock and also buildup that inventory in the transit as well as building up inventory at our warehousing in Europe as well as in US. So we are honored and so we will be parallely shipping by air and also shipping by sea.



- Mukesh Modi:** So last quarter it will be normalized right?
- Arvind Kapur:** Pardon.
- Mukesh Modi:** The last quarter this will get normalized.
- Arvind Kapur:** Yes.
- Mukesh Modi:** The next Sir, about exports I mean some in this quarter what kind of percentage you must be having in exports?
- Arvind Kapur:** We take export which we exports directly ourselves and there are exports where we sent to our customer and the customer exports, I mean that if I send to Renault, Renault is exporting those component to their companies in Brazil and Turkey and other places, so we do not, we never include the breakup which are exported, the vehicle export is not part of our export, we do not even regard it as part of our export. At the moment we are in the region of 22% to 24% and we should be in the region of 30% again this year.
- Mukesh Modi:** Rest of the two quarters?
- Arvind Kapur:** Yes.
- Mukesh Modi:** Okay. Sir last time you said that, I mean from this quarter the ramp-up of Kia will start, so are we on track for that I mean it has started for ramp-up of Kia?
- Arvind Kapur:** Ramp-up of Kia has started very, very aggressively and in fact they have started preponing, some of the programs like the first program is on full blast and they are using our components that we are partly exporting them and they have preponed the next set of components, they want to prepone by three months but there is some equipment that we have ordered that comes at only in the month of April but May was the production date for the next set of components and but we are hopeful that we would start shipping to them somewhere around April onwards the newer set of components. It ramped up very well so we are very happy about that.
- Mukesh Modi:** What about capex you said last year we got 112 Crores for this year, so is there anything left for this two quarter are we already done with the capex for this year?
- Arvind Kapur:** No, capex is one thing, even though the sanction was 112 Crores and we so far have done, total we done is 60 Crores and we are trying to curtail whatever is possible so that we put it to next year and so any program which gets delayed we also delay our capital expenses. But in some cases we have made the capital investment already and the project got delayed later so what we do is we use the flexibility and transferred their equipment to the new program

which are coming so that lag and that things are happening with our business. So our sense is to keep it much lesser than 100 Crores.

Mukesh Modi:

So overall, around next two quarters can we have a around 20 Crores to 25 Crores?

Arvind Kapur:

We will be midway between 112 and what we have already spent somewhere. Let me tell you we are big misers as far as the expenditure on the capital is concerned. We do it only at the last minute and whenever absolutely it is essentially required. Besides that we have actually, why we have been able to keep it at only 60 at the moment is primarily because some of the older components which are coming down and/or let us say some commercial vehicles we say that come down so our components, those lines were free, so we have actually been able to take on those lines and transfer them to the newer components which are required for the customers and whenever the commercial vehicle start picking up we can invest again there so whenever they pickup we will get back the equipment so we are trying to utilize whatever equipment we have in our premises to the best possible way.

Mukesh Modi:

Sir as last said about the margin, you were a bit aggressive for third and fourth quarter margin, in fact you said that you may get positive surprise so I mean what would you like to guide for this next two quarters Sir?

Arvind Kapur:

See our internal target is 15%, this year we will be behind but we determined that next year we must do it, and I only hope that market does not crash further but the market will improve little more which we are hoping that from January onwards you will see some change, even in the month of December you will see some change.

Mukesh Modi:

I mean that was a next question, looking to your experience and all how do you foresee overall automobile situation I mean this year, next year do you foresee a turnaround in near future or it will take a little longer?

Arvind Kapur:

To be honest with you, we had internally and also we had made a statement that we are hoping that by the month of June this year, the June which is already gone that the market would start going up a little but what happened was I think in that quarter the market actually crashed even further so it has become very difficult to predict but now I think, see the aspiration like I said before also aspiration of people is always there and we can keep on talking of Ubers, Olas and electric vehicle but the fact still remains everybody wants to own a car, at least one car and if you look at the total penetration of car and two-wheelers in India is pretty low compared to even I am not comparing to Europe but even Sri Lanka, Bangladesh and Pakistan, our penetration is lower so the aspiration is there, people would like to buy and I think the NBFCs are have to come up, the confusion on electric vehicle and the BS-IV, BS-VI vehicles that has been abundantly clarified by the Ministry of Finance and our Prime Minister as well so we are hoping that the people would be back in

the market and also the NBFCs and the banks will start funding the vehicles, we are hoping that would start soon and we find more and more people coming to the showrooms to buy. We are open for that and we keep in touch with also FADA and also some of the dealers just to get a feel of what is happening in the market, so they are talking off positive responses and people are coming, there are more footfalls than before and sales are getting converted, earlier there were no footfalls also, now there are people coming and talking people are start buying.

Mukesh Modi:

We are seeing now.

Arvind Kapur:

Yes, interest is there, so we keep in touch with the customers we are asking them that is OEMs then we also check with the dealers as to is that actually happening?

Mukesh Modi:

Okay Sir that is it from till now. If at all something there I will come back it the queue again. And wish you all the best Sir. Thank you so much.

Moderator:

Thank you. The next question is from the line of Pawan Pandit from Latin Manharlal Securities. Please go ahead.

Pawan Pandit:

Pawan here. Thanks for taking my question. I just wanted a few data point. Firstly can I have a break up of sales in terms of OE and aftermarket?

Arvind Kapur:

Our aftermarket sale is very low, our main sale is OEM and this year, since you asked for the aftermarket as well, our target this year was 100 Crores and that is what we were estimating and that is what the dealers were committing and but this year there has been a total, one thing that surprised us was , that when the OEMs are not doing too well, when their sales are down normally the aftermarket picks up, but this time the aftermarket also crashed, so the people, the dealers and all distributors all prepared to preserve cash and nobody was actually investing money to pick-up more material, so this is one thing that we noticed, a strange phenomena this year but our aftermarket sales is very low. I think we will barely touch the last year sale of around 30 Crores.

Pawan Pandit:

And in terms of percentages could you give me, you said, 5% or 6% is that right? In terms of percentages how much would that be?

Arvind Kapur:

2%.

Pawan Pandit:

Okay and in terms of the distribution between the auto and the non-auto sector, can I have the break-up of that in terms of percentage?

Arvind Kapur: We are primarily auto business, be it two-wheeler, four-wheeler commercial vehicles, off-road vehicles and we sell only in that market and the defence is a long-term project, once we have factored that because five to seven years before we actually start producing in bulk quantity. We have been making components for defence, we have build-up many tenders also and it is the Make-in India program that the government keeps on talking about, the tenders were supposed to open last year, it is already one year delayed we do not know how long that is going to take place. So, 99.9% we are in the auto trade.

Pawan Pandit: Lastly in terms of two-wheelers three-wheelers CV can I have a percentage of distribution in terms of that?

Arvind Kapur: Two-wheeler ranges between normally 30% and 35% and balance is the cars and the between 15% and 17% is off-road and commercial vehicle and it varies, if the commercial vehicle picks up then this goes to 20% and if it is average then 15% to 17% and balance is the car.

Pawan Pandit: In terms of our top five customers, how much in terms of percentage would they contribute to our top-line, if you can tell me that?

Arvind Kapur: Well, the two-wheeler customer is the largest, we have and is between 30% and 35% that is Hero and the other we have Renault, we have BMW we have GKN and so these customers there but I would say 15% plus 3% is between the sales.

Pawan Pandit: Lastly Sir, what are the current utilization levels?

Arvind Kapur: If you look at the newer equipment that has been installed like Kia we are at the moment running at about let us say 45% to 50% and ramping up every month and I think soon we will be in the region of almost about 75%-80% and we are making further investments for them also, and I think another months time or two months time we will be almost about 85%-90%.

Pawan Pandit: In two months time so by the end of this year we should be touch 85% to 90%?

Arvind Kapur: Yes, and then of course, further investment cycle is for Kia itself that is for the newer models that they are supposed to deliver in June-July or now they are preponing and they want us to deliver somewhere in April. We will do from the current equipment and we will also install the balance equipment around that time and then start a delivery for the newer component because the newer component that are coming in the ramp-up will start somewhere in April onwards but if you look at the full utilization equipment it will pick up four five month after that because they also ramp-up accordingly.

- Pawan Pandit:** Alright, fair enough Sir. Thank you so much. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Vaibhav Sanghvi an Individual Investor. Please go ahead.
- Vaibhav Sanghvi:** Thanks for the opportunity. Sir you mentioned that from an EBITDA guideline perspective you will maintain last year's EBITDA or do slightly better than that but at the same time you have been incurring a huge amount of cost on the airlifting so are you still saying that you will be able to still maintain the EBITDA compared to last year?
- Arvind Kapur:** Our attempt is to meet that and, see margin on export items is much better and the EBITDA levels are much higher than the normal level components and at the moment, to be honest with you some of the components that we airlifting we are actually not making a loss despite the airfreight cost, which is huge and normally the air freight cost is always 50% of the cost of the component but in this case we will be able to negotiate well with the airlines and get a lower rate and, we are just about breakeven and some case of course, we are losing money some cases we are little plus but we cannot talk of big EBITDA levels there but once the airfreight is out, you will see the whole scene change absolutely.
- Vaibhav Sanghvi:** So what was the last year's EBITDA I believe somewhere around 11.3?
- Arvind Kapur:** 11.7.
- Vaibhav Sanghvi:** And you are confident that you will be able to maintain atleast 11.7 this year?
- Arvind Kapur:** Our target is actually 15%
- Vaibhav Sanghvi:** Yes, but given the situation you will be able to atleast maintain 11.7.
- Arvind Kapur:** See our attempt is to maintain at that level 11.7% and it is not beat it, it is just depend on the ramp-up that actually takes place and how soon we get out the airfreight situation. It is good, so that is what is helping us.
- Vaibhav Sanghvi:** Sure. The other thing is you mentioned that your EBITDA margins are quite higher in the new component so what would be that range?
- Arvind Kapur:** See it varies from 15% to 25%. It depends on EBITDA of customers and heavier the component EBITDA margins come down slightly, but if there are medium level component the EBITDA level is higher so it depends on the weight of the component.



- Vaibhav Sanghvi:** Got it. And, Sir since your new equipment the new components have been ramping up so you have a new sales that is why you see the revenue is more or less maintained so what the mix right, new sales versus the old one for this quarter?
- Arvind Kapur:** Come again, I did not understand the question?
- Vaibhav Sanghvi:** What is the revenue mix in terms of the new component versus old one?
- Arvind Kapur:** I did mention earlier that like I gave the example of commercial vehicles and off-road vehicles. See we have invested pretty heavily on the off-road vehicles and commercial vehicles and many diesel components as well and the commercial vehicle sales are down, so instead of even though we were required to invest 112 Crores this year, we have been able to bring it down to 60 Crores, most of it would have been spent in the first six months. We have been able to bring it down to 60 Crores primarily because we have shifted a lot of the current old equipment that was with us to the newer line as well. Because our equipment is flexible, so these are all computer controlled machines and we changed the program and we can start of new components on those machines so we have managed to do that very successfully, so to tell you what is the exact percentage of utilization in the newer and old it would be little challenging to take out that.
- Vaibhav Sanghvi:** Sorry Sir my question is that in the revenue which you have done this quarter right, I mean would you be able to tell us that what is from the new component versus, what is from the old component?
- Arvind Kapur:** Revenue?
- Vaibhav Sanghvi:** Yes.
- Arvind Kapur:** This is actually not worked out, but we can send it to you.
- Vaibhav Sanghvi:** I mean would you have some idea, because I believe since the new components revenue have started but overall revenue is more or less same from the Y-o-Y basis which means the old component revenue has gone down, so I just wanted to understand by how much?
- Arvind Kapur:** Yes, I can send you the broad detail and we have your name and telephone number and maybe we will put out the information and we send it or we can put it on the site and you can pick it up from there.
- Vaibhav Sanghvi:** Yes, thank you.

Moderator: The next question is from the line of Shlok Dave from Seraphic Capital. Please go ahead. As there is no reply from the current participant, we move to the next question which is from the line of Pawan Pandit from Latin Manaharlal Securities. Please go ahead.

Pawan Pandit: Thanks for the follow up question, I missed out the revenue guidance of 2000 Crores you spoke about, could you just speak about it again if you do not mind?

Arvind Kapur: Yes, we had given a guidance of around 2000 Crores for this year that was our internal target and in fact the orders and everything were in place, our budget was even crossing 2000 Crores and so we were playing a save at 2000 but under the circumstances the market downturn we should be able to exceed last year's turnover by 20% to 25% and we are pushing hard and let us hope the market improves and we can actually sell more.

Pawan Pandit: Thank you Sir.

Moderator: Thank you. The next question is from the line of Bhaskara Datala an Individual Investor. Please go ahead.

Bhaskara Datala: Bhaskara, thanks for giving me an opportunity. My question is like is there any chance of diversifying our business because of which is last 35 years we are in the auto component business and we have some last many cycles actually like every five years we have a downturn and then may not be setting as much of profit as we expect, is there any chance of actually diversifying the business and also like, I want to know like five years or ten years time where we can see the company like some small to medium size, we can be in top three in India, do you have any kind of ambition there on that? Just to avoid, the team is going into a economic downturn and other things Sir, is there any chance that you have some kind of diversification so that like consistent profits compared to you doing losses in the future. Thank you.

Arvind Kapur: We are a very aggressive company and we have big aspirations and we would always like to be on the top in our field and that is a very clear aspiration that we have. As far as diversify is concerned defence is one area we have taken up and we had mentioned earlier in one of the conferences that there are fairly very large tenders that we are participating and one tender that we are participating is for 10,000 Crores spread over ten years so you get the order for ten years and it is about 1000 Crores every year, so we bid for that and that tender was supposed to open one year back and when is going to open we have no idea and they keep on postponing it every now and then even though we have put them under pressure that either say yes or no and either we bid for something else or we get out of this tender that we have given so, we are looking at defence, we are looking at allied lines, besides that you must understand the auto component business, earlier when we started the business each model that we produced like Maruti Suzuki, 800 CC that was sold in India for

23-24 years it is not 25 and if you look at Hero and if you look at the others it was one model which just kept on being produced overtime and overtime, now the things are changed absolutely, the OEM they need to introduce newer models every three to five years and average life of any motorcycle or scooter and/or car is about 5 to 7 years maximum, beyond that they want to introduce either major modifications, minor modifications and also change the model absolutely. So if they do not do it their sales drop drastically and so earlier we would develop on component and we would keep on producing the same component over 20 years or 25 years and as a result of which every year the margins would keep on coming down because of costs would go up and the customer would never agree to increase the prices. Now, since the models are changing every five to seven years now we have the opportunity of fresh pricing where the margins actually are better for the newer components and within seven years we get the opportunity to bid again for the newer component. So that the nature of business has changed a lot now and the other thing that is happening is the opportunity that we are getting into electric vehicles and the components that is supplied for electric vehicle and there the margin is entirely different and the technology requirements are entirely different so in a way the old industry where it became very difficult to make margins that has changed and No.2 the opportunity of diversifying as far as defence is concerned, we are in two-wheeler commercial vehicle, car, off-road vehicle and so we are in that total and some electric vehicles now. So we are fairly diversified as far as the auto industry itself is concerned and then our exports average at around 30% and our internal target goes to 50% ultimately so because the main market is overseas, India is only 3% to 4% of the global market. So we are fairly pushing in all directions to get a larger pie of the market be it exports, be it domestic market be it the car and in the variety of cars be it commercial vehicle car, off-road vehicle, two-wheeler the electric vehicles and also the defence.

Bhaskara Datala: Thank you very much Sir for giving the detailed explanation. One last thing Sir is there any chance of getting into like some kind of railways or somewhere, where you can actually some consistent?

Arvind Kapur: Our teams are already working with the railways and railways is a big growth area and we are looking at opportunities at railways as well.

Bhaskara Datala: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Shlok Dave from Seraphic Capital. Please go ahead.

Shlok Dave: Thank you for the opportunity Sir. I hope you can hear me now. Sir I have three questions. One is on your, my call got dropped Sir so I did not get the airfreight expense number if you have quantified it? What was the actual hit that you have taken this quarter? Second

question was on the wheels, business the capacity is I am assuming it is now fully functional so is that business ramping up or have you seen some problems there as well in the market? Third, then I have one more question Sir then I will come after your reply.

Arvind Kapur: The bids that we have already received are over 4 Crores that we have already bid and there some of the bids pending and as far as the wheel business concerned we are approved Bajaj Auto and Honda and we have been approved by Hero now. We have not started supply but we are hoping that we would start supplying in the next, as the market improves slightly, because of the downturn they are importing a lot of wheels, they have lot of stock of these wheels which are come from China and so they were reluctant to place newer orders even though they went through the cycle of approving our unit. We are hoping that by December end of January they will release the order and start buying from us and we start ramping up accordingly, but having said that last quarter we made a slight profit, this quarter even earlier we used to make losses on those units and this is a volume game as far as this unit is concerned, all the equipment is in place as we ramp-up for Hero you will see the bottomline is changing absolutely.

Shlok Dave: Great Sir. Sir whenever we have met in the analysts meet in the recent past we have talked about very specifically a new business order book and then old business order book so you mentioned that 750 Crores of new orders were received this quarter can you now give a total number, total aggregate number of the new business you have won first, in the last financial year plus what you have won in this financial year excluding any replacements?

Arvind Kapur: See I will try to give you a fairly accurate figure. This quarter the program value of the component is 750 Crore out of that 250 is the replacement, this is for the quarter. The total now is 5300 Crores and in the 5300 Crores 215 is this and I would hazard a guess there would be another 250 to 300 which would be replacement in the earlier components as well.

Shlok Dave: Okay so we are still talking about 5000 Crores?

Arvind Kapur: Yes, 4900 Crores or something that is what we are talking off.

Shlok Dave: Sir going by the logic that you were just explaining, even the replacement business in the 250 Crores that you have got this quarter because it is Euro IV to Euro VI this will also be higher margin right even though this is replacement business?

Arvind Kapur: Yes, most of it is higher margin except the braking system assembly that we are supplying which is safety component there we are doing mainly assembly so in the assembly the margins come down and so, except the braking system others are high margin.

Shlok Dave: Kapur Sir one last question Sir, last quarter our Hero business did very well and you had specific comments on that so how did that business do this quarter? I am assuming that they would have been a quarter-on-quarter fall so can you give some commentary there?

Arvind Kapur: Despite the fact that Hero production was down we were able to keep our turnover at the previous level whatever we were supplying earlier plus we have added newer business also that is a braking business we have added in that and because of the braking business the business short up. Now this quarter was a total wash out every week we would get a new direction that now this month requirement would be lesser than before so it has been a big challenge this particular quarter and so it has been slightly lower than the previous quarter and I can give the exact number, we just pull out the numbers and we can give you the comparison.

Shlok Dave: Quarter and a year-on-year number that would be great for the Hero business if you can share, otherwise if you can give a growth number that would also be fine?

Arvind Kapur: Okay, let me just pull it out and then either we send it to you or we will do something on it.

Shlok Dave: If you can announce on the call Sir it will be great. I will go back in the queue and thank you very much Kapur Sir.

Moderator: Thank you. The next question is from the line of Shlok Dave from Seraphic Capital. Please go ahead.

Shlok Dave: Sir this is a macro question. it is hard to predict when the market will improve but what kind of recovery do you expect whenever the recovery comes? Is it, other OEMs talking about a fairly strong recovery or it would be just prolonged and very slow market over a period of time, from your point of view Sir, not the industry?

Arvind Kapur: If you remember 2008-2009 when the market crashed and we were, I remember for Hero there were no slowdown at all that is in Hero Honda and they were doing pretty well and despite the global market having crashed but for Maruti and for the other two-wheelers commercial vehicle the market had crashed here and I still remember it was the month of November end I was having dinner with MD of Maruti Suzuki and so we were discussing as to when will the market improve and he said we have no idea at all, we cannot even predict because this is a global slow down so we do not know what is going to happen. So month of December the market picked up slightly in the month of January the market started shooting up and in the month of January I had dinner with him again and asked them what is happening he said I do not know and I do not even know whether in February the market will shoot up or shoot down, so it is very unpredictable and but having said that that is probably the best year everybody had, there was a growth of almost 30% in the total auto

industry in India those days, so now people are being very cautious in predicting anything we are looking at long term, if you look at long term 2030 and we know that because of the aspirations the market will go up and the prediction is that should be in the region of about almost 10 million vehicles an year out of which 15% to 20% would be the electric vehicles and balance would be the IC engines, diesel would of course reduce drastically. In long term that is how we are planning our production plan that the volumes will keep on growing and there will be ups and downs whether it is, in some area there would be lot of aggression, you will find that 20% growth also but then there would be years when we just stay at a medium level but we only hope that the crash that has taken place in the last two quarters, last three four quarters now rather that does not happen again and that, if the government can make correction as far as the funding is concerned and also not confusing the customers as far as the electric vehicles are concerned and also the BS-IV BS-VI vehicles are concerned they have given a lot of clarification and we feel that things will do better and the customers are coming back , the customers are having more confidence in the current year as well, if no confusion comes up especially electric vehicles where the message was that within three years to switch over, three to five years switching over impossible so I think it is a dream that the government was, practically not possible you can ban the IC engine but cannot replace the IC engine very aggressively within three to five years, 2025 was the original target and they wanted 40% - 30% vehicles by 2030 that also is very difficult because the infrastructure is not in place the power is not in place, the battery cost got to come down the cars have got to be affordable they cannot be in the bracket of luxury vehicles so these confusions, if the government start saying no, we will give subsidy and we will give 50% subsidy and these electric vehicles start selling then of course there will be another crash but if it is normal increase in the electric vehicles as well as the IC engine I think we will do fairly well and 10 million is not a very big target to be achieved by 2030. Okay, on the Hero front in Q1 Hero was up 7% and we were up 12% and in Q2 Hero has gone down to 7% we are also down 7%. Mr. Dave does that answered your question?

Moderator: Sir Mr. Dave is out of queue as of now.

Arvind Kapur: Okay then I think we need to convey to him, in case, if we have his cell phone number we will call him up.

Moderator: Sir he might be available on the call Sir. The next question is from the line of Sanithya Jain from Het Choksey. Please go ahead.

Sanithya Jain: Just wanted a quick update with respect to the clients when we talk about the top five clients in the total percentage in terms of the orders can you provide us some insights on that?

- Arvind Kapur:** See you want to know about top five clients?
- Sanithya Jain:** Yes the major top five clients which we provide every quarter some stats on the top five clients and the percentage contribution in the revenue so how do we see ourselves with respect to all those five or seven odd clients and if we compare our yearly revenue to it, so that we will get a sense of how we are placed with respect to the margins and the orders also?
- Arvind Kapur:** See the top client is Hero, two-wheeler and then we have BMW, GKN, Renault, Cummins and Cummins Global, some with Tata Cummins in India, but Tata Cummins is very down because of the commercial vehicle but Cummins is okay as far as global is concerned the new customers we have added is one is Kia that is doing very rapidly and then we have the customer that is PSA-AVTEC is the other customer that is growing rapidly and then Toyota is the other customer we would be growing very rapidly very aggressively rather, these are the top five – six customers so Toyota is going to play a very important customer for us and Cummins then BMW GKN and PSA, PSA global as well as PSA-AVTEC in India and Maruti Suzuki of course.
- Sanithya Jain:** With respect to Toyota, the market share will be more than Maruti or it will be somewhat similar?
- Arvind Kapur:** I think within two years we will cross that. We will cross the Maruti sale.
- Sanithya Jain:** Okay and if we talk about the wheels how is the capital capacity utilization over there?
- Arvind Kapur:** **Capacity** utilization is about 40% only and because we increased the capacity as the orders even though the approval is done for the factory the orders are not being released by Hero because they had excess stock of wheels imported from China etc., which were lying with them and the previous commitments do the wheel manufacturers all over and we are hopeful that December-January onwards they are going to release from orders we are pushing for it and once that starts then of course our utilization will go up to almost about 80%.
- Sanithya Jain:** Sir with respect to orders from the two-wheelers and truck segment are we seeing some traction over there with respect to getting some business?
- Arvind Kapur:** See at the moment the business is coming from all over primarily because there is a shift from BS-IV to BS-VI so, most of the components are changing there are very few components which are carried forward so that orders are there in any case, now we want to know is what is going to be the volume and most of the components are replacement components of BS-IV and we are hopeful that the market improves and then the BS-VI

components start selling so besides that from Europe we have got almost about five six more components which we never produced earlier that we would also supplying to them.

Sanithya Jain: Sir comparatively do we have better margins over there or are we somewhat at the similar level like auto Hero we were actually conservative little bit because of the volume size so are we continuing the same or do we have better or we able to quote better margins over there?

Arvind Kapur: Our system of quoting is about the same for the two-wheeler companies and Maruti and Hero are the two people who are all is very challenging as far as the prices are concerned, in fact Maruti and Hero are the most challenging in India and our attempt is to always get a better margin and push for, but it is a volume game, whatever the commit the volumes they commit if they do it our margins are intact and but these days they keep on telling us that they will pickup some volume will happen here so that is the challenge there, so we are hoping that the market improves and become a stable volume then with stable and committed volumes we will get our margin.

Sanithya Jain: With respect to the c subsidiary, the margins would remain somewhat similar in the range like which is there in the last year?

Arvind Kapur: Yes, the margins will be similar as last year and the difference will come about another year because we are bidding for newer businesses with Maruti and other and with that and also the new businesses that we are taking up we are transferring that business to Fluidtronics, so once those productions come in place you will see the revenue is going up and also the profitability improving.

Moderator: Sir the line for the current participant just got disconnected. As there are no further questions I now hand the conference over to Mr. Saurabh Bhawe from S-Ancial Technologies for closing comments.

Arvind Kapur: Gentlemen thank you so much. This is Arvind Kapur again and looking forward to you with better results in the next quarter. Thank you so much for attending the conference today. Thank you.

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