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Sub : Transcript of Conference Call held on 30th May, 2019

Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 30th May, 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
Q4 FY2019 Earnings Conference Call”

May 30, 2019



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

MANAGEMENT TEAM
OF RICO AUTO INDUSTRIES LIMITED **MR. ARVIND KAPUR – CHAIRMAN, CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR**
MR. O. P. AGGARWAL- CHIEF ADVISOR (FINANCE & ACCOUNTS)
MR. SURENDRA SINGH – PRESIDENT & CHIEF OPERATING OFFICER
MR. RAKESH SHARMA – CHIEF FINANCIAL OFFICER
MR. SANDEEP RAJPAL – VICE PRESIDENT (MARKETING)
MR. B. M. JHAMB - COMPANY SECRETARY



Moderator: Ladies and gentlemen, good day and welcome to Rico Auto Industries Limited Q4 FY2019 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddhartha Singh. Thank you and over to you, Sir!

Siddhartha Singh: Thank you. Good afternoon everybody. I am Siddhartha Singh on behalf of S-Ancial Technologies welcoming you all to Rico Auto’s Q4 FY 2019 earnings conference call. From the management team, we have Mr. Arvind Kapur, Chairman, CEO and Managing Director, Mr. O. P. Aggarwal- Chief Advisor Finance and Accounts, Mr. Rakesh Sharma, CFO, Mr. Surendra Singh, President and COO, Mr. Sandeep Rajpal, Vice President, Marketing and Mr. B. M. Jhamb, Company Secretary. May I now request Mr. Arvind Kapur to take us through his initial remarks subsequent to which we can open the floor for question and answer session?

Arvind Kapur: Good afternoon. My name is Arvind Kapur. I welcome all of you to today’s conference. We have shared our results, but there are some disappointments as far as the results are concerned. This is mainly as far as EBITDA is concerned, but there are some reasons, which I would like to talk about and part of it will come out of the question and answer, but some of them I will address before the question and answer.

If you look at the consolidated figures, our turnover has actually gone up and this is primarily because of the new products, which have been added and many new products came into production in the last quarter, but last quarter was also slow as far as the current volumes are concerned in the two wheeler industry as well as the car industry. We could increase our turnover primarily because of the new products, but the current components were down.

We actually lost a sale of almost 80 Crores in the last quarter as per the budget that we had prepared and this was primarily because of the domestic market. If at all we had added that 80 Crores for which the capacities, people and everybody was in place, our figures would have been entirely different. Some of the things that have impacted I would like to touch those.

One is the extra employee cost that we have had; there are a couple of reasons for this. One is the minimum wage was revised by the Haryana Government so we had to increase the salaries. In this quarter we also have the increments for a couple of plants, those also came in. The other thing is that we need to hire new manpower for the new projects, which come in and those manpower come in about three to six months before the actual start of production that we have for the new projects. So this also has a lot of manpower which has been engaged by us, the new manpower that has been engaged for training purposes and some of the projects got postponed, but the manpower remained with us because training of the manpower is very expensive proposition and to remove that trained manpower and to get a new manpower later on becomes a total disaster. So some of the projects had been delayed and that impacted the total manpower cost that has come in mainly because of the new projects also. So it is the minimum salary that

went up by the Government of Haryana, the increments taken in this quarter, which had been factored in our budget and the extra manpower that we had for the new projects.

We also added a lot of people in the engineering. This was the requirement by our customers. We have a fairly large engineering section in Gurgaon plant, but the customers are demanding the engineering facilities to be also created in the Bawal plant and also Chennai plant. So we have added engineers there to take care of the customers and also the expansions, which are taking place in those projects.

We have taken up a new project, which is the Combined Braking Systems (CBS) for the two wheelers. This started a couple of months back, but the ramp up took place in this quarter. Because of the sudden ramp up we had some extra manpower in the CBS and now it has stabilized and we have started reducing the manpower as far as assembly work is concerned. So that will also have some impact on the total manpower cost.

If I add 80 Crores of turnover, which we could have done in the last quarter, the manpower cost would have also been more logical and this would have been very close to whatever we had in the previous quarters.

In this quarter, the material consumption also went up and the main reason was the CBS, again the combined braking system. Here the pricing has yet to be finally settled because the production started off suddenly and everybody was engaged in the ramp up and we are in touch with the customers where we are negotiating the price. At the moment, it is showing almost about 90% raw material content in this component. Hopefully the issue will settle this quarter.

In this quarter, the Government also increased the power tariffs and also the gas that we get from GAIL that had a major impact and before we could fine tune and start saving wherever we can, but we are confident that in this running year we should be able to save and compare to the old power cost that was there.

One is of course the basic prices went up and number two is the investments that we have put in, we put in about 170 Crores worth of investments last year though installation of the equipment and running of the machines without actually producing anything that also has an impact on the total power cost. This includes the trials and also up to the stage of piece price approval process, which is a process that we need to adopt. However, we are working on this and one of the steps that we have taken is that we have negotiated on solar and the combined factor should also come down, but the machines, which have been installed they are coming into production would also help us in reducing the power cost because they would be producing some components, which are sold. At the moment the trials carry on, so consumption actually takes place. The investment was fairly large; we are talking about 170 Crores of investment in the plant and equipment.

Because of the new equipment, which came in there was also extra financial cost, the interest cost went up and once these plants are in production, the interest cost will be lower than whatever we had in the previous year. So we are fairly confident of the future, but at the moment two

things hit us. One is of course which is a fortunate part that we could increase our revenues primarily because of the newer components, which are kicking in and the profitability of these components because the production started very recently, when we ramp it up and that would happen somewhere in the middle of this current year, that is the time the profitability starts kicking in. So by second quarter to third quarter of this year, the new components, which have started production, would also start contributing.

We are fairly confident and had the market been good of course the 80 Crore turnover that we lost, that would have also helped us. Hopefully we are hoping that from the month of June onwards there would be some improvement in the sales in the domestic market. Having said that our teams are very aggressively working on getting a larger share of business from the current customers in the domestic market so that our sales do not come down in the domestic market and we are determined to get back that 80 Crores sales that we lost. It happened a little too sudden because our OEMs in some cases actually stopped production or slowed down the production and we see at sometimes because they have started pushing a little and hopefully I think month of June with the finances available for marketing and for buying of vehicles I think that would also have an impact.

So these are some of the issues that came up and this is where the cost has gone up, but we are very confident that as the domestic market also picks up and our production stabilizes for the export market and the newer components that have come in, as the ramp up takes place, those will also start contributing. That is it from me and I am open for questions and answers.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Ashwini Agarwal from Ashmore. Please go ahead.

Ashwini Agarwal:

Hi good afternoon Sir. A couple of questions, one is what this consignment export of 18 Crores is and what impact does that have on profitability if any?

Arvind Kapur:

We have our 100% subsidiaries in the US as well as in UK. US cater us to the US market and Brazil, Mexico market and the UK caters to the European market. In Europe what happened the preferential duty waiver that was there earlier, that got removed and so the duty, we were required to pay I think 3.5% duty on all the materials, which were being dispatched from here and we were not getting refund of those duties. So we spoke to our customers and they all agreed that what you do is you start shipping directly to us and by shipping directly to them because when they export they get a refund of the duty that is imposed. If at all we send to our own subsidiary and they ship to our customers that becomes an expense for us. So to save that 3.5%, we decided with the customer that we will ship directly to them, but we will wear off them. Earlier what was happening was that if at all I ship today it was a sale for me from here to UK and/or to the US. Now we ship our consignment to BMW and to the other customers. In most of the cases some customers are yet to agree so the sales gets registered only when they pick up the material and when the bill is raised. It is 30 days of travel from here to Europe and 30 days of stock that we keep. So after about 60 to 65 days the billing actually takes place. So our sale

actually matures only when the billing is done to the customer and that is what the consignment sale that we have defined here. The material has left us, the consignment has gone, but all the credit and profits, etc.; nothing actually comes into our book.

Ashwini Agarwal: Is this because of the accounting standard change Ind-AS because we are seeing that in some other manufacturing companies also?

Arvind Kapur: This is mainly because of the GST that got removed and in fact we are seeking a lot of refund on 3.5% that we paid and in some cases we have already got it, but this would have been a regular feature and so we had to get this done, 3.5% comes to almost 3.5 to 4 Crores a year in the case of Europe alone.

Ashwini Agarwal: Right, fair enough. Sir, the other thing is that you mentioned you commissioned machinery worth almost 175 Crores last year, but if I look at the balance sheet the total capex if I look at capital work in progress numbers and the increase in gross block comes to almost about 228 Crores. I just wanted to understand is my working correct in the ballpark and what are the capex plans for the next two years?

Arvind Kapur: These are the machines, which have been commissioned for the new component or capacity enhancement that were applied to be done. Besides this there are also dies and tooling, which are required. I was talking of the machinery and not of the dies and all. For this year we are fortunate that we have new customers and newer components, which the order we have received and this year our total would be 167 including 37 dies and 130 would be the equipment that would be required to be installed in all the plants. This is as per the new orders that we have received from the customers.

Ashwini Agarwal: 167 Crores would be your capex for the current financial year March 2020?

Arvind Kapur: 130 is machinery and 37 would be the dies.

Ashwini Agarwal: Last question Sir, you know we are seeing a debt build up again, 128 Crores of new debt, obviously last year was a difficult year, but when you do your pro forma planning numbers because you know as revenues grow your working capital will also grow, when does the sort of debt stabilize in this sort of hyperexpansion phase that you have ahead of you?

Arvind Kapur: You will see a change coming in after the end of this year. You will see the profitability also change and this year the budget that we have despite what is happening in the market we are going to factor in the first two months that are over and our target is to touch 2000 this year. That includes investments, which have already been done in the previous year and some investments that would come in. Most of the investments that come in now actually give us a turnover the next year, six months to eight months or even 12 months in some cases that we need to wait. Like in the case of Toyota, it is almost two to two-and-a-half years ahead of the start of production. They are checking our capabilities, abilities and also the capacity. In case of BMW it is about a

year and in case of the domestic suppliers mainly Maruti and Hero and others it is about three to six months that is what normally happens.

Ashwini Agarwal: 2000 Crores of revenue is your kind of budget for March 2020.

Arvind Kapur: The budget we have presented to the board.

Ashwini Agarwal: Correct and with hopefully rising share of exports in your aggregate revenues, so exports last year including this was roughly about 25%, or 22% to 23% and from what I recall you want the exports to get to 30% and then 40% and that should help the margins as well, so that kind of business plan broadly stays on track?

Arvind Kapur: The export gets camouflaged a little in this. The export actually is around 30% already. In this case what happens is that in most of the cases our exports are direct, but some of our customers like Renault, they have set up consolidation centers here in Pune. Earlier we were shipping directly to France, Morocco and other places, but now we ship to Pune and they consolidate the consignment and ship them wherever they want to Turkey and other places. We also regard the export is not for the domestic market and it is for the export market, but it is not being assembled on to a vehicle, it goes as it is. So we regard that as an export, but we give to Renault, if they assemble it on a vehicle or an engine, and export this product, we do not regard that as export, that we regard as domestic sales. Earlier to Renault primarily we were shipping to France, Turkey, Morocco and other places. Now Renault consolidates here. The expansion that we are doing is both for the domestic as well as the export market. The domestic market we are happy to expand for Toyota, which has been a fantastic company to work with and for the export market it is BMW, GKN and we are supplying further to BMW. So these are the two main places where the investments are taking place and besides that TSA is the other customer that we would be exporting to.

Ashwini Agarwal: All these new businesses are at higher margins compared to what we have seen in the past?

Arvind Kapur: Any new business which comes is all in the better margin, exports of course definitely better and even the domestic business is a better margin than the older business that we hold especially the businesses, which are 20 year old and 25 year old.

Ashwini Agarwal: So we should start to see the margin recovery, you know, margins have been trending let us say at around 11% to 12%, let us forget about the fourth quarter, which you explained very well, would we be in the ballpark if we assume say about 200 basis points of EBITDA margin improvement in March 2020, would you like to provide any guidance on that front?

Arvind Kapur: We are factoring around what you are saying, a little higher than that also and that is what the budget we have. We have said even last year that the next two years you will see our margins going to 15% and then going to 17% that is where we are heading for.

Ashwini Agarwal: 15% is what you are budgeting for in March 2020 and then 17% in March 2021?

- Arvind Kapur:** 16% and 17%.
- Ashwini Agarwal:** Okay. Thank you Sir and all the best.
- Moderator:** Thank you. The next question is from the line of Bharat Gianani from BNP Sharekhan. Please go ahead.
- Bharat Gianani:** Thank you for the opportunity. Capex I think you clarified for FY2020 it will be about 170 Crores right?
- Arvind Kapur:** 167.
- Bharat Gianani:** okay.
- Arvind Kapur:** One thing on the capex I would like to mention here. At the moment as per the budget it is 167 Crores, but what we are doing is, now every quarter we are modulating it. If at all some customer is postponing some order, we also postpone our investment in the capex. Earlier we would do it every six months, now we are doing it every quarter and we would modulate our investments. At the moment, to cross 2000 Crores, our investment requirement is 167 Crores, but if any customer delays it we will also delay our investment.
- Bharat Gianani:** Sir my question is on the domestic side of the business. I just wanted to know your revenue mix because you said export is 30% of the revenue. So in domestic what would be the split between two wheeler, passenger vehicle after market and difference if you can just provide a ballpark number?
- Arvind Kapur:** Last year it was 35% in the two wheeler and on the overall business our exports including the shipments we have sent to the consolidators it is around 30% and hopefully both increased and we remain at 30, availability around 30 to 32% that is what for the export market. The difference is very small because it is a long term project and our investment is very, very small. I think that is insignificant at the moment. We have bid for very large tenders and hopefully with the new government coming in I think those tenders would be released and possibly in the next meeting that we have we should be able to disclose whatever are the results of the tender that we have filled up.
- Bharat Gianani:** So Sir, in domestic 70% you said two-wheeler is 35% and which segments would be the rest?
- Arvind Kapur:** Passenger vehicle constitutes over 50% and commercial vehicles and other Tier-I constitute another you can say 15%. We are not saying 35% or 70%, you are talking about 35% of the overall turnover.
- Bharat Gianani:** Passenger vehicle would be 50% out of which your 30% is exports and 20% will be in the domestic market, right?
- Arvind Kapur:** Of the total turnover, yes.

- Bharat Gianani:** My next question would be what is the sense that you are getting from the domestic OEMs that when will the recovery sort of happen, like one or two quarters, still some pain is left or how is the situation like, the feedback you are getting from the OEMs and in your assessment when will the recovery start to happen, just a flavor on that?
- Arvind Kapur:** My guess is going to be as good as yours and we are judging it from the retail that is happening in the two wheeler and car business and we keep on interacting with the dealers also to see what is the pulse in the market and we see that the customers are returning, but the orders maturing is not as what used to happen earlier, but hopefully since the customers have started returning and fortunately Mr. Modi is also back, hopefully the market should start improving, let us hope after the swearing in ceremony.
- Bharat Gianani:** Thanks Sir and all the best.
- Moderator:** Thank you. The next question is from the line of Mukesh Modi from Mody Fincap. Please go ahead.
- Mukesh Modi:** Hi Sir, good evening. Sir, a couple of questions, the target for this year you are saying around 2000 Crores, that means almost 600 Crores we will be adding this year, right?
- Arvind Kapur:** Let me clarify. We will be actually adding about 500. Whatever target we have given we actually achieved it and we were hoping that we would actually cross it and be around 1500 Crores this year, but this year there was a company Magna Rico making oil pumps and water pumps and we were partners there and on March 29, 2019 we took over that company and that turnover is about 92 Crores that would also add into this because that was a 51% subsidiary of ours and we will also include the sales of that. So as a whole that will also come in. Earlier the sale was not coming and only the bottomline was coming.
- Mukesh Modi:** For FY2019, what was the turnover for Magna Rico?
- Arvind Kapur:** 92 Crores.
- Mukesh Modi:** At EBITDA level what was the contribution Sir, if you can specify for Magna Rico?
- Arvind Kapur:** EBITDA was 13% in that.
- Mukesh Modi:** 13% EBITDA?
- Arvind Kapur:** 13% EBITDA, but you must also try to understand that in the collaborated projects there were a lot of expenses, R&D, etc., etc., which was also being taken as expenses there. Those we will be saving now and we are hoping that we will cross 15% in that. We have the orders for the next three years, those are there and now of course we are aggressive about getting more and more orders and fill up the company with more orders.

- Mukesh Modi:** About the Rico Jinfei, have we reached 4 million, you were targeting by June 4 million, where are we now Sir?
- Arvind Kapur:** The capacity has been raised to 3.8 million at the moment, wheels have been approved by Hero and earlier we were supplying to Bajaj and Bajaj is also fortunately doing very well and they have also increased their demand. We are hopeful that since the wheels have been cleared in quality, hopefully by June mid or sometime we will start getting the orders and then we will ramp up, but we are ready for about 3.8 million approximately.
- Mukesh Modi:** 3.8 production target?
- Arvind Kapur:** No, that is the capacity we have already created.
- Mukesh Modi:** Okay and how much we are planning to produce Sir?
- Arvind Kapur:** We would like to produce 3.8 million and get that many orders, but the customers they ramp up slowly because we will be supplying wheels for the first time to Hero, so they will ramp up these demand month-to-month and we are confident of getting at least 2.2 to 2.5 million wheels from them and Bajaj is also increasing the requirement from us.
- Mukesh Modi:** About the CBS, I think it is in Halol right?
- Arvind Kapur:** CBS is made in three plants; Halol is very close to where Hero plant is, so we have started the assembly there.
- Mukesh Modi:** Halol is fully started?
- Arvind Kapur:** Fully in the sense that we have started ramping up. It is basically an assembly operation, the materials are sent all from here and we also intend expanding into clutches and other things there and we are working on that and that also should start I think within a month or two months we will start producing. CBS is also produced in Haridwar, which is also next to the Haridwar Hero plant and also at Gurgaon. So we supply CBS from all the three plants to the Hero plants.
- Mukesh Modi:** Sir you mentioned about this new product addition in last quarter, which was the main product if you can specify?
- Arvind Kapur:** CBS is one component, one major development that had happened. Besides that our new customer is Kia and we have already submitted the engine block samples to them, when we say samples means 300, 400, 500 pieces at a time. So those have also been submitted and evaluation is taking place because Kia as they have announced they would be introducing their vehicle somewhere in August of this year and so all the testing and everything that is required to be done. So the plant is already set, but the production is going to be somewhere in the month of July, but our total investment has already been done in the Kia component. Besides that there are a lot of BS-VI stage components coming in. Everybody needs to shift from BS-IV to BS-VI and at the moment there is a lot of overlap that is happening, lot of dies that you see this year are also on the

higher side primarily because there is a switch from BS-V to BS-VI. Here because the volumes are higher and each dye can take about 100,000 shots, we need to keep on making the current dies, which is BS-IV till the production stops and also introduce the BS-VI dies, the testing is in place. There is a lot of action that is happening at this moment, a lot of challenges that are there which we are totally involved in.

Mukesh Modi: Sir how about after sales market, how we are progressing there?

Arvind Kapur: Last year our target was 25 Crores and we were on the kissing distance of 25 Crores, we were at about 24.7 or something we had touched, so this year our target is 100 and hopefully our team is very aggressive and they are all working on that.

Mukesh Modi: Any progress on defence business?

Arvind Kapur: Defence, as I mentioned earlier it is a slow business. The total tender value is about 10000 Crores, now 10000 Crores over 10 years, that comes to about 1000 Crores per year. Those are for about seven different types of uses, now we have bid for all of them and what is the percentage of orders we get, we are hoping that the bids open soon and it got delayed by almost six months, now they are saying that possibly by July they are going to have some bids opening and then the decision will be taken for trials, etc., but the production would start I think about a year-and-a-half from now. The trials will be conducted and then the bids will be opened as far as the prices are concerned. Tentatively I think one-and-a-half year would be the time when major expansion in defence will take place. At the moment it is now the small, small things we are doing in defence.

Mukesh Modi: I think you told to the last speaker about margin, so safely we can assume around 13% to 14% EBITDA Sir for March 2020?

Arvind Kapur: Our budget is better than that and that is what the board has approved. I only hope that the market actually improves and the sales actually takes place because 2000 Crores is a very big jump, it is 30% to 35%.

Mukesh Modi: Thank you Sir and all the best.

Moderator: Thank you. We move onto the next question that is from the line of Rupen Masalia from RN Associates. Please go ahead.

Rupen Masalia: Thanks for the opportunity. Sir the question is recently we are in a hyper capex, capex heavy mode like in FY2019 we spent around 228 Crores and current year budget is around 167 Crores, so I just want to know if I take a slightly longer time horizon probably say FY2021 may be FY2022, when do you see squeezing this asset to its near peak level and secondly better deleveraging of balance sheets and improving overall capital efficiencies, that is return on capital employed rolls and dolls, so if you can throw some light your perceptiveness on this aspect?

Arvind Kapur:

We got this opportunity this year from Kia. This is for the engine blocks. Earlier the engine blocks that were made were made in iron and now because there is a change from BS-IV to BS-VI, almost all the engines will be made in aluminum. We have over 110, 115 dye casting machines with us and most of them are in the lower category of less than 1000 tonnes, but now whatever we are adding is primarily in the category of 1500, 2000 or 2500 or 3000 tonne locking force that is what where we are. For us, as we get larger it becomes more and more difficult for us to compete in the lower section because anybody and everybody can invest and get into that category. So we consciously took a decision to get into the higher category and the lower category you can actually get the component from smaller company, which can also help us to improve our margins. So that is a conscious decision which we took and in this process we got this opportunity, first we were supplying to Tata as far as the block is concerned and then it was Renault where we have been supplying for almost two years and very successful there. Because of our performance there, Kia also came in and Kia gave us this opportunity and we did not want to lose this opportunity because this is the category of the higher tonnage machines that we are talking of and each machine is in the region of about 25 Crores, 22 Crores, 30 Crores, this is the category of machines that come in as far as the large capacity dye casting machines are concerned. So we took this opportunity and that is the reason you see some major investment taking place last year and this year, but beyond this we do not see any other new maker coming in for the blocks. Unless of course we get the opportunity from Toyota, we are talking for various components and where the major investment might come in; otherwise primarily you will see the stabilization taking place from next year onwards. For the investment that we are doing today some of the production will start coming from mid next year to end next year. As I mentioned earlier that we invest one year, in case of Toyota it is two years and in the case of domestic supply it is about three to six months. That is how the whole scene is. At the moment, the investment primarily for the export market as well as the Kia and Toyota and those sorts of companies and that is why you see the investment taking place, but the turnover will come in much later.

Rupen Masalia:

So Sir would it be safe to presume that if suppose we are fortunate enough to hit our budget for FY2020 may be nearer to it, so beyond FY2020 may be in FY2021-FY2022 once the new project matures in that case we can grow at least 15% to 20% turnover without much incremental capex?

Arvind Kapur:

You will see that change happening after FY2020, you will actually see the change happening. We must all understand that there is a shift from BS-IV to BS-VI and for that there would be newer equipments also coming in, newer capacities will be created, that is happening at the moment from larger equipment coming in, different equipments coming in, so that is also what is happening. BS-VI once it kicks in then obviously BS-IV is completely out and then of course there will be complete focus. At the moment in some cases our investments are always double because we are handling BS-IV as well as we are handling BS-VI and then of course we will be handling only BS-IV and so we will actually be freeing some of the capacities that we already have, which will be transferred into the BS-VI or the newer models, which actually come in. So you will see that change actually happening from next year onwards.

- Rupen Masalia:** Sir, in this process of migration from BS-IV to BS-VI and since that would help in leaving some spare capacity going forward and with ongoing VRS exercise in the last couple of years can we expect some sort of asset monetization if not in FY2020 then may be in FY2021 or FY2022 so that you know it can help in overall deleveraging the balance sheet as well as providing some reward to minorities?
- Arvind Kapur:** We have a very big asset, which we will monetize and at the moment the market is slow, so obviously it does not make sense and we have said it earlier also. We would definitely look at the opportunity in that and to be honest with you we have started the process in the sense that vacating a particular premises so that whenever the opportunity arises we would monetize that asset. That is there in our mind and that would be done as soon as the market improves or as soon as we get the opportunity.
- Rupen Masalia:** Thank you Sir and all the very best for future.
- Moderator:** Thank you. The next question is from the line of Sanidhya Jain from K.R. Choksey. Please go ahead.
- Sanidhya Jain:** Good afternoon. Congratulations for the numbers. We have achieved the target of 1400 Crores. I had a few questions. With respect to we have taken over Magna, what kind of a growth are we expecting this year specifically from the fuel pump?
- Arvind Kapur:** This year Magna we would be repeating whatever happened last year, but there are a couple of pumps we have already bid for at Maruti and some other customers and we are aggressively following that up and hopefully we should have it before the end of the year and you will see the change coming from next year onwards. We want to take this company to 500 Crore turnover company and besides the pumps we would also be adding some more intricate assemblies where technology is also involved we would be adding in that organization.
- Sanidhya Jain:** Will that be improving the margins also with respect to Magna, will margins be maintained or it is going to reduce while you expand the new products?
- Arvind Kapur:** Now we are not paying any extra fees, sales fees, etc., to Magna so that all gets retained in the company, so that would obviously have an impact on the margin. Technology fees we are not paying them.
- Sanidhya Jain:** The second one is regarding Dharuhera plant, so what kind of a turnover can we expect this year after we have resolved the labour issue?
- Arvind Kapur:** You are an inside man, you know all the information that is why you are asking this question. Anyway I am happy you are asking this question. This year we will cross 70 Crores in any case and Dharuhera we are adding more components and our target by next year we should be doubling that to about 150 and that is what we would like to achieve. We are on it and we are also adding new components there for our new customers.

- Sanidhya Jain:** Any pressure on the alloy wheel side because many of your peer companies or many of the component companies are coming up with alloy wheels manufacturing. Are we going to sense any kind of pressure going forward like this year or next year because we have increased the capacity to 3.8 million, but at the same time do we have orders and how are we planning next year or the coming years?
- Arvind Kapur:** We are competing actually against the Chinese. The other people who invested here there are some Chinese companies who have also invested in India and set up projects here. We are obviously competing with them also, but a bulk of it is still imported from China and that change will happen and you will see the process taking place from this year onwards and people do want more stability in supplies rather than just imported from China and also have some quality issues etc., so that is the reason that people want the manufacturer to be right next door to them. At the moment a bulk of it is imported and that is what we are facing.
- Sanidhya Jain:** The major expansion which we are planning like 167 Crores, almost all the products are from the alloy wheel side right?
- Arvind Kapur:** No, that investment has taken place in alloy wheel side; there is no further investment or very little investment in the alloy wheel now. That capacity is created.
- Sanidhya Jain:** With respect to aluminum and ferrous if we divide that 167 or 170 Crores approximately?
- Arvind Kapur:** I do not know whether I will be able to divide, but in any case it will be 75 towards aluminum. It is a very broad picture I am giving you, but normally the ratio is this. This is our turnover also; it is 75 in aluminum and 25 in iron.
- Sanidhya Jain:** With respect to the capacity utilization, when we are migrating from BS-IV to BS-VI, our capacity utilizations are going to improve or how are we sensing it for like this year and the next year also FY2021?
- Arvind Kapur:** The transition will take place and at the moment since we have invested in both BS-IV and BS-VI and as the production switches more and more to BS-VI, you will find the machines getting free in BS-IV, which we will keep on converting for either BS-VI and/or even new projects we have actually taken.
- Sanidhya Jain:** Any further progress on reducing the employee cost?
- Arvind Kapur:** That is an ongoing process and this year also we have targeted reducing the manpower cost and we have also decided that the expansion that is going to take place we are now going to add any further manpower and we are going to work with whatever manpower has already been trained and with us and if possible reduce them because of the semi automation and automation that we are also investing in.
- Sanidhya Jain:** Plus the products which you will be manufacturing for Kia, you might be supplying it to their Indian division also, so will that be counted in exports?

- Arvind Kapur:** This is purely Indian, even though Kia is going to be exporting the complete assembled engine, when they use it for assembly in India then we regard it as totally domestic supply. If at all they were going to export the components to supply then of course we would regard it as exports, but our components will be assembled here so there will be domestic market, but they are going to be exporting the engines to their subsidiaries overseas.
- Sanidhya Jain:** Okay Sir, perfect. All the best for the future. Thanks a lot.
- Moderator:** Thank you. We will move on to the next question that is from the line of Bharat Gianani from BNP Sharekhan. Please go ahead.
- Bharat Gianani:** Thanks for the opportunity once again. I just wanted to check on what is the contribution of Hero in our revenue in FY2019, what is the figure?
- Arvind Kapur:** Approximately it is about 34% to 35%.
- Bharat Gianani:** Sir just continuing on the earlier question you pointed out that because of the VRS thing, the employee cost has come down in FY2019, so the VRS exercise is it largely over or is there something left in FY2020 also and what is your targeted reduction in the employee cost?
- Arvind Kapur:** What is happening is, as newer technologies are coming in, we need more educated people on the equipment that we have and to train people and we spend a lot of time in training of the people and sometimes we feel that some of the people who are in the age bracket of 40 and 50, for them to be trained and to get to the level of the new technology which are there especially in the industry 4.0 that we are talking of, it becomes a little difficult. So we do offer them that, if at all anybody takes it, he takes it, so that is the process that we adopt because now you need educated younger diploma holders and degree holders and others and also ITIs who are 12th pass and who have been trained on these newer methods of manufacturing, it is very important.
- Bharat Gianani:** No, but I was just trying to understand that most of the VRS is we have already done with?
- Arvind Kapur:** That is what I am saying, we still have people who are in the age bracket of 48 plus, so we do offer that to them even now.
- Bharat Gianani:** So we should see some of that employee savings also?
- Arvind Kapur:** Yes certainly.
- Bharat Gianani:** Thank you Sir. All the best.
- Moderator:** Thank you. The next question is from the line of Mukesh Modi from Mody Fincap. Please go ahead.
- Mukesh Modi:** The other income in this quarter, is there any one-off apart from any dividend income because it is more than double last year Y-o-Y?



- Arvind Kapur:** These were repetitive actually, the only thing which can be in doubt is the foreign currency gain that we had, that depends on the exchange there, but otherwise rental income and dividend income and other incomes and interest that we get.
- Mukesh Modi:** So these are the regular income right?
- Arvind Kapur:** Yes regular income, but this year probably it will be a little more also because reason being that Magna Rico, the dividend that they give now we will get possibly more dividend than before.
- Mukesh Modi:** Okay Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Bibhishan Jagtap from IDBI. Please go ahead.
- Bibhishan Jagtap:** Hi Sir, sorry I joined the call a little late, would it be possible for you to tell us your top five customers revenue contribution for FY2019?
- Arvind Kapur:** I can give you approximate, the top is Hero, which is about 35%, the next is BMW Global that was 15% to 16%, then is Renault Nissan, which is about 13%, then it is Maruti Suzuki around 8% to 9%, and Cummins Global and Tata Cummins in India that is also around 7% to 8%.
- Bibhishan Jagtap:** Okay that is it. Thank you.
- Moderator:** Thank you. As there are no further questions, I now hand over the conference to Mr. Siddhartha Singh for his closing comments.
- Arvind Kapur:** Thank you so much for the conference call and let me assure everybody that we are working on improving the results further and you will see the change happening quarter-to-quarter. We are determined to achieve the budget figures that we have presented to the board and last year we could match the sale, but the bottomline should have been better, overall it was better, but we could have actually exceeded that, BUT this year hopefully you will see a different Rico. Thank you so much for the conference.
- Siddhartha Singh:** Thank you ladies and gentlemen, on behalf of S-Ancial Technologies that concludes today conference. Thank you for joining us and you may now disconnect your lines. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, with that we conclude today's conference. Thank you for joining us. You may now disconnect your lines.