

**RICO AUTO INDUSTRIES LIMITED**

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Sub : **Transcript of Conference Call held on 5th November, 2018**


Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 5th November, 2018 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 FY19 Earnings Conference
Call”**

November 05, 2018



**MANAGEMENT: MR. ARVIND KAPUR – CHAIRMAN, CEO AND
MANAGING DIRECTOR, RICO AUTO INDUSTRIES
LIMITED
MR. O. P. AGGARWAL – FINANCIAL ADVISOR, RICO
AUTO INDUSTRIES LIMITED
MR. SURENDRA SINGH – COO, RICO AUTO
INDUSTRIES LIMITED
MR. RAKESH SHARMA – CFO, RICO AUTO INDUSTRIES
LIMITED
MR. SANDEEP RAJPAL – MARKETING HEAD, RICO
AUTO INDUSTRIES LIMITED
MR. B M JHAMB - COMPANY SECRETARY, RICO AUTO
INDUSTRIES LIMITED**

MODERATOR: MR. SANIDHYA JAIN - S-ANCIAL TECHNOLOGIES

Moderator: Ladies and gentlemen, good day and welcome to Rico Auto Industries Limited Q2 FY19 Earnings Conference Call hosted by S-Ancial Technologies. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanidhya Jain from S-Ancial Technologies. Thank you and over to you, sir.

Sanidhya Jain: Good afternoon, everybody. I am Sanidhya Jain from S-Ancial Technologies. Welcome you all to Rico Auto Industries Limited Q2 Earnings Call. From the management team, we have Mr. Arvind Kapur – Chairman, CEO and Managing Director, Mr. O. P. Aggarwal – Financial Advisor, Mr. Rakesh Sharma – CFO, Mr. Sandeep Rajpal – Marketing Head and Mr. B M Jhamb, who is the Company Secretary. Mr. Surendra Singh – COO. May I now request Mr. Kapur to take us through the initial remarks and subsequent to that we will open the floor for Q&A session. Over to you, sir.

Arvind Kapur: Good evening. My name is Arvind Kapur from Rico Auto. Welcome you all for the call today and happy Dhanteras and also in advance wishing you a happy Diwali and happy New Year. So, by and large we have our results were as per our budget and also as per what we had conveyed to you last time and if you look at the industry, the 2-wheeler industry that grew by about 12% and the 3 wheeler industry also grew. But the car industry did grow but did not grow at the level that was expected earlier. And we understand that this is partially because of the crisis in the NBFCs and the funding that is required to be done for the cars. And not that the 2-wheelers are not funded, they are also funded but fortunately 2-wheelers are cheaper, and we have noticed that whenever the petrol prices go up and the funding comes a little tight, the sale of the 2-wheelers goes up and the cars normally come down. Commercial vehicles are doing well and whether it is pre-buying because of the Bharat stage-VI or there is a general demand. I think it is a pent-up demand as well as the pre-buying with probably start from early next year onwards. So, overall there was a growth in the auto industry and the exports also we had, our exports are better than before. And we were fortunate that our customers like Hero and BMW they grew and so, we could participate in their growth. But our growth was higher than whatever the growth of Hero was and also the growth of BMW because these are re-addition of newer components which are coming in and both decisions that we are getting and the share of business that we are getting from our regular customers.

We have had some issues as far as the Renault concerned in India. The domestic sales have come down and so, there that was a disappointment. But the exports to Renault were okay and similarly our other customers has done well and the off road vehicles are doing well. The commercial vehicles are doing well, so our sales to TATA Cummins and Cummins globally has been good. And we are adding new clients, we have won orders from Kia Motors, PSA, Punch Powertrain and Daimler. These are the new customers we have added. Having said that we have also won new businesses from our current customers which include Hero, BMW some components from Renault and also from the other customers that we have from PCL as

well as Cummins and Maruti and so, we are fortunate to give our components and production of some other components start this year and some of them will for the domestic market will start next year. Our order book is pretty healthy. Last time we had told you that we had in the first quarter we had received orders worth about 1,700 crores-1,800 crores and till date the orders this year we have the program like one of the components that we are talking about is close to 2,250 crores for this current year and we still have couple of months left and we are confident that we will win more businesses from our current customers as well as from new customers.

I did mention last year that we are also participating in the electric programs of our customer's like BMW, PSA and Renault. We have won orders from them and we are putting up capacities. In some cases we have already submitted the samples and some cases we are in the process of submitting samples and we are negotiating for further orders from BMW and other customers for the electric vehicles as well. In the 2-wheelers we are, I did mention last time that we are developing new clutches after our separation from our erstwhile partner. And now we have a very big R&D fully equipped with all the test equipments for testing all the clutches that we are manufacturing and also designing and along with that we got the test equipment for the CVT and these are for the scooters. We will start the process of developing the CVTs as well and the CBS the braking system which is mandatory to be sold in all the motor cycles and 2-wheelers. We have already developed those and we should be in production by the end of this month or beginning next month we should be in regular production. On the alloy wheel front, we have started expanding our capacity the equipment has started coming in. By December we would be in the region of about 3 million and that would be the capacity we would have and by June/ July 2019 we should be in the region of close to a capacity of 4 million vehicles. And we are fairly confident we should be able to sell our capacity to the current customers as well as also the new customers that we are talking to.

We are spending a lot of money on R&D and primarily so that we can offer complete solutions to our customers and in corporation with our customers we are expanding further into newer products as far as R&D is concerned. Our expenses around 1% to 1.5%, that is the range that we are working in and we would be spending more money on the transmission components as well. Along with that we also spending money on some R&D we are doing on structural parts which are meant for lightweighting of all the vehicles that are on the road. As the electric vehicles come in, their lightweighting would be important but also the Euro-VI requirement would also have increased use of aluminum in the cars and we hope to take advantage of that because we are fairly large in aluminum and we are investing a lot of money on large capacity large tonnage Die casting machines. The after-market, as per plan this year we should be in the region of 25 crores, we should be able to achieve this and next year our target is to be around 100 crores. And our people, our teams are working very hard on that and I am repeating again we are investing on high tonnage Die casting machines those are all 1,400 tonnes and above to up to 3,300 tonnes which has 1 or 2 machines in the country as that capacity. So, these are some of the capacity and this is some of the activities which are taking place in the company and we are still bullish on what would happen.

Month of October was okay and our sales were good and November people are anticipating this may come down but we hope to retain our share of the businesses and go as per the budget. December is on the slow and that is also factored in our budget but because in December many companies also close down for maintenance and because of change of model many companies also try to postpone the production of the 2-wheelers as well as especially the cars they like to postpone that to the New Year. So, we have planned a production as per the production of our customers and we hope that this quarter should also be okay for us. That is from my side and if anybody has any questions please do, because anybody want to add anything?

Moderator: Thank you. We will now begin the question-answer session. The first question is from the line of Bharat Gianani from Sharekhan. Please go ahead.

Bharat Gianani: I had 2 questions, out of the current order book that we have how much would be new orders and how much would be the existing orders, from existing clients?

Management: So, out of the 2,250 new order book that we have around 1,700 is the new orders that we have got and around 550 is the replacement orders that we have got total into 2,250. So, what is mean by that is, that the new orders of new components which we, which will increase our turnover and utilization of capacity. And the 550 crores that we are talking of are some of the like from Bharat stage-IV we are going to Bharat stage-VI and some of the components will be replaced by the Bharat stage-VI components. So, that amounts to about 550 crores. Yes, although those components are new but they are replacing the running parts, so we are showing that, I mean selling that this was separate 550. We are just demarcating that that it is total is 2,250.

Bharat Gianani: And on the CAPEX side, what is your plan for this year and next year?

Management: This year it took us a while we had to convince our board too, we wanted around 250 crores to be invested this year. But the board had approved after a lot of struggle we had, they gave us permission for 200 crores and that is what we done this year. We think that we will be able to save on that and we will be able to postpone part of the investment because in some cases some of the customers have delayed the programs and as did or we are in some cases we run our machines more efficiently and free some machines up. So in that case, I think this year we would end up around 160 crores to 170 crores.

Bharat Gianani: And any indication of the next year?

Management: Next year earlier we had indicated that, see some of this year would get postponed to next year. And next year we had already factored about almost 60 crores and about 40 crores getting postponed from here. So, at the moment the visibility is 100 crores but we have got firm up all the plants.

- Moderator:** Thank you. The next question is from the line of Mukesh Mody from Mody FinCap. Please go ahead.
- Mukesh Mody:** Sir, my question is, I mean 2,250 program which you had been mentioned, so and the first quarter it was 500. So, this quarter we had 750 crores, right the program value?
- Management:** The program value for the H1, I mean first 6 months or 7 months till now is around 2,250 crores.
- Mukesh Mody:** So, first part we had 1,500?
- Management:** Yes, first we had around 1,700 approximately.
- Mukesh Modi:** So, we added 500 this year, this quarter?
- Management:** No, last year was 2,600 crores and this year from April onwards to date we have added another 2,250 crores. This is in addition to the last year that we have.
- Mukesh Modi:** This is addition to last year?
- Management:** Yes.
- Mukesh Modi:** And sir, the CAPEX which you mentioned about 150 crores, how much we have spent till date?
- Management:** What we spend till now is 90 crores. We have already spent, yes.
- Mukesh Modi:** And sir, if you can share just in first half, can you share the Rico Jinfei contribution?
- Management:** Sale till now is 72 crores.
- Mukesh Modi:** 72 crores the first half?
- Management:** Yes, that is not with enhance capacity that is with the part capacity that we were carrying on with.
- Mukesh Modi:** And sir, if you can share the debt also as of now, I mean what will be the, because the interest burden we have seen has gone substantially this quarter.
- Management:** Yes, it is on account of like we shared earlier also that CAPEX we are utilizing Bank money this time just to correct our debt equity ratio because that will in long run will improve our return on equity. So, that is why this interest, some interest will come but we are arranging funds at a very competitive rates. So, it should not be very high but of course, with the CAPEX happening some interest cost increase will be there.

- Mukesh Modi:** So, we will be incurring almost all the CAPEX by debt, am I right sir?
- Management:** Yes, so our debt equity ratio will never increase 0.5. It will be within that, that we promise earlier also and that we are keeping it.
- Management:** That is the commitment to the board also once that we will not exceed 0.5.
- Mukesh Modi:** What is the status of Sanand plant? Have we started or, I mean in what stage it is as of now?
- Management:** No, Sanand plant is at the moment it is empty. We vacated it in the sense that we took out all equipments that we required in all our plants and we have been able to commission those machines in our plant in Chennai and also in plant in Bawal. And now with Hero and Maruti that we have been, we have won some businesses from Hero and Maruti for that plants in Gujarat. So, we are looking at the possibility of using the Sanand plant for assembling hero component as well as also shipping to Maruti.
- Moderator:** Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.
- Giriraj Daga:** Just the I missed early said that on the guidance last quarter we spoke about Rs. 1,500 revenue guidance in FY19. So, are we retaining that guidance?
- Management:** Yes, our target is to achieve 1,500 crores this year and we are all working very hard for that and I think we should be able to achieve that.
- Giriraj Daga:** Any thoughts on the 1500 situation because what we are hearing on the OEM side lot of cut downs in the 2-wheeler side of it and some month CV side also some disappointment also. So, do you think this was like a challenging task versus when you are looking at 3 months back? Or situation is more or less okay?
- Management:** See, what is happening is that like I mentioned earlier normally we have seen in the last maybe last 30 years we have seen that whenever the petrol prices go up the 2-wheeler sales also go up and the car sales come down. Now, fortunately Hero has been doing well and the other motor cycle people also doing well and there is of course some tension that is there in the market. That is the possibility of cut down but we are slightly lucky position that we had pick up both variety of components. So, for the 2-wheeler industry is going to go a little larger than before. And so we do not expect drop in the sales but we feel that even if there is a sale which is the same as last year, we will be able to achieve whatever turnover we have with our 2-wheeler partners branded about are kitty of the component is increasing.
- Giriraj Daga:** My last thing on the margin side, are we gaining in FY19 outlook of target for FY19 margins? FY20 last time we spoke about 15%. So, for FY19?
- Management:** We have maintained that, at the moment we are 12% plus and our very clear the way we are the direction that we have taken is that 15% is what we have for the theme. Yes, we have

mentioned that we might exceed 15 also in the 3 to 4 years and we are working in that direction and we are working on automation and we are also working on how more efficiently we can use our equipment, our capital that is spend on our machines and so, we are in the same direction and our target is 15%.

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

Suhani Doshi: Sir, just wanted to confirm of this 2,250 crores order book which you won in first half. Can you give me a break up of the orders won in the first quarter and the orders won in the second quarter?

Management: We can approximate it but ...

Management: Around 1,700 odd program value we had won till Aug 18 approximately and around 500 plus we have won till now in Nov. And there are many programs which are under discussion with the customers and it depends on the timing of the final conclusion of the negotiation and sourcing. So, we are quite bullish that in the coming 4 to 5 months that we have in this financial year. We will be able to close some more businesses and take our tally almost very near to where we were last year of around 2,600 crores(for 31.03.18), upto date 2250 Cr that we have. Our target is to do more than last year.

Suhani Doshi: And of this 2,600 order book which you closed FY18, can you help us understand whether you are ramping up is as per your guidance or how is the ramping up of the old order book happening?

Management: Yes, that is happening as per our plan which we are seeing. Although in automotive there are certain fluctuations that keep coming. But as of now as we seek, so FY19 whatever we had projected we are doing very close to that. But I like to add one thing to your question, last year there was other than orders we received, when we say order received it is a confirmed order we have and also advances from our customers. There is one customer that we will lose out all that is not in auto but that is some aluminum components and the total turnover of that was 60 crores we have factored in that. So, that is one order that is going to come, even though they have sent us advances I think their program has been delayed that is part of sowing machine order. And they have delayed but even though, so what all money we had spent they had given us money in advance.

Suhani Doshi: So, only this 60 crores of the old order book has been delayed more than your existing ...

Management: Yes.

Suhani Doshi: And is it possible for you to give us a break up of the customer in terms of percentage revenue?

Management: Normally, we do not share that ...

- Suhani Doshi:** Or any increase in share by any of the particular customers?
- Management:** When you say increase in share means what? Our percentage of sales with the customer?
- Suhani Doshi:** In the customer's book as well as in your revenue it was 34% ...
- Management:** In our revenue we have always publicly declared our top 4-5 customers and we expect to the same and we are in the same range. Hero is number one, number 2 is BMW and the Renault and Maruti and these are the companies that we are dealing with in that order.
- Suhani Doshi:** And is it possible to give a breakup of the order book in terms of export and domestic?
- Management:** Yes, we can tell you that.
- Management:** But I will give you the sales but having said that you must realize that more and more these are global platforms which are coming up. So, we have almost like if at all I get an order from Brazil, those vehicles may in future be sold in India as well. So, we start with the export but later on they come into India and in some cases, we start making parts for India market and later those same parts are exported as well as an example Renault & PSA programs. It would be for the domestic market as well as the export market. So, it is a mix of, but the platforms are common. So, the same component would be sold in India same component would be exported. So, that all depends on the market because these customers are huge, customers large customers who have a major demand in their overseas companies. But we can tell you the approximate idea what's the export and domestic market is . Just give us a minute we will share that with you. In the mean time you can carry on.
- Moderator:** Thank you. The next question is a follow up question from line of Bharat Gianani from Sharekhan. Please go ahead.
- Bharat Gianani:** I just wanted to know like the segment wise what would be our contribution like how much our revenues deriving from 2-wheeler, 4-wheeler and CV like?
- Management:** Our 2-wheeler is about 37% and then we have a mix of commercial vehicles as well as the cars. So, the 4 wheelers is about 50% that includes the exports and balance is commercial vehicles.
- Bharat Gianani:** So, just one clarification sir, 2-wheeler mostly is all is domestic on by and large e and passenger car what would be export in domestic, roughly, the split?
- Management:** Passenger maybe, 50-50 on the domestic. About 50-50 or 45-55, having a guess but I am very close to what I am saying.
- Bharat Gianani:** So, export is 55.

- Management:** No, export would be 50 and domestic market would be 50 about 50-50 I am talking of the car now that is totally for the domestic market.
- Bharat Gianani:** And CV would also be all domestic?
- Management:** No, CV is primarily export again and ...
- Management:** The TATA Cummins is domestic and then Cummins in the US then Caterpillar off road vehicles and Eaton are exports. So, 13% is the commercial vehicles ...
- Management:** Out of that around 6%-7% is export.
- Bharat Gianani:** So, year also half-half is prevailing?
- Management:** 60-40, 60% is Exports and 40 is Domestic
- Bharat Gianani:** And this mix given the order book that you have won, I think mostly it will be from the passenger car side. So, what is the mix that you envisage let us say 2 or 3 years down the line?
- Management:** See, at the moment our export is in the region 30% plus minus 2% depending on the of course current fluctuation also makes the different. And we want to take this to 40% plus and then go to 50% as far as the export market is concerned. So, we are heading in that direction and I think, in next couple of years, next 2-3 years you see a major change coming the domestic and the export front.
- Bharat Gianani:** And this would be primarily passenger car only, that will drive the growth.
- Management:** Passenger cars, commercial vehicles, off road vehicles and there is a possibility of 2-wheeler components also for the high-end vehicles. That percentage will be very low.
- Management:** One question from Edelweiss. It is almost 50-50 export and domestic from that one of value that we have talking off.
- Moderator:** Thank you. We have the next question from the line of Rupen Masaliya from AN Association. Please go ahead.
- Rupen Masaliya:** Sir, the question is basically replacement market strategy you all are planning to scale up the business from roughly 25 crores-30 crores in FY19 to around 100 odd crores in FY20. So, like how you are going to execute it and how confident you are to achieve that number in FY20? That is number one. And number two, how the margin pans out in after-market vis-à-vis OEM or export and post GST have you seen migration of share from unorganized players to organized players?
- Management:** Answering your GST question first. We went to the after-market only after we were sure that GST is coming in and so we have started in the month of May last year and GST came in a

couple of months later than that. If GST was not coming in we were not coming into the after-market because we could not compete with the people who later on the cash and the unorganized sector. That is as one of the GST and the after-market concern. But we do see a change in the after-market. There is a tendency of the regular players coming into the market now and the products, but we do have challenges, we still have the challenges people are duplicating and replicating whatever we are doing and selling that is under our brand which we are taking up very seriously and we are. So but having said that let me tell you that we were a very popular company in the after-market even though we were not selling in the after-market primarily because all the copy makers using our name to sell our products. Now since we, the original company is come in, so people know us very well and they know that we will deliver the quality. So, we are very well known in the market. We are very confident that the items we entered up primarily is the clutches and braking system, etc. where the replacement is there. Every from 20,000 to 40,000 kilometers one does replace the clutch and also the braking system. So, we are mostly in those components where the replacement is there and the margins are good. After-market margins are good and the margins in the exports also it challenges the high-volume engine sales and OEMs there of course, the challenge is there for the margin and but we tend to improve the margins there as well.

Moderator:

Thank you. The next question is from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.

Bajrang Bafna:

Sir, broadly if you could make us understand the execution period of the programs for which the value you have disclosed that last year it was 2,600 crores. This year we are also targeting to surpass even that number. So, how that progression will happen in our revenues? And secondly, we were also catering to lot of MNC players like BMW was a good customer for us. And which are the new MNC players from where we have the confidence that we can enter into newer programs with these MNCs if you could clarify in that ground will be really helpful.

Management:

See, what we have been working is very close engagement with our customers. And all these programs which require lead time of our development, testing and validations. So, most programs which we won in last year some of them we were able to start the production this year already and some towards the end of this financial year we will start. And there are certain programs of the BS, migration of BS-IV to BS-VI those all the development is happening right now. But the actual sales maturation will happen towards the last quarter of 2019 in December once they switch over from BS-IV to BS-VI. As far as all the electric programs that we have won those are 2,020 programs of SOP starts in 2020 and so, for that development cycle is almost 1.5 years more. And samples have been submitted for various milestones that are planned within this quarter till the end of 2019. So, various milestones we have to achieve of various testing validation that because this are some new vehicles, new technology. So, everybody is little cautious and they have to take all the gear in doing all the testing validation. So, that is the orders that we have won this year. Some of the orders from Hero will start to get into productions almost by December and January and some BS-VI again will go but CBS and all as we were discussing those go into production from this month onwards. So, there is a

huge chunk of business which is getting into production from middle of next year onwards. They will start coming into the sales and our focus is to see or soon we can turn it around and make it but these are all linked to the customer program. So, we are working as per the customer timelines to achieve those.

Bajrang Bafna:

So, when we give guidance of this 1,500 crores for this year this hardly include anything from these newer programs with that we have own last year and this year. So, major traction we might see from these programs may be second half of next year. Would that understanding be correct?

Management:

In this 1,500 almost 90 crores to 100 crores is coming from the businesses which we won last year which have gone into production and some of this year which will be starting from say October-November onwards till the March financial. So, these are included in this 1,500. And just to give you a broad guideline of this the most of the export businesses and the new products we can develop. It is about a year and a half cycle before it comes into production because that also includes sample giving and setting up the lines, etc. So, year and a half to maximum 2 years before the start of production and for the domestic players like Hero and Maruti and others it is much faster. It happens within a year normally the start of production happens. So, that is the broad way it works. But having said that now the new players like PSA and KIA coming us to India their programs are little longer than the regular domestic players. But once they are regular in India, I am sure their programs will also start of much faster.

Management:

And just to add, right now some of the new programs that we are bidding for those have SOPs in 2022 and 2023, those are Euro-VII programs. So, that is the kind of times OEMs have been in mind when they start the discussions for sourcing by the time it gets into production at their end. So, there is a huge, when a new total new series engines or transmissions, it takes almost 3 to 4 years also now. So, when it is a major change of technology then of course, that is the time that is the reason it will be longer because a lot of testing and validation is also required.

Bajrang Bafna:

So, my objective is to understand that this 1,300 crores-1,400 crores is the regular business that anyway we are doing. Now, we are entering into couple of new programs which is based on new technology and new platforms. So, that will be a new growth driver for us. So, when we can see the major traction like we have seen 10%-15%-20% growth but when this programs materializes? How the growth will look like maybe 2 to 3 years down the line because I think we have given guidance for this year and of course for the next year also. But broadly when can we see the major traction of these newer programs will kick in our revenues and so for that matter in the bottomline also? So, what could be that year which we should look into for these newer programs?

Management:

See, 20% increase you will see year-on-year more than 20% and 20 and beyond. And but the major interaction that you will see when these programs kick in that was done in the year 2020.

Bajrang Bafna:

So, that will be FY21, next to next year?

- Management:** Yes.
- Bajrang Bafna:** And by that time we will be reaching to our margins guidance of around 14%-15%?
- Management:** Yes, that is what our target.
- Bajrang Bafna:** And sir, just the last question. How do we see, you have already guided that at any given point of time we will not increase our debt to equity ratio more than 0.5. So, can we work with that guidance even with the CAPEX that will enter into this year and the next year, so that ratio will be broadly maintained?
- Management:** Absolutely, the board does not care our project. Board is very clear on that. Fortunately we have some financial experts on the board and we are very tough about it.
- Bajrang Bafna:** And what is the CAPEX guidance that you could just share for this year and the next year?
- Management:** See, this year the board has sanctioned 200 crores even though we wanted 260 crores but we should not exceed 150 crores-160 crores this year. And because we are trying to utilize our current equipment to the best of our abilities, so that the investments are not put in wherever we can postpone we do postpone that. And we should be in the region of about 160 crores this year. Next year we had given earlier guidance of about what we visibility that we had was of about 60 crores and now they would be postponed on but 40 crores to 50 crores on this year. So, at the moment the visibility is 100 crores but we are looking at the newer orders we can pick up where the SOP start a production can be next year. If it is next year there of course investments would go up otherwise we would probably be in this region.
- Bajrang Bafna:** So on the finer side 100 crores and on the higher side may be not more than 200 crores.
- Management:** No, not at all. We are not looking at the acquiring companies.
- Bajrang Bafna:** And sir, what is the broad capacity utilization levels for us currently and what is the potential revenue that we could achieve by the asset base that we are having currently?
- Management:** There is one plant we have which is the Dharuhera plant which is being totally underutilized and in that plant our turn over used to in the range region of about 350 crores. So, at the moment the turnover is about 50 crores and we have the potential of increasing our capacity utilization there by almost 300 crores. We had some labor issues there and which we are kind of sort out and we have been able to give manpower there and ones the completion, I mean takes place, I am hopefully in this coming quarter and we are going to utilize that capacity as well. So, that is the virgin capacity available to us or at least about 250 crores-300 crores which can be added without any CAPEX. But if you look at the rest of the plant the higher tonnage machines, we are at the detail of about almost 80% utilization and now we are adding more machines will come down to about 60% utilization. 55% to 60% and then we will have that additional capacity for utilizing and going up to about 75%-80%. Before we me make further investments on those capacity or machine and in the metal side, in the iron ore side we

are in the region of 65% utilization and we are increasing our utilization of the foundry where the utilization is 65%-70%. But the machining side normally we are in tradition of about 85% to 90%. So, whenever there is an add-on, add less in the casting side, we had more on the machining side that is the value addition actually comes in.

Moderator: Thank you. The next question is from the line of Sankar Naryan from Seraphic Management. Please go ahead.

Sankar Naryan: I just wanted to understand from the second half of last year raw MAT as a percentage of sales has been going up consequentially your gross margin has come down. So, if I see the trend that kind of continuous in the first 2 quarters as well. So, what I want to understand is reason of mix change that is happened that we would continue to see gross margins at where you have seen now or you think that the pass through for raw material cost take a longer time and it will eventually come back to your.

Management: No you said at as a pass through. See with various customers some people give us the prices after 3 months and some cases they give us after 6 months. And so that is the average that it takes for the next 3 months or 6 months. So, what is happening is since last year the aluminium prices and iron ore steel prices are going up and up. So you always see a lag in that as far as the raw material is concerned. Now, we are hoping and waiting that from next quarter onwards the aluminium and iron ore scrap prices will start coming down. And that is the time we will actually recover or you see our total raw material percentage coming down. So, this is the problem we have with this lag effect that is happening.

Management: And also some of the components that we have developed or we have won slightly higher raw material percentage also been there in certain components. So, overall it is just skewing the average a little bit but primarily the lag effect is the key reason.

Sankar Naryan: Will be kind of get to because I think the first half of last year it was around 47.7% was the raw mat cost. So and I think the second half on an average last year it was around 50%. So, would you say that it would be the same, once the correction happens or is the mix for the new components change that 50% might be not 50, it will be around 51 or so. Just wanted to understand.

Management: There are 2 impacts on this. One is the when this Dollar, wherever the Dollar fluctuates and the Rupee gets weak are import or the aluminium prices are global prices, the LMV prices are that what we take and because of the higher cost per kg, what happens is that that will get corrected, I think cost per kg will get corrected. But what happens is your turn over goes up and but your margins not go up, this is what happens and we have noticed that the percentage of raw material cost are benefitted all are goes up and as it rupee get strongest we find the change happening the other way. But we should be in the region of about 48% plus minus 1% that is the range that we would gain.

Sankar Naryan: And that you think should possibly happen on the second half or by the first quarter?

- Management:** We are waiting for the prices grow go the other way and we are hoping that the first quarter this will happen.
- Management:** Aluminium prices are started to soften a little bit but iron is still pretty stable at the current rates. So, we hope that iron ore prices also will start to go down from next quarter.
- Moderator:** Thank you. We have a follow up question from the line of Bharat Gianani from Sharekhan. Please go ahead.
- Bharat Gianani:** The order book given that we have and the execution plants that you have, we know the FY19 topline guidance of 1,500 crores based on the timing of the execution of the large order book that you had last year and that we are continuing to add. What is your topline guidance for FY20?
- Management:** Our internal target is 2,000 crores that what we have taken but we are still firming on that is the internal target that we have. But as a guidance we always say calendar 20 that we are talking of.
- Moderator:** Thank you. The next question is from the line of Suhani Doshi from Edelweiss. Please go ahead.
- Suhani Doshi:** I just wanted to check our EBITDA margins have been improving sequentially. So, wanted to know where we should close our EBITDA margin for the year. Do we see further improvement from your in terms of sequential?
- Management:** For this year?
- Suhani Doshi:** Yes, for this year FY19.
- Management:** Yes, this year also, see we have been saying that we target at least say 100 basis point in improvement year-on-year. So, we should be able to achieve that this year also.
- Management:** You will see a change coming every half year, you see some improvement or even quarter-to-quarter you will see some projected changes that will happen and ...
- Suhani Doshi:** Sir, 100 basis improvement for the year actually is already happened. We close the year at 10.8 and now we are 11.8. So from here on what is for the improvement we see for the year?
- Management:** like you said that the guidance we have given is that next 2-3 years we are going to do 15% and so ...
- Management:** So if we can achieve that earlier you should be happy but we are trying for that.
- Management:** we should be happy. We are working on it and we are looking at 13% plus we are going to 14% and 15%.

- Moderator:** Thank you. The next question is from the line of Varun Basrur from AQF Advisors. Please go ahead.
- Varun Basrur:** So, you guided this 15% margin which you guided in the next year or two that is other income ...
- Management:** 2 to 3 years, not 1 or 2.
- Varun Basrur:** That is margin including the other income, is it?
- Management:** Yes, that is the total we are talking off.
- Varun Basrur:** And sir, one more thing is if you get, if your gross margin remains at let say 48.5 levels still in 2 to 3 years as you said you will be able to touch 15%. It is not that your gross margins also have to improve for you to hit 15%.
- Management:** No, we are talking of EBITDA margins. So that includes everything.
- Varun Basrur:** No sir, that is why I am asking sir. If your gross margin remains at about 48% or maybe little maybe 50 bps-100 bps more than that, still you will be able to hit about 15% in 2 or 3 years EBITDA margin levels correct?
- Management:** Yes, we will. Now on the raw material front let me add something. It depends a lot also on the mix-up components that we have and as the mix changes the raw material percentage can come down to 46-47 also and so it all depends on the mix of components and the value addition we do on the components. In some cases, we supply only castings and the raw material percentage higher. But most of the component that we are now picking up are more intricate, more complicated and more value additions are there where the raw material contents less. So, a lot depends on the mix that we pick up and we start producing and **as demanded** this is what happens as well as raw material content is concerned.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Sanidhya Jain for closing comments.
- Sanidhya Jain:** Thank you Jahnvi. On behalf of S-Ancial, I thank management and all the participants' for joining us on the call. Wish you all a very happy Diwali in Advance. Thank you, good bye.
- Management:** Good bye, thank you so much everyone, bye.
- Moderator:** Thank you, on behalf of S-Ancial Technologies, we conclude this conference. Thank you for joining us and you may now disconnect your lines.