

**RICO AUTO INDUSTRIES LIMITED**

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Sub : **Transcript of Conference Call held on 6th August, 2018**

Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 6th August, 2018 with the Investors.

This is for your information and record.

Thanking you,

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

Rakesh Kumar Sharma
Chief Financial Officer

Encl : As above



“Rico Auto Industries Limited
Q1 FY2019 Earnings Conference Call”

August 06, 2018



**ANALYST: MR. SANIDHYA JAIN - S-ANCIAL TECHNOLOGIES
PRIVATE LIMITED**

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



*Rico Auto Industries Limited
August 06, 2018*

Moderator: Ladies and gentlemen good day and welcome to the Rico Auto Industries Limited Q1 FY2019 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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. Thank you and over to you, Sir!

Sanidhya Jain: Thank you Aman. Good afternoon everybody. I am Sanidhya Jain on behalf of S-Ancial Technologies welcome you all to Rico Auto Industries Limited Q1 earnings call. From the management team we have Mr. Arvind Kapur – Chairman, CEO and Managing Director, O P Aggarwal- Financial Advisor, Mr. Surendra Singh – President and CEO and Mr. Rakesh Sharma who is a CFO. May I now request Mr. Kapur to take us through the initial remarks subsequent to which we can open the floor for Q&A session. Over to you Sir!

Arvind Kapur: I also have with me our Marketing Chief, Mr. Sandeep Rajpal and we also have Mr. B M Jhamb who is the Company Secretary. Good evening everyone. Welcome to the earnings call. This is the first call that we are holding and thank you so much for attending. I will talk about the general industry. For our industry acche din are here. We are having a good time at the moment because the two-wheeler industry has grown by about 17% and the passenger vehicles in the domestic market we have grown by 19% and overall 14.5% commercial vehicle are giving a very good performance over 50% growth. The three-wheeler industry is also growing tremendously. At the moment, things sound very good. The tractor industry is also doing very well. Except for the tractor industry, we do supply across the board and also to the off-road vehicles, we at Rico.

Our growth by and large has been more than what the two-wheeler and the passenger vehicle growth that they have shown. We are very happy about the growth that has happened. Our growth has come in primarily from our two-wheeler partner which is Hero and also from our exports in the four-wheelers in the passenger vehicles that is BMW and also the tier I suppliers of BMW and Renault Nissan. These are the main growth areas that have happened.

At Rico we believe in right from concept to completion so we get engaged with our customers like BMW and Renault Nissan and Caterpillar. We get engaged right in the beginning from the design state and we both do the total designing and also modification and manufacturability of the components that are required by the industry in general and our participation is very active there and a lot of our suggestions because of our experience are taken into consideration. We are a preferred supplier to the OEMs. We have besides the current customers which are like BMW, Hero, Maruti, Renault Nissan, we have added new customers this year which are PSA, Kia, Punch Powertrain, Daimler and we are negotiating with many other new customers as well. The expansion that is taking place this year which has been cleared by our board is Rs. 200 Crores that is what we would be spending and the expansion would be taking place at Bawal plant, our Chennai plant, partly in Gurgaon and partly also in Haridwar. These are the growth areas that we have.

With this expenditure of Rs. 200 Crores, we will still maintain our debt equity ratio to under 0.5 and that is the mandate that the board has given us and we would be there always. We have signed an MOU for (CVTs) which are the transmissions for scooters because the scooter market is growing in India, it grew by 10% and we think that it will grow further to about 40% of the total market, our two-wheeler market and we are contemplating signing a JV. At the moment, we have an MOU with one of the companies. In our joint venture where we make aluminium wheels i.e Rico Jinfei . Our capacity at the moment is close to 1.2 million and we will be enhancing the capacity by the Q3 of this year to three million and by mid June next year before that we will be touching 4 million capacity. So from 1.2 million we will be taking the capacity to about 4 million.

Besides this we also have one vertical which is in defence, the name of the company is AAN, it stands for Army, Air Force, and Navy. We are deeply engaged there. We have filled up a lot of tenders, we are hoping for some major breakthroughs there and so there would be some investments that would come up in about two years' time in this company as well. We are spending a lot on R&D, our average spend is normally between 1% and 1.5% but this year we will be spending more in the region of almost about 2.5%, very actively engaged in developing the clutches for two-wheeler and CVTs. Along with that there are a lot of structural parts etc., where we are spending a lot of money. So we do believe in R&D we do believe in technology that can take the company forward.

Last year, we acquired business of Rs. 2600- 2700 Crores that is the program value and in the first quarter till date we have acquired another Rs. 2100-2200 Crores' worth of business. The total comes to about Rs. 4800 Crores and this also includes the components for electric vehicle, the business that we acquire for electric vehicle is close to program value of Rs. 1200 Crores and these are to companies like BMW, Renault, PSA and we are engaged with all the other companies who are coming into the electric vehicle business and we are very confident of winning more businesses and our contribution has been very tremendous by the way of suggesting the design and also the metallurgy of the new components that we would be supplying. And beside this we entered the after-market May last year. In the first nine months our turnover was just about Rs. 10 Crores. This year we are targeting plus 30 Crores in the after-market and by 2020, we are very confident and the commitment of our dealers that we would be touching close to Rs. 100 Crores.

We entered the after-market only after GST was announced. Prior to that it was very difficult to operate in the conditions of the after-market in India. Besides this we are company, we are focusing more on high tonnage die casting machines, which are 1400-1500 tonnes and above are going up to 3300 tonnes locking for capacity. These are now to give an example to install one 3300 tonnes machine the machine itself cost us about almost Rs 25 Crores and then the foundation, the building and the infrastructure around that would be another Rs. 20-25 Crores. Then the dies alone would cost us about almost Rs. 18 to 20 Crores. So to run the machine, you would be in the region of almost about Rs. 80 to 90 Crores would be required so we are getting into this category because in the smaller category machines there is a lot of competition from the smaller industry which are there and so we are also looking at a possibility of buying from... in

the smaller capacity machines buying the die cast supporters from for the bigger tonnage machines for which we have the ability and capability, we have built it up over time, we would like to do it in site.

So this is the brief what Rico is and I can hand it over to Mr. Rakesh Sharma for some financials.

Rakesh Sharma: Hi everybody. Regarding the financials you would have gone through our results the major things which we talk of is our revenues increased by 28% Y-o-Y and the EBITDA margins also improved with the same percentage like 29% upside is there on Y-o-Y basis and net profit also, in fact we had lot of exceptional expenses and after taxes, so PAT also improved by 7%. EBITDA margin stand at 12.4% now which as we said earlier also that we intend to when we try to improve these margins by about 100 basis points Y-o-Y, so that we will continue having that. And in the top-line our domestic sales improved by 11% (27%) while exports improved by 30% so that is in nutshell our results have been.

Arvind Kapur: We had given us that last year our turnover was about Rs. 1230 Crores and this year, we are hoping to grow to Rs. 1500 Crores and by 2020 we should be in the region of 2000 Crores that is what our internal target is, that is where the orders are and we are basing it on the demand of our customers.

Sanidhya Jain: Thank you Sir. We now open the floor for question and answers.

Moderator: Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Ankit Merchant from SMC Global Securities. Please go ahead.

Ankit Merchant: Hello good afternoon and congratulations for good set of numbers. Sir, we would like to understand your EBITDA margin improvement which you have done in the Q1 and how is the guidance going forward. Also we would like to understand about the ROCE , how do you see your ROCE going up from the current level?

Rakesh Sharma: If you see the major contributors in improving EBITDA margins is our manpower cost and power and fuel cost which used to be a dragging factor earlier. So now it is under control a bit so that is and the increase in sales has contributed, so two-pronged strategy that worked in that we increased our sales and naturally we spoke earlier also that the newer components are normally with better margins.

Arvind Kapur: Just to add to what Rakesh is saying these are the newer components that we are developing for the export market mainly but also for the domestic market and we have normally finalized around 15% to 17%. So when the average is out with the own components that we are supplying that is how we come to 12.5% with the improvements we have done in the labor etc., and also the efficiencies but going forward our target is to go to 15%, that is what, and we will achieve it primarily because of the newer component which we are adding to our kitty.

Ankit Merchant: Sure. And Sir on the ROCE front?

- Rakesh Sharma:** Yes, ROCE front also you would have been seen that it is improving Y-o-Y and we will continue that thing because our, see the return is going to be better Y-o-Y and like turnover is increasing with healthy growth rate, so our ROCE will improve definitely.
- Arvind Kapur:** And the further improvement that is happening is primarily because of better utilization of the equipment more efficient utilization of the equipment that is because we have gone into robotic and very heavy automation which is being done and we have seen in whichever line we have automated our productivity has gone up by almost 25% to 30% and as we implement more and more of this projects, there would be further improvement in the ROCE .
- Ankit Merchant:** Sure. Can you also help with the utilization level across your categories?
- Sandeep:** On the utilization front, if we talk about... because we have presented both in the iron and aluminium commodity. So on the iron side last year we had approximate 65% of utilization and with the order book that we have which we are going in the process of development, so almost we will reach around 78% by 2020 and as far as in this line we are further expanding our facilities on the iron side into our new foundry in Pathredi for 2020. So we are in the process of setting up that plant. As far as aluminium is concerned we need to segregate into two steps, one for the lower tonnage machines so under 1000 tonnes, we are currently hovering around 67% to 70% and while the higher tonnage since we have got a lot of traction with our customers, so we have been able to win various programs on the higher tonnage side and we are expanding also on the higher tonnage side, there currently we have close to 72% to 75% but with the order book that we have we will be crossing 80% in 2020 there also.
- Ankit Merchant:** Okay. So if you could also help me bifurcate this Rs. 4100 Crores of your order book where how much is going in iron, aluminium in higher tonnage...?
- Arvind Kapur:** This order book as got to be divided into two, one is what we picked up last year which is Rs. 2600 (2800) Crores and this year we picked up...
- Sandeep Rajpal** 2200 till now
- Arvind Kapur:** Yes, so total Rs. 4800 Crores
- Sandeep Rajpal** Yes, and if we look at the bifurcation as we were discussing even we shared that there also, we are getting around Rs. 1100 (900) Crores, is coming out of Rs. 4800 crores, from the iron side and balance is coming on the aluminium side.
- Ankit Merchant:** That was helpful. Thank you so much. I will return in the queue if I have other questions.
- Moderator:** Thank you. The next question is from the line of Bharat Gianani from Sharekhan. Please go ahead.
- Bharat Gianani:** Good evening Sir and congratulations for a very good set of numbers. Just wanted to ask one question, given very strong order book that we have about Rs. 4800 Crores and we are also

expanding our capacity both in the iron and the aluminium line. So just wanted to get a sense of the capex guidance for the next one or two years. Probably we have been doing capex in the range of about Rs. 60-70 Crores in the past so given the huge order book and the execution plan that you have now finalized with the customers, what kind of capex guidance would you like to highlight for the next two years?

Rakesh Sharma:

See this year, the board have cleared Rs. 200 Crores. So that is the investment that we will be doing this year in the current year and normally what we do is like you said is between Rs. 50 to 70 Crores we do maintenance capex Y-o-Y and we are still working out on the detail because the program of Rs. 4800 Crores, some come into production this year we are very clear about it the investment that is required, some of them come in next year they start the production next year, for that also the investments have been done this year and some of them come in the year after that, that is when they kick in. so these are right from the models which are yet to be introduced by the customers and even the electric vehicles, one program is for next year and the other program is for the year after that and so we are working out the details of the other but I think this Rs. 200 Crores that we are investing this year this would probably the highest. Normally we would be in the region of about 100 Crores that is what we are estimating because we are creating capacities in the higher tonnage machines where we are focusing on and also in the iron, we already have surplus capacities and with the automation, our investments is taking place in the automation. This year we are spending almost close to about Rs. 16 to 18 Crores on automation. Next year, we would be spending a little more than this around Rs. 20-25 Crores on automation. That will also help us to free a lot of capacities and utilize the current equipment better.

Arvind Kapur:

And also just to add, all these investments are being done in a phased manner as per the ramp up projection of the customers. So we have very clear understanding with the customers that we will not put all the capacities as per their peak demand right on day 1. So we have very clear understanding and we are ramping up as per their requirement and just two to three months in advance. So all the investments are back to back it is not that we invest three years in advance or just create a capacity, I would say 90%-95% the orders of the capacity expansion is directly related to some orders we have in hand. And the other thing we are very particular about is, that our manufacturing is totally flexible. So we can actually shift from one to the second component without major changes in our equipment and we have say a line where the investment say Rs. 50 Crores or Rs. 70 Crores in one particular manufacturing line almost 90% of the equipment we can transfer to another line. There would be only 5% to 10% equipment like the specific equipment like junction fixtures or leak testing the facility which we convert which is difficult to transfer, otherwise by and large; we shift from one to the other. So we keep the flexibility in case of any I would not say failure but in case the demand is less for any particular model with any customer, we can always utilize those machines for other capacities.

Bharat Gainani:

So fair to assume that the capex will on average basis will be about for the next two years would be in the range of Rs. 130 to Rs. 150 Crores almost?

Arvind Kapur:

About 100 I would say.

- Bharat Gainani:** Okay so average would be 100 over the next two years....
- Arvind Kapur:** 100% plus 10% that is what we are estimating.
- Bharat Gainani:** Okay. Thank you Sir and all the best.
- Moderator:** Thank you. We have the next question from the line of Bhaskara Datta as a Private Investor. Please go ahead.
- Bhaskara Datta:** Hi thank you for giving opportunity. I am actually a retail investor, I invested in the Rico Auto shares in 2012. I am actually holding shares....
- Moderator:** Sir it seems that line from Mr. Datta is disconnected. We will move to the next question that is from the line of Yash Shah from Fortune Financial Services. Please go ahead.
- Yash Shah:** Hello. So you have specified about the Sanand plant which made components for the Tata Nano car and you all are thinking about like manufacturing new parts for Hero MotoCorp and Maruti Suzuki what happened about that?
- Arvind Kapur:** The Sanand facility was primarily setup for Tata motors for the Nano and since Nano is almost a history, their volumes have come down drastically. We had made major investments there. What we did was that for about one year we kept the equipment there. Thereafter we transferred the equipment wherever it was required. So some of the equipment was sent to Chennai, some of the equipment was sent to Bawal Facility where they are running at the moment and besides the building and possibly the utilities which are lying there, nothing else is there. But now since Maruti and Hero both are present there in Gujarat, we are going to take the advantages of this, in fact only about a week back we were requested by Hero to start that facility and start for some of the components that are required there and for Maruti Suzuki also we have offered them that we can start new components which we are shifting from Gurgaon we can shift them to Sanand. So I think by the Q4 I think there would be some action would be taking place there transfer of equipment and some sort of samples being made and all that would happen.
- Yash Shah:** Okay. And I have a last question like regarding the order book that you have received, do you think that with the current capacity utilization you will be able to achieve the orders that have been placed?
- Arvind Kapur:** We have no choice but to deliver and that is probably the reason that the customers have shown confidence on us and given us these orders because we performed in the past and whatever we promised we have always given and the chances of failure are very, very remote it is impossible. We have customer like Renault or Kia or PSA or BMW, they will not tolerate delays and we have always proved our capability of our engineering and developing the components in time and start the production also in time.
- Yash Shah:** Okay. Thank you.

- Moderator:** Thank you. The next question is from the line of Siddharth Mohta from Principal India. Please go ahead.
- Siddharth Mohta:** Sir my question is with respect to our new program which is around 4200 as per our presentation Sir so when this revenue per annum that is Rs. 800 Crores it will be reaching peak in 2020-2021?
- Sandeep Rajpal** See the peak would also vary from program to program but primarily most of the programs that we have put in this within 2020-2021, they would be reaching the third year of operation because if something is starting already in 2020, it would reach peak in 2023. So the programs of last year 2017-2018 would reach peak in 2020-2021 while programs which we are winning now and when their SOP is planned, so you can assume that within three years of start of operation, they would reach very near to the peak.
- Arvind Kapur:** But having said that there are lot of other customers who demand almost immediate production. For example, the Hero and also Maruti Suzuki and where it is within a year you are actually touching the peak. So the exports are normally three years and for some of the new customers like Kia and PSA, they are also could be three years but the older customer like Maruti and Hero they are within the year and the production starts the same year.
- Siddharth Mohta:** Sir, would it be safe to assume that this new program of Rs.4200 Crores carry a margin of 15%-16%?
- Arvind Kapur:** We have flexible margins, we have even higher margins of what you were saying and so it is there and all this will also help us to improve the current EBITDA level.
- Siddharth Mohta:** Correct Sir. And Sir in terms of our employee as a percentage of sales, we have done a very good job in last couple of years Sir, so can we say that it has stabilized at around 10% which is being reflected in our Q1 consol number?
- Arvind Kapur:** We are still not very happy about it. We want to improve it further and so this would be done by increasing the utilization of our current capacities and obviously utilizing of the current manpower and also the automation that is happening. So all this will lead to better utilization of equipment and also a reduction of manpower and the automation is helping us a lot and the newer component that we are getting there of course the efficiency levels are different and there also the labour content comes down. So we are hoping to beat this also by... our target is still reduced by another two percent and that is what we are targeting.
- Siddharth Mohta:** So at around like between 7% and 8%?
- Arvind Kapur:** That is what we would like to have. You must understand one thing, we are a foundry in aluminium and iron and also the machining and also testing of components. Normally people do not have this combined, so that it is very difficult to compare the labour cost between non-foundry machining shop and fully operational, fully integrated shop like us where we do right from zero to the end. And the ROCE , our target is to be around 17% to 18% in the next three years and we are hoping that we would achieve that.

Siddharth Mohta: As far as our employee is concerned I think Gurgaon and Dharuhera, they were two facilities where our employee cost, it was quite high as high as 10%. So whether Sir we have done enough work at both the facility Gurgaon and Dharuhera.

Arvind Kapur: Yes at Dharuhera, we have been able to reduce a lot of manpower there and we have been able to reduce 104 people very recently and there were 18 people before that and there was another batch of 70-80 people before that so total we have reduced about 200 people in Dharuhera and whereas our turnover is the same but let me tell you something that at Dharuhera, we have enough capacity available to increase our sales by almost around Rs. 200 Crores and that is the capacity utilization which has not been done in Dharuhera and this year, we are focused on that, I think another two or three months' time we are going to transfer a lot of components into that facility and in Gurgaon also, we have been able to (a) increase the turnover without increasing the manpower rather we have decreased the manpower to some extent. About 100 people, we have been able to reduce in Gurgaon but also increased the turnover here in Gurgaon.

Siddharth Mohta: Sir so with all the initiatives whether in terms of like product mix or in terms of the new order which is getting high margin as well as all the automation and the other stuff. So do you think that by 2020 where we have given this revenue guidance of Rs. 2000 Crores on that we can achieve 15% of operating margin?

Arvind Kapur: Yes, certainly in fact we should be higher than that... certainly 50% (15%).

Siddharth Mohta: Correct. And Sir just for a clarification when you say this 2020, it is more of a calendar year so in financial term it would be FY21 or it is...?

Arvind Kapur: Yes. Well we might surprise you, but at the moment we are taking that as a calendar year.

Siddharth Mohta: With an operating margin of around 15%. Sir this difference actually if you can just help because in your earlier interview and all you have given a very steep guidance for FY19 to Rs. 70 Crores which is currently at around Rs. 10 Crores, so where we are what are the initiative that we have taken?

Arvind Kapur: We have taken lot of measures there, there are two, three things that are happening there, one is the current business that we are doing which would be around Rs. 15 to 20 Crores which will gradually go up and we have been approved for as a source for some other more armaments and I think that should also start flowing from next year somewhere middle or end of next year. Then there are some tenders we have filled up. Now this is a Make In India program that the Government of India has taken and under that earlier it was tender to tender that the orders were given but this time it is a 10-year tender that the Government of India has opened and the total value of the tender is around Rs. 10,000 Crores over 10 years. So it comes to about Rs.1000 Crores a year and so we have bid on those tenders and we are hoping that we will get a portion of that tender and but that the sale would happen about a year and a half from now, because the processes are on it is like, I think the next phase is going to be the testing of all the armaments that they have tendered for so thereafter I think the bidding process will start. So we are in it and

we have bid for that and we will take it from there and we have also tied up the backend as far as the technology is concerned for those armaments with various countries who have been exporting to India in the past.

Siddharth Mohta: And Sir our new program order book is quite healthy at around Rs. 4800 Crores, so anything we can assume further this number to increase in.....?

Arvind Kapur: See like Sandeep also mentioned that last year the whole year we picked up orders worth Rs. 2600 Crores. This year in the first quarter and up to date, we have already picked up Rs. 200 (2200) Crores orders, we are bidding for many more and in fact we have a less, we market green, yellow and red, the green is where we have more than 50% of chances for getting the order and yellow would be where we are negotiating and red would be where just the process has started and we are very confident that we will cross much more than whatever we got last year. This is a constant thing which carries on because you must understand out of the total thing there would be about 15% to 20% which is quite immediately balanced all over two years one year one and half year like spread over time.

Siddharth Mohta: That is very much apparent, because already you have won around 2200 Crores there is no pride in guessing that it will exceed our FY2018 number so this 2200 Crores it can be extended to might be 3500 to 4000 Crores for FY2019?

Arvind Kapur: Let us hope so we are hoping for the best and we need your support on that your well wishes and blessing on that.

Siddharth Mohta: Sir but visibility if you can just provide because like 2200 Crores already they have...

Arvind Kapur: You know we do not count the orders till it actually happens so we wait till last, even when it gets signed off we do not regard it as an order. See we actually get the advances for making the tooling, etc., so we wait for that point to, when we are 100% sure then the orders are with us and many times we get a letter, yes the order is given to you, but till the seriousness comes in after the investment has taken place so till the buyer gives us advance money for making the tooling etc., we do not regard this as an order, so we are negotiating a lot at the moment there are many orders which we are hoping to get and which we will get, I am sure we will be successful and they all with major OEMs and we are very confident of getting orders and we will make an announcement as soon as we get them.

Siddharth Mohta: Sir some update on this exceptional item in this quarter it was around 5 Crores so what we should build in our model that is No.1 and second is if I do your consolidated minus standalone even though there has been the quite good growth in revenue but same is not being reflected in your operating profit?

Rakesh Sharma: Yes that is right. As far as exceptional items are concerned these are basically the cost of separation of people who we could reduce it is around 104 people like Mr. Kapur said so it is kind of VRS expenses you can say.

- Siddharth Mohta:** This quarter Sir it would be repeated?
- Rakesh Sharma:** No this is for this quarter and it can be there in the next quarter also but not to this extent.
- Arvind Kapur:** What has happened was this reparation cost that he is talking off that exception cost was actually to come in the next quarter but we could manage to negotiate and we did it in this quarter. What you are saying, this quarter would not get repeated but to maximum what we have done internally there some other areas where we want a reduction of the manpower and there may be maximum of another 2 Crores maximum that would happen at the end by the year as far as reparation cost.
- Rakesh Sharma:** So it is really exceptional, it is not going to repeat and regarding the consolidated and standalone differential so revenues we have got in many companies, increase is quite healthy but as far as profit margins are concerned in one particularly the company there is lack of as far as profitability is concerned and that is also a temporary affair and we will be improving that in the coming quarter.
- Arvind Kapur:** Okay to be honest with you that is the main project and that is under utilization as far as the capacity is concerned and once we go into the capacity of two to three million we would be operating at a different level and there the profit would be pretty healthy.
- Rakesh Sharma:** Yes, there at present it is 1.5-million capacity; that we are improving, 1.2 to 3 million we are improving it. So it is all volume based?
- Arvind Kapur:** The capacity enhancement is taking place based on the orders we already have.
- Siddharth Mohta:** So this it will increase to 3 million as it was mentioned in your presentation by December 2018?
- Arvind Kapur:** Yes correct.
- Siddharth Mohta:** So till that time Sir this entity will continue to be?
- Arvind Kapur:** No. There is lot of action that has been taken.
- Rakesh Sharma:** Next quarter itself you will see that improvement. This will improve.
- Siddharth Mohta:** And Sir if it possible then what was the loss in that particular entity and how one should look into for coming quarters?
- Rakesh Sharma:** It is around a Crore the loss was.
- Arvind Kapur:** It was 1.2 Crores.
- Siddharth Mohta:** And it is at Sir PBT level?

- Rakesh Sharma:** Yes, it is at the PBT level.
- Siddharth Mohta:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Bharat Gianani from Sharekhan. Please go ahead.
- Bharat Gianani:** Thank you for the opportunity once again. Just one query I had the current debt level on the books is close to 200 Crores so given that we have capex guidance and plus internal accruals so what is your estimate how much will the debt level increase by over the next two years so any indication on that would be helpful?
- Rakesh Sharma:** See like Mr. Kapur said earlier also that we will keep our debt equity ratio below 0.5 so that we will ensure.
- Arvind Kapur:** That is the permission we have from the board so we cannot cross that but in any case at the moment the total debt is about 200 Crores and it is likely to go up by **Rs.39.44 (Rs. 100) crores next year.**
- Rakesh Sharma:** Because we simultaneously we are repaying the older loans also.
- Arvind Kapur:** Did you get our answer?
- Bharat Gianani:** No Sir.
- Arvind Kapur:** At the moment, the loan is about 200 Crores, the maximum will go up is about another 100-110 Crores because we are repaying the lot of debt also.
- Bharat Gianani:** Correct got it Sir. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Varun Basrur from AQF Advisors. Please go ahead.
- Varun Basrur:** Good evening Sir. Thanks for taking my call. What is your working capital cycle?
- Rakesh Sharma:** It is in the range of say around 60 days.
- Varun Basrur:** And we can expect it to continue at 60 days over the next?
- Rakesh Sharma:** Yes, it will be our endeavour see as our exports increase there is a pressure of increasing some days in this but it is our focus area we will try to maintain it to this level.
- Varun Basrur:** Right, I was concerned about the receivables going up as exports goes up?

Arvind Kapur: One clarification here. You must realize that exports is a cycle of 100 days because we ship from the factory and in the transit period when the goods are on the ship we are required to retain 30 days plus one week stock of materials in warehouses there and we are supplying to all the known OEMs like BMW, Caterpillar, Continental these sort of companies and they release the payment I think within 30 days of receipt of goods. So total cycle is about 110 days and as our exports goes up then you will see the pressure on the working capital but there has never been any payment which have not come to us in the last ten, fifteen, twenty years because we are dealing with all the big companies and the only thing is the shipment time and the holding time of material there in our warehouses that takes. Domestically I do not think that any customer which pays us more than 42 days or 44 days, but we get all the payments. 45 days maximum so we are dealing with all known good customers and as far as the aftermarket is concerned there is no bracket that is given so we will be under stress as far as the domestic market is concerned and/or the aftermarket is concerned and there are no exceptions to this and also the export, export we want our exports to go up and we do not mind the working capital getting extended because we are dealing on high margin components for excellent customers like BMW etc.

Varun Basrur: Okay Sir this was helpful. Thanks. What would be the tax rate for this year?

Rakesh Sharma: It should be in the range of around 25% or so average effective rate.

Varun Basrur: Thanks. I do not have any questions.

Moderator: Thank you. The next question is from the line of Arpit Bhatt from HDFC Securities. Please go ahead.

Arpit Bhatt: Good evening. Thanks for taking my question. Sir just one question with regard to the program that was declared in the July 2018 presentation and also in the recent press release, I wanted to know this 4000 incremental Crores worth of order are those just for the standalone entity or do they include the JVs and all other associates of the company?

Arvind Kapur: No this is absolutely standalone, this we are talking of Rico Auto. We are talking of the JVs and in any case see, one is JV Magna is a 50:50 JV. The topline does not add up in any case so that does not, it is only the bottomline which comes in there and Rico Jinfei, yes that is 92%-93% our ownership but we are talking off standalone at the moment.

Arpit Bhatt: Okay Sir and so if we go by the presentation then FY2018 what we had 2650 Crores order that should peak out say around 800 Crores should be therein by 2021 and the orders that we are receiving right now the peak of that around 800 Crores or whatever we can say that should be there in FY2022, so we can assume say 50%-60% of that value should be added in revenues over the next year and two correct?

Arvind Kapur: For the year 2017-2018 the peak value is close to 500-odd Crores and for the year 2018-2019 for the first four months that we have now that will peak out may be around 400-odd Crores so overall both will have a different timeline because the programs that we have won this year most

of them would start towards the end of 2019 or early 2020s and then they will peak out in say 2022-2023 while the ones which we won last year 2017-2018, some of them would start this year and some would start next year and some even by 2020 early 2020. They would also peak almost at different times so once that we have already started producing which have already started getting into the sales number reflecting into the sales number they will peak around 2020.

Arpit Bhatt: Thanks for that and just a last question on the program value part that there are three components that we are doing a research on so that that included in the program value over here?

Sandeep Rajpal Yes, the combined breaking system is included in those turnovers while the new clutches are under development and the PBT is yet included because we are still under the stage of development and only by may be early next year we look to get awarded from the customer on that.

Arvind Kapur: As far as the clutches are concerned, we are suppliers of clutches but we are getting into the newer clutches for high end models etc., and some of them are already under testing at the customer end. We have already done the testing in our R&D and very successful and we have submitted to the customers. Now that customer will give us a report then this whole process starts off they will pickup may be 500 pieces and then they pick up 4000 pieces then they go to those maximum values of 10,000 or 15000-20000 or 10000 pieces a day that sort of a cycle. So we are in that cycle but we are not included in those because we do not have the orders in hand. These are R&D programs we have done. CBS breaking system yes we have the order but for the CVT and the new clutches no, those are not included, those would be add on to whatever the turnover is.

Arpit Bhatt: Thank you. That is it from my side. Thank you so much.

Moderator: Thank you. We have a follow up question from the line of Siddharth Mohta from Principal India. Please go ahead.

Siddharth Mohta: Sir you said that it will be doing a capex of around 100 Crores each year and apart from the other location Gurgaon is also one of the location but I thought that we are shifting lot of our machines from Gurgaon to other location so my initial understanding was that eventually we look close our Gurgaon plant so any change in that?

Arvind Kapur: Yes, your observation is absolutely correct. What happens is that you know the customer approve a site and Gurgaon is one of the sites approved by some of the customers who insist that their components would be made here in Gurgaon that is why we get into that trap but we have shifted a lot of component shift of lot of more components also. So we are very clear in our mind in whatever you are saying is absolutely correct that is our focus area. Pending that we are getting the other sites other manufacturing areas also approved from the same customer.

- Siddharth Mohta:** I do understand this regarding this customer approval so eventually not now but after like two to three years or three to four years whether Gurgaon it would be active location for us or how it should look Gurgaon as a plant?
- Arvind Kapur:** Well it would be a location and depending on the market, we would call it a location, I do not know active or non-active but it would be a location and that would be some manufacturing left here but we would be shifting a lot of it and what we had mentioned is that this one is a prime area it depends lot on the real estate market if we get a good value we ready to vacate to this place.
- Siddharth Mohta:** And Sir on this wage agreements in any of our plants or any a substantial wage increase is going to come or can I assume around 145 Crores wage or the employee cost was there in our consolidated number and I can assume like 5% to 10% increase on that?
- Arvind Kapur:** Our next wage settlement is somewhere in the year 2019 so we are one year away and so it does not apply to this current year's balance sheet and the increases would be in line with whatever has happened in the past but I do not think that will really increase a manpower cost because of the increased productivity because of the automation and also reduction in manpower that we have taken up.
- Siddharth Mohta:** Sir you have mentioned earlier in your call that our target is to reduce our employee as a percentage of cost, employee as a percentage of revenue 7% to 8% so this include wage agreement which is supposed to happen in 2019?
- Arvind Kapur:** Yes, all wage agreements are part of that and the increase that will happen in 2020-2023 and that also we would like to stick to that level so that is what we are targeting and sometimes it gets into slower than what we want but we are determined to achieve that. The other problem is when the government comes and starts because of political reasons slams the minimum rate and then it has a spiraling impact on the current people also.
- Siddharth Mohta:** Sir we were also planning to do some sort of this PRT, which is called POD case that is there at London airport so any update on that or something like that?
- Arvind Kapur:** Yes, in that see the POD manufacturing since the government is a customer there because the land has got to be allotted and the projects are allotted by the government there are about 60 or 70 projects, which are very actively been negotiated with various governments like in Hyderabad, Bengaluru, Pune and Ludhiana and Amritsar and Delhi, Gurgaon many places in India so till the order is in hand we are not prepared to invest even though we collect we have got all the drawings and we probably will start making some sort of prototypes but the active investment will take place only after, it will be back to back.
- Siddharth Mohta:** Thank you Sir. Very helpful.



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Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants I now hand the conference over to Mr. Sanidhya Jain for closing comments. Thank you and over to you Sir!

Sanidhya Jain: Thank you Aman. On behalf of S-Ancial Technologies Private Limited I thank management and all the participants for joining us on the call. Thank you. Good bye.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Rico Auto Industries Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.