

**RICO AUTO INDUSTRIES LIMITED**

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Sub : Transcript of Conference Call held on 18th June, 2020

Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 18th June, 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
Q4 FY2020 Earnings Conference Call”

June 18, 2020



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

**MANAGEMENT: MR. ARVIND KAPUR - CHAIRMAN, CEO & MD
MR. O. P. AGGARWAL- CHIEF ADVISOR (FIN & A/CS)
MR. N. K. SETHI – CHIEF ADVISOR (BP & S)
MR. SURENDRA SINGH –PRESIDENT & COO
MR. RAKESH SHARMA – CHIEF FINANCIAL OFFICER
MR. SANDEEP RAJPAL – VICE PRESIDENT- MARKETING
MR. B. M. JHAMB – COMPANY SECRETARY**



Moderator: Ladies and gentlemen, good day and welcome to the Rico Auto Industries Limited Q4 FY2020 Earnings Conference Call hosted by S-Ancial Technologies. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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. Saurabh Bhavne from S-Ancial Technologies. Thank you and over to you Sir!

Saurabh Bhavne: Thank you. Good evening everyone. This is Saurabh Bhavne, on behalf of S-Ancial Technologies welcoming you all to Rico Auto Q4 FY2020 earnings conference call. From the management, we have Mr. Arvind Kapur – Chairman, CEO and Managing Director, Mr. O.P. Agarwal – Chief Advisor (Finance & Accounts), Mr. N.K Sethi – Management Advisor, Mr. Surendra Singh – President and COO, Mr. Rakesh Sharma – CFO, Mr. Sandeep Rajpal – VP Marketing and Mr. B.M. Jhamb – Company Secretary. Now may I request Mr. Arvind Kapur to take us through his initial remarks subsequent to which we can open the floor for Q&A session. Thank you and over to you Sir!

Arvind Kapur: Good evening everyone, welcome to the Rico Auto conference. Things are absolutely different, the world is not going to be the same ever again. There are the pre-COVID and post COVID days and I think these are going to be the new challenges that we all are going to face, but I think we will always find some way and means to where we are all participating from our individual houses and some from the office and it is a new way of communication that we have actually found now. The COVID has had a major impact on whatever has happened around. If we look at the total economic situation I do not think I need to talk too much about it and everybody is talking about it. It has impacted businesses, pre-COVID or before the lockdown we had a challenge of BS-IV and BS-VI and lot of confusion that was prevailing in the market, the sales had actually started coming down despite the massive discounts that were given for BS-IV vehicles, but subsequently on March 31 of the last year some extension given by the Supreme Court. Fortunately the OEMs have been able to clear most of the stock of BS-IV and the balance which are left probably come back to the companies and exported to other countries where this standard is acceptable.

There are new challenges that we have in the post COVID world, the shutdown, the lockdown had a major impact when we opened up in the first week of May that is the time we got permission to open up, it took us a while before we could get some of the labor force back so that was a big challenge that we had and because most of the migrant labor had gone back to their cities. The work has started and all our plants, the challenges are coming on a daily basis, but we are there to face them and perform as best as we can.

Post-COVID the other issue we had was preparing the budget for next year. We had prepared a budget in the month of February for the year 2021 and we had prepared a budget where we had shown a growth. At the time of COVID, we tried to get in touch with all our customers and also tried to get information and to what would they expect the markets would be like post after the opening up. Nobody gave us a committed answer so we have been revising a budget almost on a weekly basis and ever since the opening. The first budget we made was that it was 30% less than whatever we had last year and subsequently as the markets opened up and as the retail sector opened up, there was lot of confidence that was coming back to the auto industry, partly because I think people are looking at individual transport to maintain social distancing and for conveniences, people would like to avoid public transport as far as possible. So we formed the change and every week we have been fortunate enough to get the positive figures. If we look at the two wheeler market in the month of May whatever the plans we had made, Hero our main customer actually dispatched more than what we had planned and subsequently in the month of June that they have almost increased the productions almost more than four times and the same messages we are getting from the car industry as well, Maruti had given us a figure of 4,000 in the month of May because very slow start primarily because they were not too sure how the market will react and number 2, how well prepared they were in the manufacturing units because of the safety reasons and the tough conditions that the government have imposed and May went off okay with Maruti and for the month of June, they initially gave us a figure of 20,000 now it is around 40,000 to 50,000 vehicles and in the month of July they are again going to more than double that and market fortunately seems to be good. We did not expect this much response from the market for the coming year and we keep on revising our budget and this year what we feel is that we should be able to cross these turnover last year despite the fact we have taken lesser volumes of productions as far as our OEMs are concerned and this is primarily because of the new program that we have been investing in the last 3-4 years. Coming to last year, we have had challenges, we have been sharing those challenges with you this is regarding the premium freights that we had incurred and also we had some quality issues on the launch of new products so we are over with those and all those products which we have introduced in the last quarter fortunately are doing very well for exports and also the new products introduced in the domestic market are also doing very well. We are hoping that last year exports did go up and this year also we expect that are exports would be better than last year and we are very apprehensive of the export market also because the market globally has closed down Germany, France, US all the countries had actually closed down but they opened and the market has bounced back pretty aggressively so we are happy on that account. The other thing is the expansion that has taken place is also lot of the electrical vehicles where the lot of subsidies or compensation given to new vehicle buyers in Europe both in France and Germany and other EU countries and because of the CAFE norms it has become absolutely necessary for all the companies to manufacture more electrical vehicles with zero emission so that they can meet

the global CAFE norms that they are committed otherwise there would be heavy penalties. So that is also helping us in the turnover that we are doing. We are hoping that this year would be a better year. Of course we were not very confident at the time of shutdown now the confidence is coming back, we are looking at all the customers throughout except the commercial vehicles that is the challenge that we are facing. The heavier commercial vehicles I think would be down this year and if you look at the light commercial vehicle we feel that those would start picking up soon. The two wheeler industry the numbers would be lesser than last year because we lost the first two months of the quarter and the IRDA in Insurance, they have relaxed some rules that they are imposed the three to five insurance that was required to be done during the time of registration, that also would have an impact of Rs.5,000 to Rs.10,000 on a motorcycle and a car that would also help us to improve the sales. Beside this we are in talks with the Government and we are hoping that there would be some revision of GST for at least a small period so that the customers can come back more aggressively. Anyway this budget we have prepared is without keeping any swaps to be given by the government to the OEM, so we planned our sales accordingly. I think we will go to the question and answer now.

Moderator:

Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Rashi Talwar from Ashmore. Please go ahead.

Rashi Talwar:

Two questions, one in the fourth quarter other expenses were very high compared to our usual run rate and I can understand that there was a shutdown which was abrupt so you would have planned for certain revenue or a certain production which did not finally happen so can you just make sense of how much of one time impact in fourth quarter was there because of either cost that were incurred or cost due to the lockdown that was one question. Second question was that VRS continued, we still had a number of VRS so how much longer and what is this towards, is this towards the Dharuhera plant I mean I am just asking where is the people going and then when we look at FY2021, I understand we should look at revenues being more or less flat, how should we look at margins?

Arvind Kapur:

The lockdown was sudden and that of course did impact everyone and the cost has already been incurred and we had lot of consignment ready for export and those shipments could not take place and probably we got stuck with those consignments lying in our plants, those are ready material, ready for dispatch which we have done. The other thing that had happened was we are required to invest in a machine, a pretty large machine for one of our customers in the South, Kia Motors and for that the machine manufactured in Italy had some problems with the casting etc., so he was dealing the machine, so to overcome as to be able to meet the requirement in August-September 2020, I am talking about current year we have started over stocking so we over produced for almost we have almost too much of extra stock because our machines getting delayed just to cover up the production we kept on

stocking the material so that was the other thing that really happened in our plant. Preparing to meet the customer requirement, fortunately that the stocks that we have those are clearing out pretty well and the customer has billed them all by one month and I think our machine is also delayed by another month and we both should be able to match so that is the other thing that is happening. On the VRS, VRS is primarily Dharuhera but it also relates to some lines the code lines in our Gurugram facility where some of the old lines or old components have gone out of production and some of the old permanent expensive workers we needed them to retire and so that is the reason but it is mainly connected to Dharuhera where VRS now what has happened is in Dharuhera we have laid off 119 people where we pay them 50% for first 45 days and after that we need to plan that is what is to be done but we are definitely reducing the workers and we want them to go. So that is on the VRS concern. VRS otherwise is mainly Dharuhera and to some extent Gurgaon and on the lockdown of course had a major impact made everybody very nervous, we did not know how to make a budget, the budget we have prepared earlier we just cut it down by 30% to 35% of whatever had happened last year and we had made initial budget and subsequently when it started opening, we started talking to the customer we were pleasantly surprised that demand that they were giving was higher whatever we in any case for a budget which is about 30% lesser than whatever was last year and despite that whatever extra we produced this year as a new customer requirement that is coming is going to be added bonus to us we have the capacities in place and we should be able to deliver to our customers so I think should also have a more positive impact. As the cost reduction that are taking place we are shutting down Dharuhera plants where we were making losses and that we were shut by the month of September that has been planned and that is the plant that we were incurring a loss of 25 Crores to 30 Crores every year, so that loss will get rid off and that is the reason that this aggressive stands has been taken at Dharuhera plant. Besides that at the moment it is a new world and the number of people available especially to the work for is much lesser than whatever is not be required so now we are also learning how we can work with lesser number of people and produce more. So there are very innovative method new things which are coming up our people are engaged in that and we are looking at those possibility but you will see a lot of reduction of our overhead in this the current year, there are lot of changes that has come about besides that all my colleagues, my senior staff as well all the engineers and all there is a reduction of salary that everybody have taken it starts from 30% on the top and goes down to almost about 5% the bottom that also is going to reduce the cost. Besides that of course I have left my salary for the first three months for the first quarter and after that there is reduction of 35% in my salary also, so we are looking at every cost now, every manpower that is required, every investment that is required to be made, last year we had planned of 112 Crores to 114 Crores of investment which we did and this year the initial time was around 80 Crores but now we are looking at investment on a monthly basis, it will only happen once if actual requirement is there because there will be commercial makers and some components which will not produced this year and things



being flexible we will be switching those machines over to the newer component that we have and we are fortunate that the newer component that we had developed in the last one year or two years they are really ramping up this year and we are confident that turnover this current year would be same or little more than last year.

Rashi Talwar: Right so on margin where do you think we should settle or tough to say right now?

Arvind Kapur: Yes the margins we have shared to that those margins earlier that is target that we still maintaining and this year about an exceptionally or primarily because of the premium freights and the quality issues we had in some of component which have settled down now and so we are going to jump back to pretty good margins and the budget we have taken we are pretty aggressive on that.

Rashi Talwar: Okay Sir, thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Aditi Aggarwal from Kotak Mahindra Bank. Please go ahead.

Aditi Aggarwal: Good afternoon Sir, I have just one query, as you mentioned that sales were expecting better or actually crossing last year sale mainly because of the new component so can you share like approximately what percentage may be or any ballpark figure for that for new component sales for current fiscals?

Arvind Kapur: If I talk about the break up, we actually taken a sale reduction of all the customers I had the sales for what we planned for. If we look at the two wheeler business for Hero we internally planned 5 million vehicles where as they are planning for 6 million vehicles and last year of course they have produced more than that and we have done a budget based on 5 million which is lesser than whatever they have, the new plan that they have given us now and the extra we produced that 6 million that has been extra bonus for us but our budget is based on 5 million and the turnover that turning is based on reduction that is there. Similarly in the case of Maruti we have taken about 1.1 million vehicles.

Aditi Aggarwal: Sorry how much 1.1 billion?

Arvind Kapur: Million.

Aditi Aggarwal: 1.1 million.

Arvind Kapur: Yes and they are giving us target about 1.3 million. 1.1 that we have taken in budget and we are expecting between 1.25 and 1.3 as per the latest forecast that is coming. But the turnover is based on 1.1 million and that is the very conservative view we have taken and the

increases are going to come primarily from Kia and BMW which has exports these are the new customers that we have started delivering order for the BS VI vehicles, Grievs is has new engine they have developed for three wheelers and that is also doing pretty well and we are surprised at the response that we are getting. So, these are some of the areas that the sales actually go up. Sandeep do you want to add anything.

Sandeep Rajpal: As per the question I think from all these new businesses in this year we are expecting close to 20% to 25% revenue from these new businesses that was the question which Aditi had.

Aditi Aggarwal: Okay thank you Sir that will really help. Thank you.

Modeerator: Thank you. We will take next question from the line of Sunil Jain from Nirmal Bang. Please go ahead.

Sunil Jain: Good evening Sir. Can you share your sales break up vehicle type wise or two wheeler, passenger car and CV FY2020?

Arvind Kapur: Yes we can give you a broad break up Sandeep would you give the broad break up for last year.

Sandeep Rajpal: Yes last year you can see approximately around 35% is from the two wheeler and around 50% to 55% is from the passenger cars and balance 10% to 15% is from the commercial vehicles.

Arvind Kapur: These commercials vehicles are small commercial vehicles and large commercial vehicles.

Sunil Jain: Can you come again what you said it is heavy commercial vehicle which may be you are supplying or LC.

Sandeep Rajpal: No it is a combined plus heavy whatever commercial vehicles customers we have approximately between 10 to 15%.

Sunil Jain: Okay and Sir this VRS what you had suggested that still continues, it will continue till September, the payment for that of it can continue even thereafter?

Arvind Kapur: Dharuhera we are shutting down the plant so that would be over by September in any case but whatever VRS comes the additions that would happen would only happen into Gurugram facility, the old facility of Gurugram and it will not be to the extent that was done last year will be much lesser than that. But that also helps us to reduce the cost.

Sunil Jain: I agree with that I was just thinking about the cash outflow about VRS which is happening at Dharuhera is that over or is still continuing?

- Arvind Kapur:** That will complete in the month of September.
- Sunil Jain:** It will continue till September okay fine and then there will be continuing?
- Arvind Kapur:** But we probably settle above that most likely we will be settled by the next month but September is the last.
- Sunil Jain:** Okay fine and because of this close down of the plant you said that you will gain around Rs.25 Crores Rs.30 Crores because there will be lesser losses of that. So, right now the production and all are still works on and there will sales and all which you can shift to some other plant?
- Arvind Kapur:** We have already shifted most of the components to other plants but there are few components where we need the customer's permission to shift those production facilities which we have taken. So whatever sales were happening in Dharuhera facility those were shifted to the other plants.
- Sunil Jain:** So Dharuhera plant has incurred a loss of around Rs.25 Crores in current year am I correct FY2020?
- Arvind Kapur:** Yes.
- Sunil Jain:** Which will not be there post September?
- Arvind Kapur:** Yes.
- Sunil Jain:** Okay and Sir since you have maintained this material part was there any inventory gain or loss in the current quarter?
- Arvind Kapur:** Rakesh you want to say something?
- Rakesh Sharma:** Yes Sir, can you repeat your question please?
- Sunil Jain:** Yes my question was more related to inventory gain or loss because of the movement of the steel prices or aluminum prices in the current quarter?
- Rakesh Sharma:** Yes normally what happens in our case it is pass through in most of the cases. So, there is sometime some lag impact would be there but otherwise we do not have much of impact on the movement of prices on metal.
- Sunil Jain:** So, that is totally passed through but inventory and all will not have any impact on that?

- Rakesh Sharma:** Yes some lagging can be there otherwise there is no impact.
- Arvind Kapur:** In our case what happens is in some cases we settle every quarter in some case it is six months. So, whatever the average of those three months or six months that is what is passed on for the next three to six months this is what happens as far as the mainly aluminum fluctuation which happens and also the steel. But if at all there is impact that will come is mainly because of the dollar and the rupee is weak at the moment. In some cases where there is some adjustment which is done but in most cases there is no adjustment done. So we will probably have some gains there.
- Sunil Jain:** Why I was asking that because if I see your last year gross margin and this year gross margin in the fourth quarter there is a good improvement. I was just thinking whether there is inventory gain or is there anything else that is benefited?
- Rakesh Sharma:** No it is actual efficiency in RM consumption that could achieve in some of the plants. So, it is on that account.
- Arvind Kapur:** You will also see a major change happening this year there is lot of improvements that have happened and lot of thinking has gone in this and you will see further addition in the gross margin.
- Sunil Jain:** Okay. Sorry to take on this question, if I simply see your margins are comparatively lower than the other auto ancillary player even if I add the Dharuhera additional benefit what we are getting. I was just trying to understand how much more room is there to improve the margin in the normal circumstance. I am not talking about current scenario if suppose we leave this and look at this third quarter where there most of the things will be normal. So, in that scenario is there any possibility of improvement in the margins from current level other than this Dharuhera?
- Arvind Kapur:** Dharuhera that has got a major impact in any case because that is pulling down our margins by Rs.25 Crores in any case that was happening. So, that we have reduced it last year some of the VRS that has happened and there are 119 more people we are negotiating with them and that will also improve our cost and besides that if you look at the other plants we have been investing in the last couple of years where there were major investment like we are talking of Rs.112 Crores then prior to that was Rs.180 Crores. So all that we have invested though what we invested today we actually start using after a year, a year and a half or two years this is all what happened. Most of the equipment that we have invested in we have already started using that equipment and the customers have already started taking up these materials. So, the machines which are lying with us major investment were had been done where only the samples and other formalities of the customers are going those have all over and that will also help us improve demand. Besides this our exports have a better margin

then the domestic markets and since we are pressing on exports the exports going up that also helps to improve the total margins. Besides our loss as the cost reduction that have happened.

Sunil Jain: The last question is related to debt can you tell exactly how much is the debt on the book and what is the plan for FY2021 whether it can come down in the current year?

Rakesh Sharma: Our total debt including working capital and the long term loans also it is in the range of Rs.400 Crores, that includes the working capital.

Sunil Jain: So, is there any plan to reduce that in the current year or it is likely to remain more or less same?

Rakesh Sharma: No we do not plan to further increase it and repayments will be there. So, it may remain at the same level or slightly come down.

Sunil Jain: Okay fine, great Sir. Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Nikhil Deshpande from Axis Bank. Please go ahead.

Nikhil Deshpande: Thank you Sir. Quite an encouraging outlook you have presented just Sir what is the current capacity utilization?

Arvind Kapur: See current capacity utilization pre-COVID I will talk about it. We were in the aluminum we were at about 65% and that also included some of the capacity we have created for a new component that we are going to be making now and in the Iron we were in the range of 50%-55% it depended on the exports that were taking place. Now post COVID this year what we are seeing is that the market really surprised us the way market is picking up now and we see that by the month of September almost everybody is obviously will be more or very close to whatever the pre-COVID days were. So our capacity utilization in those days we will naturally be back to about 65%-70% that is what we are looking at. Then post that in the last fourth quarter of this year some of the production is higher than whatever the companies produced ever so that is the other thing that is really surprising for us and the market seems to be doing well. So our capacity utilization would at the moment in the month May we had done about 35% utilization and we actually worked about 18 days. This month I think we should be around 55%-60% that is what we are estimating and thereafter we would go up again and say whatever we produced last year and by September I think our capacity utilization would be close to 65% to 70% and beyond that then of course we hope the market the way they are projecting it now, our capacity utilization is much better. Another thing I can add here is there is one business that we have been working on, we have

invested very heavily in the R&D. We have invested Rs.18 Crores to Rs.20 Crores totally in this clutch business including the development cost etc., that has happened for the two wheeler and earlier our total supply of clutch was about 25% to 30% of whatever the requirements of Hero was but now our target is to cross 50% because R&D has already developed all the clutches they have been approved by the customers now it is a question of supply.

Nikhil Deshpande: Okay good to hear that Sir. Sir, could you through some light on the labor situation given what the ramp up you are looking at in June-July, how confident are you on the labor front?

Arvind Kapur: At the moment there is challenge, lot of labor have gone to the villages we are in touch with them, we are trying to get them back. In the month of May and June normally the labor challenge is there mainly because of the harvesting that happens April and May this is what happens. But this year it happened because of COVID and the challenge is there we have a large training centre we are getting new people we are training them and putting them on the machine all that is happening and hopefully I think another month's time we should stabilize and the signs we are getting is that the people who had gone to Eastern UP they have started coming back, Western UP they have also started coming back, from Bihar we are encouraging them to come back as they are prone to come back. So, I think the next month or a month and a half we would see people actually coming back to work. But for the next one or two months it is going to be a challenge so that is for sure.

Nitin Deshpande: Training new people is a challenge and again quality has to be maintained and the business is majorly about quality?

Arvind Kapur: That is what happens. You know quality is very important so our cost go up slightly because of the expense etc., we had to incur so all that happens and we are working on it very aggressively and we are hoping that by another months time, a month and a half time there would be some normalization that would take place. By input it is a good situation to be in that there is a pull in the market you are unable to put you are looking for source and everything that is a good thing to have at the moment.

Nitin Deshpande: True Sir. Sir, what would be our exports FY2020 and then what are you looking at contribution from exports is FY2021percentage wise on revenue?

Arvind Kapur: Beg your pardon can you repeat it again please.

Nitin Deshpande: FY2020 what are the contribution from exports and then FY2021 what kind of contribution in the export could you have?

- Arvind Kapur:** I think our exports will go up by another 10% from whatever we have done last fiscal and we are hoping that pulling the way they are pulling and fortunately we are in the newer vehicles so that is helping us a lot.
- Nitin Deshpande:** But as a percentage of overall revenue what was exports in FY2020?
- Arvind Kapur:** In exports we are looking at only direct exports, when I say direct export I mean what we are exporting. There are many components earlier we were exporting to Renault and Trans. Now, Renault they have central collection centre here and we ship there and then they ship further. So, that we do not regard as export even though components go as export components. Now, what we ship to KIA they get to various other countries we ship Renault in India they ship to many countries the components as such so, we do not regard those as exports but if you do not do then be in the region about 35%.
- Nitin Deshpande:** Okay and Sir because the dollar-rupee equation is there with the rupee depreciating is this contracts adjusted for the rupee depreciation or we get that benefit of rupee depreciation?
- Arvind Kapur:** Both are there, in some contract they are adjusted, some contracts they are not adjusted. So, both the things happen.
- Nitin Deshpande:** Okay Sir lastly, if I could squeeze in how is the liquidity position at your end?
- Arvind Kapur:** At the moment little tight but we are okay of course I do not think that there should be major issues of course there is a stress and mainly because we had to pay the salaries of our workers for the two months the lock down was there and I think that stressed everything and of course the other expenses are there but it is under control.
- Nitin Deshpande:** Okay thank you Sir.
- Moderator:** Thank you. The next question is a follow up from the line of Aditi Agarwal from Kotak Mahindra Bank. Please go ahead.
- Aditi Agarwal:** Thank you for giving the opportunity to ask the question. Sir, can you please throw some light on the capex plan for the current fiscal?
- Arvind Kapur:** Beg your pardon.
- Aditi Agarwal:** Can you please share the capex plan for this fiscal FY2021?
- Arvind Kapur:** See the capex for this year pre-COVID we had planned capital expense of about Rs.65 Crores but post-COVID when we have prepared a budget we have brought it down to Rs.40 Crores and that too we have condition with the board that it will be reviewed every month

we will see how the production go, in case the production pick up rapidly then only we will be invest otherwise we will not make any investment this year. So, capital expenditure this year is minimal except of course for the dyes and moulds which are required for production those of course would be done in any case so that is what would have been limiting this year and there is some building expansions and some flooring etc., which is done. So, it would in the range of Rs.15 Crores to Rs.40 Crores that is what the range.

Aditi Agarwal:

Okay. Thank you.

Moderator:

Thank you. Our next question is from the line of Sandeep Kumar from Axis Bank. Please go ahead.

Sandeep Kumar:

Good evening Sir. Just wanted to understand like what would be the quantum of VRS expenses that you are anticipating for FY2021?

Arvind Kapur:

Singh Saab would you like to say something.

Surendra Singh:

Exact figure we will have to calculate actually but we rounded Rs.3 Crores to Rs.4 Crores.

Arvind Kapur:

That will be lesser than before. Please understand one thing earlier we had excess labor in Dharuhera and that is where the main VRS has happened an now 119 people are laid off and in the other plant we running short of the workers at the moment we are not even contemplating those, we will see that earlier we have moved in to do that because we are trying to fill up the lines and have the worker at place. So, the total focus is Dharuhera where the losses were coming otherwise and we would like to focus there. But other plants even though we do like to keep on replacing the expensive people that may not happen this year mainly because of the shortage of labor.

Sandeep Kumar:

Okay and Sir with respect to your export BMW and BSA to whom you are exporting and how is the order book out there Sir?

Arvind Kapur:

Very good we are very happy with that and in fact post-COVID after we opened up we received another huge order from BMW and we are discussing more orders with BMW and the other customers as well and I think we should start finalizing them pretty soon.

Sandeep Kumar:

Okay any amount that you can specify Sir?

Arvind Kapur:

Now, see the single order was in the year 2022 will be 25 Crores to 30 Crores a year on one item so if you look at the total orders at the moment Sandeep would you like to throw some light on this, the orders we picked last year and some would be delivered in 2021 and some in 2022 and some in 2023?

- Sandeep Rajpal:** So, last year we did approximately 1270 Crores of the new programme value out of which some was replacement but as Mr. Kapur just mentioned we have been able to get new orders from BMW, Maruti and Toyota this year post COVID in May and June and we are just finalizing the total numbers year-on-year as they go around and there are certain new customers that we are discussing and very hopeful that within the next two weeks or three weeks we should get new nomination from some new customers like Knorr-Bremse and also we are looking at some tractor companies who are interested to expand and they have positive outlooks for the next couple of years so till post COVID also there is a huge opportunity and we are in the good books of our customers and we continue to aggressively tout for new business.
- Arvind Kapur:** So, last year we picked up 1270 Crores new orders out of which 500 Crores were for replacement, replacement of the older ones that we are making to newer components that were supplying for similar vehicles. So, addition of order is 700 Crores that is the programme value and programme value normally will take five years to seven years and some of the replacement would have already started and the newer components some would start by the middle of this year, some would start next year, and some would also start in 2022 but this year also post COVID we had confirmations from Toyota and BMW and some other customers as well.
- Sandeep Kumar:** Sir, with respect to your finished goods which were air lifted and there were quality issues all those things had been completely been taken care by Q4.
- Arvind Kapur:** Yes, we have taken care of that, we have actually incurred huge cost there and all the shipments which have gone in the past are all by sea and those are major changes that would happen at lower profits.
- Sandeep Kumar:** Okay and what would be the impact of that particular transactions in Q4 I mean in value terms?
- Arvind Kapur:** Gupta Ji would like to say something on that?
- Gupta:** Could you please kindly repeat your question again?
- Sandeep Kumar:** Sir, you had certain issues on quality issues with respect to the consignment with BMW and PSA which has been?
- Arvind Kapur:** Not BMW it is mainly PSA.
- Sandeep Kumar:** So, what was the additional expenses that we incurred in Q4?

- Gupta:** Quality and air freight could be in the range around Rs.4 Crore.
- Sandeep Kumar:** Otherwise profit could have been higher by 4 Crores. The PBT would have been higher by 4 Crores.
- Arvind Kapur:** Approximately 4 Crores we are telling but it could be 5 Crores also but I will send you the figures in anyway.
- Sandeep Kumar:** Alright. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Manish Bohra from Param Capital. Please go ahead.
- Manish Bohra:** Sir, basically my question is related to the previous participant, so like in our quarter three con call you had guided for EBITDA margin improvement on quarter-on-quarter basis basically due to lower air freight cost and reducing man power in Dharuhera plant and also a new product sales while there is a dip in the EBITDA margin by around 294 bps quarter-on-quarter, so basically what is the reason of sharp dip in EBITDA margin in current quarter?
- Arvind Kapur:** One is of course the premium freights that were there and the Dharuhera thing we had thought that by end of February we will be up to clear total accounts which did not happen and then of course the lockdown happened and so nothing could happen after that so cost of the labor of etc., and that loss making part continued that and the other thing is that it has a lot of material which lying ready which did not come to us at this time primarily in Chennai and also the exports that are lying with us. These are some of the things that actually impacted the last quarter as well.
- Manish Bohra:** So, basically what was the net impact on our total topline due to lockdown?
- Arvind Kapur:** Rakesh could you like to talk about this?
- Rakesh Sharma:** Our Q4 turnover is down by Rs.15 Crores as compared to the previous quarter. I was saying that in Q4 the turnover is down by around Rs.15 Crores as compared to Q3 and most of the portion is on account of COVID we can say because in the later part of March lockdown was there and we could not ship.
- Arvind Kapur:** The other thing I had mentioned to you was that the two to three months of extra stock that we produce in Chennai so that we can accommodate the customer's requirement where our machine was getting delayed being shipped from Italy.

- Manish Bohra:** Okay and Sir the air freight cost this will go until like in FY2021 also like it has been completely....
- Arvind Kapur:** No, not the way it happened in last year, now we are over that hump there would be some premium freight that is normal course of business which we already factored in our budgeting also but last year was the other extreme.
- Manish Bohra:** How much did we incur towards air freight in FY2020?
- Arvind Kapur:** Total we incurred around Rs.10 Crores to Rs.12 Crores or something,
- Manish Bohra:** That was I think for nine month figure, Rs.10 Crores to Rs.11 Cores including Q4?
- Arvind Kapur:** That was about Rs.12 Crores or Rs.13 Crores plus the quality issue that we had. That we cannot afford, that is no way that does not happen. It happens but this happens mainly because some ships have been delayed there or there is some also new samples with those air freights for the first three months to four months any new component has developed that also sent by air freight and in that case we normally ask the customer to pay for it and for sometimes we also compensate the customer so these things will be there which is normal part of the business but largely about both in quality as well as the premium freights.
- Manish Bohra:** So, basically my last question is like this year FY2021 we are expecting to achieve turnover of around Rs.1400 Crore or even may cross Rs.1400 Crores and also like VRS expenses would be lower compared to last year, air freight cost would also be lower compared to last year and like you said higher sales from new components so are we expecting EBITDA margin improvement from FY2020 level like which is around 8.12% ?
- Arvind Kapur:** See, the margins we had promised last year were higher than 12% or so. Last year in any case we achieved, but we hope to achieve the margin that we were talking last year.
- Manish Bohra:** Last year how much was the margin, I am not aware of it?
- Arvind Kapur:** Okay we had given that we would touch around 14% to 15%.
- Manish Bohra:** Like by when?
- Arvind Kapur:** This year only.
- Manish Bohra:** You are saying 14% to 15% margin in FY2021 EBITDA?
- Arvind Kapur:** Yes.

- Manish Bohra:** It was around 8% in FY2020, so that would be achievable?
- Arvind Kapur:** Yes.
- Manish Bohra:** Okay. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Apurva Mehta from AM Investments. Please go ahead.
- Apurva Mehta:** Sir, what will be our export share going forward maybe in FY2022-FY2023, what is the likely export share of our turnover would be?
- Arvind Kapur:** See, you are talking about FY2022-23?
- Apurva Mehta:** Yes.
- Arvind Kapur:** See, if you look at the total market India the total auto components that we produce in India and the auto industry as such we are 60 billion to 70 billion and compared to the global we are only 2% of the total global market, our focus is on export, we are focusing on getting larger orders for export where the margins are also little better and then we are hoping that there would be some impact, some sentimental emotional impact of China and that would also incur as far to increase our export and we will do it not because of the weakness of China but because of our strength of engineering etc., so we are confident that the new customers that we are talking of, they are talking of huge exports that direct export that we are talking out. There is a lot of internal export which is also increasing like Kia, Renault etc and those we are not including as part of whatever we do but we should go by about 20% to 25% year-on-year on exports.
- Apurva Mehta:** So, currently we are at 35% export?
- Arvind Kapur:** 35% if we include also the indirect export we do, in the indirect export we not include the vehicles which are exported we only include the components which are exported.
- Apurva Mehta:** So, if we include it and by FY2022-23 can we grow up to 45% to 50% of export?
- Arvind Kapur:** Totally we would like to achieve 40% to 50%, we would like to achieve that, we like to do that and opportunity exists in exports that is very clear.
- Apurva Mehta:** This is mainly in die casting?
- Arvind Kapur:** We do not sell only die casting, we sell fully machine components and all assembled components so it will be both in the aluminum and the iron field both.

Apurva Mehta: Currently, how is the traction, when we talk to customers and everybody because how positive it is in getting demand and everything?

Arvind Kapur: Very positive, that really surprised, that gave us a pleasant surprise because we were expecting that in fact nobody knew how the market will react, nobody knew how the customer will behave, so everybody is very happy and there were too when the markets opened up but within week or ten days we were surprised that the responses we started getting both from the domestic market as well as the export market. The surprise was of course the domestic market and then of course the France and Germany which were also lockdown for quite a while very aggressive demands from there also.

Apurva Mehta: Thank you Sir and wish you all the best.

Moderator: Thank you. As there are no further questions from the participants I hand over the floor back to the management for closing comments.

Arvind Kapur: Thank you so much ladies and gentlemen. Last year has been one issue after the other, BS4 and BS6, insurance issues, registration issues, lot of issues we had hopefully this year post COVID we will bounce back absolutely and there is lot of cost cutting measures that have been undertaken by the company and we will see the results, the monitoring is very aggressive and we will like to surprise the market, you will see the results in the next quarter. You will see the changes that are happening and we should exceed or at least equal the turnover of last year and with much better margins and let us hope the market continues the way it is showing at the moment and we are hoping that Maruti and Kia Motors and Hero and others will do well including the export market where surprisingly the electric vehicles are picking up because of the subsidies that the government is giving and we are deep into those vehicles. Thank you so much for coming today. Any other questions you can write to us, we will certainly respond to those questions.

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