

**RICO AUTO INDUSTRIES LIMITED**

REGD. & CORP. OFFICE : 38 K.M. STONE, DELHI-JAIPUR HIGHWAY, GURUGRAM -122001, HARYANA (INDIA)  
EMAIL : rico@ricoauto.in WEBSITE : www.ricoauto.in TEL.: +91 124 2824000 FAX : +91 124 2824200  
CIN : L34300HR1983PLC023187

RAIL:SEC:2020

November 17, 2020

BSE Limited Phiroze Jeejeebhoy Towers Dalal Street Mumbai - 400001  Scrip Code - <b>520008</b>	National Stock Exchange of India Limited Exchange Plaza, 5 <sup>th</sup> Floor, Plot No.C/1, G Block Bandra-Kurla Complex, Bandra (E) Mumbai - 400 051  Scrip Code - <b>RICOAUTO</b>
---	--

Sub : Transcript of Conference Call held on 9<sup>th</sup> November, 2020

Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 9<sup>th</sup> November, 2020 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 FY 2021 Earnings  
Conference Call”**

**November 09, 2020**



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

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

**Moderator:** Ladies and gentlemen, good day, and welcome to the Q2 FY 2021 Earnings Conference Call of Rico Auto Industries Limited, hosted by S-Ancial Technologies Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by entering ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Saurabh Bhavne from S-Ancial Technologies Limited. Thank you and over to you, sir.

**Saurabh Bhavne:** Thank you. And good evening, everyone. And welcome to Rico Auto Industries Limited's Q2 FY 2021 Earnings Conference Call. From the Management we have Mr. Arvind Kapur – Chairman, CEO and MD; Mr. O.P. Aggarwal – Chief Advisor; Mr. Surendra Singh – President and COO, Mr. Rakesh Sharma – CFO; Mr. Sandeep Rajpal – Vice President, Marketing; Mr. BM Jhamb – Company Secretary.

Now may I request Mr. Arvind Kapur to take us through his opening remarks, subsequent to which we can open up the floor for the Q&A session. Thank you and over to you, sir.

**Arvind Kapur:** Good evening. My name is Arvind Kapur, and I have my colleagues all with me in the conference office. I would like to start by saying that this quarter has been good in many ways and has also been bad for the company in some ways. And I would cover up both the good as well as what has pulled us back a little bit this quarter.

The market fortunately has been good for us, the two-wheeler as well as the four-wheeler market, the car market. And we have been able to get larger share of business from all our customers in the two-wheeler industry as well as the car industry. Our growth with the companies has been higher than whatever the companies have grown by, if they have grown by 10%, we have grown by 15% with them. So, if you look at the sale to Hero MotoCorp and to Maruti, is much higher than what we had budgeted and what we had anticipated, which really surprised us, primarily because the pull in the market has been pretty high.

Some concerns, one is of course, we are all hoping that this festive season the sales are good. Car sales are still good and the two-wheeler sales there is a lot of stocking that is happening in the market and that is normally done around the Diwali season and that is the time when they have the highest sales. But the retail sales, retail registrations have not been to the extent to which the wholesale market has -- to the scale of the production that have actually happened. But we are hoping that going by the past experiences, all the stocks would be finished before the end of the festive season. We are all hoping for that. And adding to all this is primarily the requirement of all the customers, social distancing, and because the COVID cases are going up, there is more demand for both the new vehicles as well as the secondhand vehicles. And we are dealing mainly with the new vehicles. And we see that pull from the customers, that's mainly because people want individual transportation.

On the performance side, if we look at our performance, we had dimensioned at the last meeting that our target is that we should be able to achieve (+12.5%) EBITDA. Practically, we achieved an EBITDA of about close to 12%, but there were some expenses which we had promised you last time that they will not be there, and there were some unforeseen circumstances which happened here. One was the air freight, the premium freights which we had said that we will be getting out of the air freight and also cost of poor quality. Now, the situation that happened immediately after the opening of the plant, there was a lot of migratory labour who had gone back to the villages, and so we had to hire a lot of new people, as a result of which there was poor quality which is produced here and got shipped to our customers. And so subsequently we had to do the re-inspection of the goods in Germany and also get some components repaired there. So, that was a miss that happened in this particular quarter.

And besides that, because of the efficiency of the new operator and absenteeism that was taking place, and also because of the social distancing which was required in case there was any COVID case detected in the plant, there was a lot of fluctuation in the labour. We have got over it and we are now producing very good parts and the shipments are all going on time. But in the meantime the air freights had taken place, and the air freights, there were a couple of reasons. One was, of course, lower production at our end. Number two was missing our shipments, basically the ships bypassing the mudra port and/or the port of destination that the ships were not docking there because of the closure of those ports. And so the goods were staying on the sea for a longer period. And now, we still have a shortage of containers, which happens. There is a pull on the containers and some delays do happen because of that. But we are gradually getting over it and we are hoping that by the end of this month in November we should have both sea and air freights taking place. But the air freights will subsequently come down.

So this will be negative that has happened in the quarter. And if you take that in consideration, then of course our EBITDA actually dropped. But we are confident. Now we had to deliver the goods, and unfortunately in those COVID times, even by air shipment was also very difficult. All the airlines had stopped, there were very, very few freighters which were in operation. And so we had to divert goods from various destinations so that the customer would get it on time. And because we could not afford to stop the lines of our customer, because we are a single source and that is a service that we provide to the customer. And so all the problems that happened now have been taken care of, but those are problems actually created by us and we have got over it. And we are hopeful that by November end or mid-December there would be no more air freights that will take place, no premium freights and no cost of poor quality or inspection to take place both at customer and also the additional gates that we provided in our plant.

And this happened primarily in one plant that is the Bawal plant, which is a very important facility for us. We have all the technologies, the best technologies of the world in that particular plant. But all the other plants performed well, except this Bawal plant which actually pulled us down. But all the other plants, they have been delivering as per the requirements of the customer and as per the total the admitting the sudden spikes that have taken place in demand. And also meeting the demand of the customers when the other plants failed, when I say other plants I mean our competition failed to supply to the OEMs, our people actually pitched them to increase

the production and supply to the customers. So we have been successful in the other plants, except the Bawal plant where we were let down, where fortunately we have the best technologies there but unfortunately, we faltered there. But we made a lot of changes and corrections there. And hopefully by mid-December onwards that plant also should do well. In fact, almost all the good profitable components are made in Bawal. But unfortunately, because of the air shipment and cost of poor quality, our profits came down there. And the components that we air freighted last year, those are all in sea freight now. And it is the newer component which were developed which got into this situation. And since we have control over it now, we are hopeful that we will be out of it.

The domestic market seems to be good. We are only worried about the retail figures and the registrations in the market should continue to be good. Because we started looking at the retail of the vehicle that happens in the market, and to be sure that there is not overstocking and suddenly the market collapses, we are hoping that after this festive season the production should carry on at the same scale. And fortunately, the commercial vehicles are also looking heavier than before, the demand for the engines, the Cummins engines etc., their demand has increased because of on the back of the heavier commercial vehicles. The smaller commercial vehicles in any case were doing okay. So the tractor industry is still doing well, and this is all mainly based on the rural and semi-urban demand. Even the cars are being sold mainly in the semi-urban and rural areas. And our month of October has been exceptionally good. We clocked the highest sales ever. We have never touched a figure of Rs. 170 crores in one month. And that's one figure we did. And whatever we had budgeted this year, our sales should be higher than the budget that we had taken and we are on track to cross the sales of last year and despite the first three months being a total washout.

I think that's from my side, and I am open to the question and answers.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Vaibhav Sanghi, an individual investor Please go ahead.

**Vaibhav Sanghi:** Can you give us the figure of the total cost you have incurred on the airfare and because of the poor quality?

**Arvind Kapur:** This quarter we touched a figure of Rs. 20 crores, Rs. 15 crores were air freight and Rs. 5 crores were the COPQ. But what we have done is, we factored the total cost we incurred this quarter, but we are talking with the customer because of COVID times that there should be, because in Europe also many plants actually shut down, some of the suppliers could not supply mainly because of COVID. And so we have been telling them that we have been meeting their demand and even also the increased demand despite the fact of all the constraints that we were in, and we should be compensated as far as the air freight is concerned. And we have got a commitment for it to some extent, but we are still talking to them to give us more. But in the books, we provide for the total amount for this quarter.

**Vaibhav Sanghi:** And how much do you expect to be done in this quarter Q3, roughly?

- Arvind Kapur:** We should be in the region of about, now the volumes have also gone up this quarter and it should be in the region of about Rs. 12 crores to Rs. 13 crores total.
- Vaibhav Sanghi:** Including both quality aspect as well as the air freight?
- Arvind Kapur:** Yes, total and we are factoring the total amount but what we get back from the customer, of quarter, would be reduced from here.
- Vaibhav Sanghi:** Okay. Sir and last, in last two to three quarters also we have been facing air freight issues, and in the past con calls you have guided us that you are actually negotiating with them. So this is not part of the contract, because if this happens often, like how do you deal with the situation, this can hamper...
- Arvind Kapur:** Let me tell it to you. See, earlier it was the PSA components and those are many electrical parts, those are made of special metal. And since we were the only ones making it and the first ones to introduce those parts, we had some major issues in ramping up our capacities. We have got over those. Those are not in air freight anymore and those are not even on the poor quality, we are out of those. These are the other parts and COVID actually got us off the track into this, otherwise we would not have been under this situation. And we are in a much happier situation today. And October we did lot of air freight, but November is coming down drastically now.
- Vaibhav Sanghi:** And what was the reason behind the lower production? Because I believe in the last con-call you have suggested that all the plants are now performing completely fully, and there is no impact because of the COVID.
- Arvind Kapur:** Fortunately the demand was full, our capacities were absolutely filled up and the demand was absolutely fully, the customers wanted the material more than whatever they had ordered earlier, the demand was actually more. We are producing more than whatever we were rated to produce. And the change of labour of the new labour that we had kept, and training them and getting them on board and then frequent recycling available, like people would go and come back again, the new labour would not sit there. So, all that compounded into this shortfall, as well as also impacted the quality to a certain sense. So we have got out of it. And see, the unfortunate part on export is that if there is even one problem that happens in one part, in any consignment, all the consignments which are on the sea or stocked up at our warehouse all have got to be inspected, so that the defect does not appear again. So, it is not that all the parts are defective, it is only some parts are defective, but the inspection for all has be done so that the customer does not get defective part. That's the understanding with the customer.
- Now, we have got refunds from the customer primarily because of COVID. And they also understand it, because in Europe many of the suppliers are shut or have not been able to deliver to the customers, but we have been delivering at a very, very expensive cost. So, the customer has compensated us, but they compensated, we got the message only day before yesterday to some extent, but we are still negotiating with them to get more.

- Vaibhav Sanghi:** Sir, how much compensation do you expect?
- Arvind Kapur:** See, we think that about 30% to 40% we should be able to manage to get from them, our target is at least 50%.
- Vaibhav Sanghi:** And has there been any loss of customer or any kind of impact because of this from the order book perspective?
- Arvind Kapur:** No, no, there is no loss of customer. And in fact, we have picked up some more orders from our customers. Like PSA and others, the issues we had last year, but they saw commitment, they saw the level of technology that we possess and our response time or sending people there, getting things sorted out there and getting things sorted out here in India, our reaction is very, very fast. And because of that we have been able to get more orders from our current customers. In fact, most of the orders are new orders that we got for this year. Now this year, from April onwards, April 2020 onwards to date, we are today at the annualized peak would be around Rs. 353 crores, last time I told you it was Rs. 263 crores. And if you look at the program value, which is around Rs. 1,654 crores and the last time I had told you it was Rs. 1,496 crores. So, we have got orders, and these are all repeat customers except one which is not, Knorr Bremse (Bendix), that's a new customer that we picked up. And let me also add here that this also includes customers in our subsidiaries, one is the Rico Fluidtronics, there we have got orders from Maruti for the oil pumps and water pumps. And from Rick Jinfei we got the orders from Hero Motorcycles for the wheels for which we had been struggling to get those orders, all of us, about I think over six or seven years. But now we are struggling to meet that demand. That was the situation in the Jinfei Wheels, Rico Jinfei.
- Vaibhav Sanghi:** Okay. My last question is, if you can tell us the debt at the end of the quarter.
- Arvind Kapur:** Rakesh will take this question.
- Rakesh Sharma:** The total debt that we have at consolidated level is Rs. 469 crores as of 30th September and debt equity comes to less than 0.8. So like we used to tell you earlier also that we will keep it within 1x. So that is being maintained.
- Moderator:** Thank you. The next question is from the line of Sandeep Verma from Axis Bank. Please go ahead.
- Sandeep Verma:** Sir, just wanted to understand, since there were quality issues whether there aren't any quality control team which looks after it and then goods are then shipped?
- Arvind Kapur:** No, everything is in place, but the mass volume that we produce, there were some issues of burns which are very slight, which were normally being accepted earlier, but there was a change of thought at the customer end. And they had a few pieces which were there. And it was under 0.2% or something. But like I mentioned, any issue happens, the inspection takes place for total confinement which are lying in stock there, which are in transit, so everything is got to be checked. And we normally have a stock of about a month at our warehouses, but in some cases,

of course, we were just hand to mouth. And so all the components had to be inspected at a gate which was put up in Germany, so that the customer does not get any wrong material. So we have all the quality gates which are here, we have been supplying similar components to BMW for almost about 10 years now, over 10 years, in fact, 12 years now. We did have an issue about four, five years back or six years back on one iron component, but thereafter there has never been a problem with our customers. But this was unfortunate, everything just gotten to one bucket and we got stuck as far as the new labour is concerned, it's raining on the people there and then some slippages that took place at our end and all that. So this was a mix of lot of things that happened. And that's the reason the customer is also accepting it and he is compensating us to some extent.

**Sandeep Verma:** Alright. And with respect to the cost which has been incurred because of these products, whether the entire cost has been considered in P&L?

**Arvind Kapur:** Yes, we have considered the entire cost, now whatever will get compensated that will add to our bottom-line.

**Sandeep Verma:** Okay. So, that will be a write-back of the expenses which has been incurred?

**Arvind Kapur:** Yes. Because since there was no commitment to, we obviously could not reduce the amount.

**Sandeep Verma:** So, are you expecting this to happen in current financial year itself or it will spill over to next financial year?

**Arvind Kapur:** Like I said that we got some news yesterday, they have covered up part of it, and we are still negotiating with them for more. So it is an ongoing exercise and we certainly would get it there before the end of the year. And they would also like to close by the end of the year.

**Sandeep Verma:** Okay. So, the adjustment will be done. So, whether you will be getting back the money or like the adjustment will be done in the transaction, whatever, I mean?

**Arvind Kapur:** It is both ways, in some cases we get a clean, we raise a bill and we give them the proof of the air freights, and they competent that to us. In some cases they adjust it in the price of the part. So both things happen.

**Sandeep Verma:** Sir one final question, what is the kind of feeler that you are getting from the European markets? Because some of the European markets are facing this second wave of COVID, so any feeler that you have received from your OEM partners in Europe?

**Arvind Kapur:** You know something, I wish Europeans all the best and we want that everybody should remain healthy there and the countries should flourish. When this third wave of COVID came there, we thought our air freights will reduce so we will make more shipment by sea and we will save on air freight. But what we find is that all the factories are working, and they actually are picking up more



- Sandeep Verma:** Okay. So are there any closure of plant? Because in U.K. there was a complete lockdown for three days, so any such experience which has happened in Germany where you are supplying?
- Arvind Kapur:** See, when they said they are closing, there is a lockdown, they have left the colleges, schools and factories open. That's what they have done. But U.K. is not a big customer of ours in any case, our main customers are in France and in Germany. Not that in France they don't have a closure, they have a closure, but the factories are all working. I will tell you the reason why the demand is still there. The companies in the Europe are required to follow the CAFÉ norms, the whole company wide what is the total pollutants that they leave in the market and in the air and the vehicles. So, we are supplying to PSA a lot of parts for the electric vehicles, and even for BMW electric vehicles. Since the subsidies are so high and they have got to meet the CAFÉ norms, if they don't meet the CAFÉ norms there are very, very heavy penalties on the OEMs. So that's the reason that they are still continuing, the total pressure is on producing the electric vehicle so that they can sell more in the market.
- Sandeep Verma:** Sir, one final question. Sir, you have been supplying to KIA Motors and to the Hyundai Group. So how are the current sales to Kia or the Hyundai Group? How are the monthly sales growing right now sir, any monthly run rate? Because KIA and Hyundai have been doing pretty well.
- Sandeep Verma:** Yes, Hyundai, we are not direct suppliers to Hyundai, but we are major suppliers to Kia. And I will request Sandeep to give you the answer on that.
- Sandeep Rajpal:** So, KIA, currently as you know, they are doing more than 20,000 vehicles and we supply critical parts to them. So, we are also supplying the 20,000 sets of the critical parts. And it is all the models that they are doing for their engines, so we supply the key cylinder block for the 1.2-liter, 1.2 turbo and also 1.5 liter. So, we are single source now, and all their imports which they did last year is over. So they perfectly localized here in India and we are the single source. So, we are doing over 20,000-cylinder blocks now on a monthly basis. And this is going to further increase to close to 25,000 to 30,000 in the next one or two months. So it's going very bullish.
- Sandeep Verma:** Okay. In value terms, can you just tell me like how much it will translate in value terms?
- Arvind Kapur:** Value terms it will be over Rs. 10 crores monthly basis. See, last year was about Rs. 20 crores, Rs. 25 crores for the year. And this year we should be crossing around Rs. 100 crores this year.
- Moderator:** Thank you. Jyotivardhan Jaipuria, your line is unmuted. Please go ahead with your question.
- Jyotivardhan Jaipuria:** I had two, three questions. So let me start with the pure numbers one. So this quarter, you said excluding this air freight and poor quality you did 12% EBITDA margin. So which means roughly you did Rs. 48 crores, I guess, on a Rs. 400 crores sales. And these were Rs. 20 crores costs. So, we should have done a Rs. 28 crores EBITDA, right? We reported Rs. 22.6 crores. So, was there some other costs also which we are missing out?
- Rakesh Sharma:** No, basically, EBITDA the difference is because of freight and COPQ costs. Other costs are within the reasonable percentage. Okay, let me add one more point here. Because of COVID we

have actually been impacted because of the fluctuation of labour, number one. Number two, also quarantining people, whenever there was a case of COVID in any of the plants, so we needed to quarantine at least about the people they got in touch with, the range was between 10 persons to about almost 40 persons we had to quarantine. So we actually hired a little more people, even today we have hired about, I think, almost about 12% to 14% extra workforce we have, primarily to take care of the fluctuation that is taking place because of the quarantining, which is compulsory by the state government. And we need to do it otherwise they come and shut your plant; we don't want the plants to shut down. So, that is also an extra cost, the labour costs which we are incurring, which we are hoping that by December onwards we should start reducing on that manpower.

**Jyotivardhan Jaipuria:** Okay, so when you talk about 12% EBITDA margin which you achieved, it was excluding these costs also?

**Arvind Kapur:** No, that will be higher.

**Rakesh Sharma:** Our EBITDA without considering air freight and COPQ comes to around 11.5%, others is this whatever small amount of increase is there in case of, like sir explained regarding the casual labour and all.

**Arvind Kapur:** There would be some expense of the power cost went up slightly, so that sort of thing is also there. But those are very slight growth. But soon we will be touching a figure, one of the quarters we will cross 12.5%.

**Rakesh Sharma:** By quarter four, we should be able to reach.

**Arvind Kapur:** Yes, we should be in that time frame.

**Jyotivardhan Jaipuria:** That was the second I was making that over the last few quarters we have like got this air freight as a one-off, but it seems to be more like a recurring extraordinary cost. So maybe we should start thinking of our margins, including some part of air freight at least we will recur every quarter, something or the other will keep happening and it will recur. Because otherwise what happens is, like from the market point of view, it's like these guys are talking 12.5% and they end up with 5.5% EBITDA margin, then they are always disappointing permanently. So stock has derated accordingly. So maybe you build in some of that and like you do your guidance also, accordingly, let's assume taking in some air freight cost every quarter and saying our EBITDA margin will be 10% and at least we achieve that 10%. Because I guess every quarter if we come and say 12% but we showed in the end 6%, then from a market point of view it just gets very disappointing.

**Arvind Kapur:** What you are saying is correct. And to be honest with you, whenever we plan our capacities, we plan about 10% to 15% higher than whatever is a requirement of the customer, so be normally plan that. Anyways, last five, six months have been exceptional, and I don't think those can be correlated to normal working which are there. And we are determined to get out of this. And we

do see the change in the model. And this is one plant, one particular plant Bawal, all the other plants are not in this category. We are exporting from other plants as well, but it's only the Bawal plant which got stuck into this complexity. And lastly also it was Bawal plant by the way, it's the same plant. And what do you are saying is correct, we normally are confident that the air freight and COPQ won't take place. But this has unfortunately happened, and it has stretched for almost a year, which we are not very happy about.

**Jyotivardhan Jaipuria:** Yes, that was the reason I was saying because it's like quarter after quarter we have the same discussion. So in the earnings call also nothing else gets discussed, because we are so focused on this. And the reason we have it is like the EBITDA normally is half of what you were saying it will come, or half of what everybody assumes that it will come, because everybody bills at 12% EBITDA and we go to 6%, and then we are discussing. Okay, anyway, so the next question I had was, like, we are looking at sales probably of Rs. 800 crores in the second half, is that right?

**Arvind Kapur:** Yes. The second half, yes.

**Jyotivardhan Jaipuria:** Okay. Because like if you are saying that the CV is looking like recovering, and like you just mentioned to the previous question that Kia Motors we are expecting a big jump and all, so shouldn't we be looking at higher sales? Because we already had 400 in September, so what we are talking of is like another 400 and 400 in the next two quarters.

**Arvind Kapur:** Please remember one thing that there are fewer working days in the month of November because of Diwali and because of the holidays that are there, so that is one. Then month of December, most of the plants they go for one week to two weeks shutdown, like all the OEMs here, then Europe is on a holiday, U.S. is also on a holiday. But let me tell you this, there are consignment sales which will keep on happening, we will keep on shipping the material, but we will only be able to take the value of it once it's been billed to the customer. We will ship it from here, but till the customer gets it, we don't account for it. And there will be almost about Rs. 50 crores to Rs. 80 crores of business which will not get factored in, or even close to Rs. 100 crores will not get factored in.

**Jyotivardhan Jaipuria:** Okay. But that must be ongoing, right? Every quarter it must be happening, right?

**Arvind Kapur:** It is ongoing, but the exports are going up and so there will be more sales here. We are also trying to cover up whatever shortage of material that was there in our warehouses, we are trying to push those materials as well.

**Jyotivardhan Jaipuria:** So now that like I guess two quarters are done, so we are looking at Rs. 1,400 crores sales for the year. And what is the sort of margin we are aiming at now? Are we looking at like 3%, 4%, 5% for the full year or...?

**Arvind Kapur:** We are determined to get rid of the losses that we made because of the air freight, and whatever we get from the customer that would be an add-on to our bottom line. And we will be in the black, we will definitely be positive by the end of the year. And because the first quarter was a

washout in any case, and the second quarter -- first quarter was washout mainly because of production, there was no production. Second quarter, we faltered in the air freight and COPQ, but now onwards hopefully we will do better, and we will be on the positive side definitely.

**Moderator:** Thank you. The next question is from the line of Riddhi Pandya from KR Choksey. Please go ahead.

**Riddhi Pandya:** Sir, I just wanted to understand the overall performance in this financial year, what can we expect from here? Because when you say now currently the demand is rising, but after the festive season, we are not that sure enough as of now. Also the freight charges, do they come down in next two quarters? And a gap which has come up for Q1, obviously, due to COVID and currently also if we see, even though the top-line has been increased, but due to freight charges and other costs incurred, what is the overall performance or any kind of number which you can give to be expected in this financial year?

**Arvind Kapur:** See, despite all the issues we have had in the first quarter as well as in the second quarter, we will be definitely crossing the EBITDA of last year and we should be (+8%) or (+9%) by the end of the year.

**Moderator:** The next question is from the line of Manish Malpani from HDFC Bank. Please go ahead.

**Manish Malpani:** What I wanted to understand is that in the COVID scenario, while most of the companies have eventually become leaner and fitter, the scenario that I see while the top-line has regained or in fact done better than the quarter of the previous year, the bottom-line still continues to be struggling. So, while the other expenses line item which is due to freight or airlift of material or the rejections, that is one aspect to it. But I feel that the other line items with respect to expenses still continue to hover in the same range itself, be it the employee cost or the finance cost which has in fact increased from the quarter of the previous year. So, what are the actions or probably some of the measures that the company would have taken or is planning to take in terms of reducing some of these costs or the expense line items?

**Arvind Kapur:** See, the manpower cost, at the moment we are over staffed in Bawal, and there are two plants where we are over staffed, one is Bawal and one is in Rico Jenfei, because we had to almost double the production in both the plants. And the Bawal plant, the for the quality gates, we have got two to three gates which have been put up, which would be reduced to one, hopefully by the end of December. And so those costs will also come down. So those are the costs which we are incurring at the moment. And Bawal otherwise is a very profitable plant, I remember two years back, three years back our profitability EBITDA in the individual Bawal plant was all (+20%). And we have lost it in the last one-half year, but we are determined to get out of it now. And in Jinfei, the volume from making about 130,000 wheels a month and doubling straight to 260,000 to 300,000 wheels a month and then going up further, that push, getting in extra people, training them, putting them on the job, putting on the cutting job, so that is a challenge and the extra people because of the peak that we are running in most of the all the plants and to meet the demand of a customer. And so we have actually got extra people to replace people in case they

are quarantined etc. So, all that is happening and hopefully by December there would be stability as far as we contacted people are concerned, because there was not a change of people that was happening in the place also. So, that is one cost that we need to, which is in our radar and we are monitoring it on a daily basis, and we want to go back. In fact, in our budget we had actually reduced our labour cost for the current year. But because of COVID I think everything went upside down. But we are still determined to get out of that. And the finance cost...

**Rakesh Sharma:**

Yes. Manish, as far as finance cost is concerned, this increase of around Rs. 3 crores, that includes Rs. 1.5 crores on account of hedge accounting and MTM, so it is notional cost that has been booked. And working capital utilization has been on the all-time high, it is around Rs. 40 crores to Rs. 45 crores more because of this COVID situation, but this will come down in the quarter. But quarter two was specially the working capital utilization was on a higher side. Then term loan, we took first moratorium, we did not go for the second moratorium, but the first moratorium was taken, so there was an additional cost of that also.

**Manish Malpani:**

Another thing that I wanted to understand is, with respect to, one, that you mentioned that the Q3 could be slightly challenging, one, because of limited days of working with respect to the Diwali and December being a shut down for any OEMs. So, do you see a challenge of EBITDA in the coming quarter or the current quarter? And point number two is with respect to CAPEX, what is the kind of CAPEX that the company foresees itself to do in the next 12 months? Considering that free cash flow generation for the company is also going to be critical at a heavy base of fixed asset?

**Arvind Kapur:**

We have done most of the CAPEX already and we would stay around the depreciation that we have, the Board has cleared only up to the depreciation, they don't let us go beyond that. And so that is one feeling that they have imposed on us. But the volume that you see going up in the KIA Motors from Rs. 20 crores going up to Rs. 110 crores or so, those investments have already been done. So whatever investment we did last year and also beginning of this year, those have started coming to production now. We made investments last year where in some cases in Bawal the production was going to come by the end of next year. So most of the investments are in place, because the customers come and check your lines and they check your productions, productivity and quality etc., almost eight months to one year in advance. So, those investments are in place. And if we look at Hero, there also we made investments, but fortunately as at Hero the investments they start churning out turnovers within two to three months of the investment. Except in the case of clutch where we invested two years in advance, that is the R&D, etc. But that was a completely new system that our people developed, which is being very big, doing very successfully, in fact our turnover in the past used to be just about Rs. 50 crores a year, and this year I think for the clutch alone we will be probably Rs. 120 crores, Rs. 130 crores. And our target is to go to Rs. 200 crores in the clutch. So, there the investments have already taken place, so not much investments are required.

**Manish Malpani:**

So with the existing setup, what kind of monthly run rate in terms of sales do you feel can the company easily do?

- Arvind Kapur:** We can go to almost Rs. 200 crores. In the month of October we did touch Rs. Rs. 170 crores, and though our Chennai plant did not run to full capacity, we were short by always about Rs. 12 crores primarily because of the exports of Renault. Their market is down as far as exports are concerned. And PSA, for some strange reason, didn't picked up too much, PSA in India. They have a plant at Hosur and they assemble gearboxes for export purposes. They had some issues with some other component and some assemblies, so they never picked up, but now I think they have started picking up the material at full scale again. So, that would also jack it up and we were short by I think Rs. 12 crores or something in our plant there. So, we wanted to actually cross Rs. 180 crores, Rs. 185 crores in October.
- Manish Malpani:** And for reaching to a scale of Rs. 200 crores, will the line item like employee benefits or some of the other expenses have to be also increased in the equivalent proportion?
- Arvind Kapur:** No, we will be saving on employees, because at the moment we are over employed primarily for the quarantining the COVID cases happening in plants and the quarantining that happens. So we are in that stage at the moment. But we also have people who are in place for the volume when they go up, like in Chennai we have people in place and we actually do almost about Rs. 30 crores a month there. And we are at the moment at about Rs. 18 crores at the moment. And the manpower is in place, engineers are in place, the supervision, everything is in place. So, we are expecting that hopefully Renault also picks up in the export and/or we are going to divert that capacity to some other customer in India.
- Moderator:** Thank you. The next question is from the line of Vaibhav Sanghi, an individual investor. Please go ahead.
- Vaibhav Sanghi:** Sir, could you give me an idea about the labour situation now, is it everything fine like all the labour problems are solved or still have new labour who are still not trained properly and they need more time?
- Arvind Kapur:** As far as the labour situation, there is no labour issues as a manager. When I say labour issue, there are no labour fights at all. The problem was with new labour as well as our old people coming in.
- Vaibhav Sanghi:** No, I understood, I am talking about the same problem, the new labour as well as the attrition, like people move in and out, that's the problem.
- Arvind Kapur:** It has reduced drastically because for last three months it was really very high. And in fact, people will come and work for a week and then walk out on you. So all the trainings that you have spent, 10 to 15 days of training that you put in, that all went waste. But we had no choice at that time. But now it's getting more stable so we have also started, instead of having 20% extra people, now we are bring it down to about 10%-12% and also bringing it down further. So, we have started looking at those possibilities as well. Labour is on our radar and that is monitored on a weekly basis.

- Vaibhav Sanghi:** And on the quality side, what is the tolerant level? Like you will have some kind of a tolerance agreed with the customer, right?
- Arvind Kapur:** Yes, everything is as per the drawing of the customer, and we produce as per the customer drawing, we have been doing it for last 3540 years. For BMW, about 12 years, 2008 we got the order and 2010 onwards we have been supplying to them, and we have never had issues with them. And this is unfortunate that this hit us very hard.
- Vaibhav Sanghi:** Yes. Sir lastly, I will just repeat one thing which I think one of the gentlemen said earlier in the call. So we have been an investor almost for last two, three years, and if you look at since December, after December 2018, there hasn't been a single quarter where we have made operating margin 10% or more, every quarter our operating margin has been less than 10%. But we keep saying 12% and above. So I think we really need to be realistic in our guidance, because otherwise market will never reward, they will never understand, because every time we disappoint the market. So, I think we need to be realistic in our guidance, that's our request.
- Arvind Kapur:** Certainly, we will do that. And hopefully we will not disappoint the market after this, and we will be out of the situation and we will go as per the guidance that we give.
- Moderator:** Thank you. The next question is from the line of Aditi Agrawal from Kota Mahindra Bank. Please go ahead.
- Aditi Agrawal:** Sir, one thing I wanted to ask you, you mentioned that our share for the existing customers have increased. So could you please suggest as in, in which of our customers like have we got new parts or how has the share increased and by how much?
- Arvind Kapur:** Well, the two top customers are, one is of course Hero, and one is Maruti, then Toyota we got many, many new parts for the future programs, and for BMW also the business has gone up, and Maruti again, directly in Rico as well as in Rico Fluidtronics which is our subsidiary, there also we have got substantial business. And in Rico Jinfei and the wheel business we got a lot of business from Hero. So in Rico, in Rico Jinfei which is the wheel plant and Rico Fluidtronics we have got business from Maruti and Hero mainly. And Rico we got from Toyota, BMW. The new customer is Knorr Bremse (Bendix), this is exports, and otherwise Grieves business is okay, and Cummins we got new businesses for exporter also, and Volkswagen, then Daimler we got business. These are some of the customers, yes. KIA of course is going up dramatically.
- Aditi Agrawal:** Okay. So by new business win we mean we have got new parts for their new models or...?
- Arvind Kapur:** See, there are two, three things. Like Hero has two sources of supply, minimum two sources of supply. And Maruti also by and large has two sources of supply. And the share of business is a normally decided when they allot the business to us. And earlier we were at that 50:50 bracket, and now most of the parts we are touching 60%, 70% of the total requirement of the customer. So one is, the share of business has gone up; then besides that, we have also got new components from Maruti. Same thing applies to Hero, Hero our share of business in individual item has gone



up. And also, we have added new components from Hero. So it's a mix of both that happens. Like in the Rico Fluidtronics we have got new business for Maruti oil pump and water pumps, which is to the tune of about Rs. 60 crores to Rs. 70 crores a year in that particular plant, and which starts next year end onwards. And Rico Jenfei is almost about Rs. 40 crores to Rs. 50 crores a year, the Rico Jenfei plant and that would go up even further, and now it depends on the capacity that we create there.

**Aditi Agrawal:** Okay. Sir, would we be requiring doing CAPEX for these new orders? And if yes, how much?

**Arvind Kapur:** See as far as the Hero is concerned, the wheel business is concerned, we made investment two years back, and we have been talking to them for last seven, eight years, but two years back they had assured us of giving us the business, but the process was so slow and there was no pressure on them to localize from the wheels which were coming from China. But now from last year onwards, because of the pressure all of a sudden. But fortunately, our investments had already been made in the furnaces as well. So, there would be some minor investment in that particular plant, but by and large already made. And for Rico Fluidtronics, for the production which comes up next year end, there would be some investments that would be required to be made in that particular plant. And Knorr Bremse (Bendix). I think most of them are procured from inside, and Toyota there would be investment that will come, but that progress starts in 2022, where investment will start coming in next year onwards.

**Aditi Agrawal:** Okay. For current fiscal how much of CAPEX can we assume?

**Arvind Kapur:** Normally our Board lets us up to our depreciation amount.

**Aditi Agrawal:** Okay, so we will be doing around that much only?

**Arvind Kapur:** Yes.

**Aditi Agrawal:** And how much would be our repayment? Like I understand moratorium the first tranche was taken so what is the post moratorium repayment for this fiscal? Repayment of the long-term loans.

**Rakesh Sharma:** You want to ask that in H2 how much repayments are due?

**Aditi Agrawal:** Yes, sir. The repayment has been done for the term loan in H1, so how much more is due for the second, like for H2 how much of repayment can we expect for the term loans?

**Rakesh Sharma:** It's around Rs. 25 crores.

**Aditi Agrawal:** Okay. And sir, for H1 consolidated sales are around Rs. 541 crores as against standalone sales of Rs. 470 crores. So, I understand the sales from the subsidiary would be approximately Rs. 70 crores. So generally if we talk about the raw material expense, so combined including the expense was due to inventory increase and decrease, the total raw materials are around Rs. 288



crores for consolidated, and Rs. 292 crores for standalone. So, I wanted to understand how is like raw material lower in consolidated vis-à-vis the standalone for H1?

**Rakesh Sharma:** See, the normal is that whatever one supplies to other, that gets eliminated. But if it is less than that, we will come back to you on that. Let us verify that and then we will come back to you.

**Moderator:** Thank you. The next question is from the line of Jigar Shroff from Financial Research. Please go ahead.

**Jigar Shroff:** I think I could have missed, did you mention, I mean, the cost that we incurred regarding higher air freight and poor quality products that we supplied, would it continue in Q3 also?

**Arvind Kapur:** Yes, partly in Q3.

**Jigar Shroff:** Would you like to quantify?

**Arvind Kapur:** Yes. It's about around Rs. 13 crores. If you look at total expense, but what we get back from the customer that we have not factored in.

**Jigar Shroff:** Yes, that you said you expect about 50% of that.

**Arvind Kapur:** Our target is always to get at least 50%.

**Jigar Shroff:** So around Rs. 13 crores may come in Q3?

**Arvind Kapur:** Rs. 13 crores, yes.

**Jigar Shroff:** Thank you. And would you like you talk anything about the aerospace and defense business, would you like to share anything, any new developments on that?

**Arvind Kapur:** Yes, on the defense business, we have been on this for almost five, seven years now. And we have been filling up tenders and the government of course keeps on talking of Aatmanirbhar Bharat but we keep on questioning them that there has got to be Aatma-Vishwas to place the orders. Now some of the tenders we had filled close to about Rs. 10,000 crores, that's for the life of the program, it was about Rs. 1,000 crores a year. And those tenders, after three years they have cancelled the tenders and they have gone back to the old basic and they want to restart again. And now there are two of them which are lying pending, and that hopefully in the next three to four months there should be some decision making after three to four years of the files moving from one side to the other side, but is very slow. And we are just showing our patience and we keep on just wondering as to what has happened, but that's all we can do. As all the other companies also who applied for the tender, we have met, we have discussed and we have spoken to the Minister as well, and they keep on assuring us that they would place the orders. And more so now than before because there is a focus on the defense. Now we are only hoping that they will stick to the timelines now, even though it's delayed for four years. So let me tell you, the progress is very, very slow in the defense side.

**Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

**Arvind Kapur:** Thank you so much. And sorry we disappointed you all and did not stick to whatever we had promised, and we faltered as far as the air freights and the COPQ was concerned. And we are, the whole company as well as the Board is on it absolutely and we have had major discussions and some major changes that have also been brought about, so that this sort of thing doesn't get repeated again. And we should be out of the situation. And now we can see the light at the end of the tunnel, so that's the reason we are confident of that. We could tell you even the figures of air freight for this month, what for October and November. And there is a process of getting out of it, so we are in that process of getting out. Like for the COPQ we got to, the gates will start coming down after almost a month, month and a half of no complaints from the customer side. So we are in that cycle at the moment and we should be out of it hopefully majorly in November and there could be some spill offs in December.

So we hope to do better. The items we have are probably the most intricate items that are given to any customer in India, the dependence of the customer is also very heavy on us. And we do not let them down but this time it was at a very extensive cost which we are not very happy about. And the margins on those components are very good, provided they go normal shipment mode and not on the air freight mode. We should get out of them, but all the other plants are fortunately doing pretty well, the sales are also going up. The costs are on the higher side, which from November, December onwards I think we should start continuing on those costs as well, and that will be labour cost, etc.

Thank you so much. And we hope to give you more accurate and better guidance in the future and also give you better results. Thank you and Happy Diwali to everyone. And please keep safe because of the COVID season that we have, and don't take risk, please don't go out of the house and remain inside the house and be safe.

**Moderator:** Thank you. On behalf of S-Ancial Technologies Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.