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Sub : **Transcript of Conference Call held on 15th February, 2023**

Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 15th February, 2023 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
Q3 FY2023 Earnings Conference Call”

February 15, 2023



**ANALYST: MR. VIJAY GYANCHANDANI – S-ANCIAL
TECHNOLOGIES**

**MANAGEMENT: MR. ARVIND KAPUR- CHAIRMAN, CHIEF EXECUTIVE
OFFICER & MANAGING DIRECTOR – RICO AUTO
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MR. KAUSHALENDRA VERMA – EXECUTIVE DIRECTOR -
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MR. R. K. MIGLANI - EXECUTIVE DIRECTOR - RICO
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MR. RAKESH SHARMA- CHIEF FINANCIAL OFFICER -
RICO AUTO INDUSTRIES LIMITED
MR. B.M. JHAMB – COMPANY SECRETARY - RICO AUTO
INDUSTRIES LIMITED**



Moderator: Ladies and gentlemen, good day and welcome to the Rico Auto Industries Q3 FY2023 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 call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Vijay Gyanchandani. Please go-ahead Sir!

Vijay Gyanchandani: Thank you. Welcome to Rico Auto Industries’ Q3 FY2023 Earnings Conference Call. From the management we have today Mr. Arvind Kapur – Chairman, Chief Executive Officer & Managing Director; Mr. Kaushalendra Verma – Executive Director; Mr. R.K. Miglani - Executive Director; Mr Rakesh Sharma – CFO; and B.M. Jhamb – Company Secretary. Now I request Mr. Arvind Kapur to take us through the key remarks after that we can open the floor for the Q&A session. Thank you and over to you!

Arvind Kapur: Good evening. My name is Arvind Kapur and I welcome you all to today’s conference. The third quarter has been as per what we had expected, except one or two changes which came about because of mergers that had happened I will talk about that also. The third quarter normally the month of December especially is a little slow because most of the OEMs have a shutdown and for a week or 10 days there is almost zero production, and also in the market because of the model change in India, we regard this year as a model change, from 2022-2023 so people have a tendency of buying lesser vehicles at the end of the month so that is the reason that most of OEMs also shutdown their plants. By and large it was as per expectations and both in the domestic front as well as in the export front. In the domestic front now what we see for this particular quarter is that the two-wheeler is a little challenging and we are hoping that it bounces back and in the last meeting we had with the Finance Minister Madam Sitharaman we did request that two-wheeler is a common man’s vehicle and I think we requested that the GST should be brought down, which I do not think she is going to agree too well, but she says, I agree with you, but I do not know whether I will be able to do it. So we are still pushing it and through the ministries, through our ministry as well we are kind of pushing that and with that we hope that that two-wheeler sales starts picking up. On the export front I had mentioned to you earlier that it had become a big challenge and about a year back we were air freighting, etc., mainly because the shipment time that was being taken from India to the US as well as Europe that had almost tripled and in the case of US there was total jam at the docks and also the railways are not picking other materials than locally. So it had become a challenge and so we had a lot of material on the sea, so that we do not have to air freight it any further. So we did push a lot of materials and now the situation is fairly normal and the ships are reaching in time and we have excess stock in our warehouses both in the US as well as in the Europe, and so we have slowed down we do not want excess inventories there in warehouses. So we are



stabilizing the inventory and bringing it back to whatever was normal and so for this quarter we will make less shipment even though the pickup from a customer is as good as normal. In fact in some cases they have picked up a little more.

In Europe surprisingly the market is still good and despite the warzone. The other problem that we faced was that the Euro had crashed and so we did have a lot of issues as far as from Rs.79-Rs.78 it came down to about Rs.70 and today it has again bounced back. So that is one challenge that we did face in the last couple of quarters and we are hoping that this would remain stable now and there won't be any surprises that we would see.

The results that we declared now, it is on January 5th, 2023, that the NCLT gave us the order for the merger of RCL to Rico Jinfei and because of that at least the appointed date was April 1st, 2021, we have to reinstate all the previous quarters and that is why you see some changes that would have happened in the previous quarter and that had to be done. I just got the news that apart from the first merger that I was just talking about RCL to Rico Jinfei that was cleared on January 5, 2023 just a couple of minutes back the other merger that we were talking of Rico Investment, RAFA & RASA with Rico Auto that has also been cleared about half an hour back and hopefully we will get the order very soon now so that is latest news that we are sharing with you. You guys are the first guys we are actually sharing this news with and we were hoping that this would happen actually last month, but it did not happen, but very happy that it happened now. So because of the merger of RCL to Rico Jinfei we had to reinstate all the previous quarters and that has been done. If you look at the commodity prices, they are fairly stable now and so you will also see that in the results that our material construction has actually come down, raw material consumption has come down and we are hoping that this would remain in this bracket for a longer period and that will help us.

On the EBITDA front, we had assured you that we will be in the double digits, we have come into the early double digits and you will see an improvement even in the next quarter and also the quarters that will come in the near future. We had given a target to you all that is what we internally want to achieve. We are very confident that we will achieve that. The other thing is that all the investments that we have been making in the past all these they have got materialized and the startup production has taken place in all the projects that includes the Toyota, Maruti and even other customers, all the projects are in place now and we are in the process of ramping up and so the capitalization has also started taking place.

On the defence side, there are many projects that we have in hand that we are bidding for. The one project that we had mentioned to you earlier was on the fuses and we are fighting for it, for the last almost four to five years, but there is a ray of hope, it was getting delayed but now I think they are again going to call all of us about testing, that is the latest information that we have and earlier we were told that they were only going to ask the

public sector undertakings to do it, but since our protests they have accepted the fact that they will also put us through the testing. So we are very happy on that and we are confident that once that happens we will fare much better than the other companies that have actually given their fuses, so very happy on that. Besides that, there are other projects which are going on with the navy and also the army, and there are very interesting projects which are coming up and we are participating in most of them.

On the manpower cost, the cost has gone up slightly and that is partly because we have tried to replace the older people with the younger people and so there were some costs and clearing the accounts of these people who are expensive and replaced by younger, smarter people so we have done that and that is the reason for this onetime cost of Rs. 1.5 crores additional which has happened in that. In the finance cost, there was an additional Rs.1.5 crores mainly because of the Euro fluctuation volatility so Rs. 3 crores which is an additional expense which we have incurred this time.

Sales is as per what our expectations were and we are hoping that this quarter also the sales will remain good. The car industry is doing very well, the commercial vehicles are doing well, the exports are doing well, and off-road vehicles also well, and the challenge is only the two-wheelers now we are hoping that they would also start picking up. That is it from me. I think we can open up for questions.

Moderator: Thank you Sir! Ladies and gentlemen we will now begin the question-and-answer session. The first question we have today is from Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: Good afternoon Sir, my first question is on the export side. So if you can give a rough breakup in terms of geography, also what was the sales growth in different geographies for Q3 as well as nine months and also what kind of growth are we seeing for the next year, if you can talk about that on export side?

Arvind Kapur: If you split up US and Europe it is almost 50:50 not exactly 50:50 but almost 50:50 in the export front.

Aman Vij: For nine months, what was our number this year versus last year and in Q3 on export front?

Arvind Kapur: This quarter if you compare it to the last year it was Rs. 121 crores last year quarter and this year it is Rs. 125 crores for this quarter. Nine months last year was Rs. 329 crores and nine months this year is Rs. 382 crores.

Aman Vij: For Q3 what was the number last year was Rs. 121 crores, for this year I could not get the number?

- Arvind Kapur:** Rs. 125 crores.
- Aman Vij:** So the question was regarding this only, so there was not much growth.
- Arvind Kapur:** There is another company which also exports, it's one of our subsidiaries so the final figure for last year and this year is, last year it was Rs. 333 crores and this year Rs. 387 crores in consolidation.
- Aman Vij:** My question was related to Q3, there was not much growth that happened if you can talk about the same?
- Arvind Kapur:** Q3 you must realize that Europe is practically like, in September you will have France, October then Germany goes on leave and then they go on leave October-November they keep on going on leave so that happened then the month of December in any case it is slow because of the last few Christmas, etc., so that overall pickup normally is less in the last quarter.
- Aman Vij:** In terms of Q4 what kind of growth are we expecting in exports as well as for the full year FY2024 next year what kind of exports number do you think we can reach?
- Arvind Kapur:** Next year we expect about Rs. 600 crores plus.
- Aman Vij:** In Q4 are you seeing any uptick or it is still slow?
- Arvind Kapur:** In Q4, as I mentioned to you that because of excess of stocks we might be shipping from India because we are trying to reduce our software, but we are pushing, so let's see what happens.
- Aman Vij:** My second set of questions are on the defence side so it was good to hear that the Ministry of Defence has allowed the private players again to do the test?
- Arvind Kapur:** They had actually thrown out the private players even though the tender was meant only for the private players.
- Aman Vij:** Yes, you had explained last time. So want an update on the timing, so when is the trial expected to start and end and are we expecting any orders this year?
- Arvind Kapur:** This year on the fuse front not very certain because now they tried they have agreed on the trials and the trials take place both in the summer camps as well as in the winter areas so that is where the snow is and where the desert is also there. So the desert and summer testing will also happen, but the problem is with the winter testing. So how are they going to handle that, that is what we are questioning them also and because of that the whole thing

gets delayed, but the army needs the fuses very urgently that is the other side of it, but this is as far as the fuses are concerned, but besides this we are expecting some other orders that have some various shooting ranges etc., that we are waiting for and we are hoping that they come through.

Aman Vij: Combined do we expect any sales in defence segment in FY2024 that is next year or only in FY2025 we will see some sales?

Arvind Kapur: By and large it will be next year only.

Aman Vij: Next year do you think Rs. 100 crores plus?

Arvind Kapur: I am not saying anything because still we have things in hand we are not saying anything because army is very unpredictable things can get delayed and over delayed, the tender was supposed to come out almost four years back and so it is only delayed by four years.

Aman Vij: Just one last clarification on this part. Apart from army don't other organizations like CRPF and Ministry of Defence all those also have requirements for these fuses or only army is the possible customer?

Arvind Kapur: No, we are talking of the Navy, Air Force and the Army, we are talking of all three and of course CRPF and others, those also there is a requirement for these ranges and all that also we are discussing, with army maybe because of the fuses, but we are also talking about the fuses with the Navy.

Aman Vij: The trial will be common for this army, navy and all those things which will happen?

Arvind Kapur: No, they all have their own independent trials.

Aman Vij: But biggest order is expected from army only, whenever it comes?

Arvind Kapur: Yes.

Aman Vij: If there is delay, can we start trying to sell to CRPF and any other organizations?

Arvind Kapur: CRPF does not buy it is only the Navy which buys the fuses, CRPF does not buy.

Aman Vij: Navy requirement will be how much compared to army like half, one fourth?

Arvind Kapur: It is probably one third of that, we were trying to see the ratios it was about one third, one fourth of the army, but value wise it might be more because there the demand is little tougher and the prices are more.

- Aman Vij:** That is good to hear. Thank you.
- Moderator:** Thank you. The next question we have is from Raghvendra Goyal from ICICI Securities. Please go ahead.
- Raghvendra Goyal:** Thank you for the opportunity and congratulations for the great set of numbers. Sir firstly my question is on the overall topline growth so for FY2023 when we talk last time we were having targets of around 29% growth so if I'll compare it from FY2022 around and then Rs. 1,800 crores of revenue so we were targeting around Rs. 2,400 crores of revenue for FY2023 and roughly around Rs. 3,000 for FY2024, so if I look till nine months with this roughly around Rs. 1,700 Crores of revenue so is it possible for us to clock around Rs. 700 crores of revenue?
- Arvind Kapur:** The first time we had set Rs. 2,350 crores that is what we have done, but subsequently we did say Rs. 2,400 Crores and because we were trying to push our teams that we should market as much as we can and that time we were also thinking that the two-wheeler industry will also pickup. Unfortunately that is not picking up and because we have all the capacities no investments are required for the two-wheeler industry if they double the production we can start to supply double from the next day. And anyways we are still working on it, we are not giving up, but Rs. 2,400 crores still remains the target, but we will be crossing Rs. 2,300 in any case that is the minimum that we would be crossing.
- Raghvendra Goyal:** We will be speaking to around Rs. 3,000 Crores for FY204, there is no change?
- Arvind Kapur:** Yes, that is the target for next year and we have the visibility to quite a large extent of that.
- Raghvendra Goyal:** Secondly, my question was on margins and it is good to see around 300 basis points of raw material gross margin expansion on a quarterly basis so have all the commodity benefit have been recorded in this quarter or still there is some effect pending or some compensation we have to receive from customers?
- Arvind Kapur:** These fluctuations in the commodity prices are not very high now, may happen a little, so that is on a daily basis so they take the average of the three months and then they divide it. It has gone, but it will be very minor compared to whatever was happening earlier there.
- Raghvendra Goyal:** We assume our raw material to sales ratio to remain in the range of 70% to 72%?
- Arvind Kapur:** Yes, around the same range.
- Raghvendra Goyal:** We are comfortable of achieving 10% plus margin going forward, right?
- Arvind Kapur:** No our target is even more in the next quarter you will see even better results.



- Raghvendra Goyal:** You will be targeting around 11%- 12% right?
- Arvind Kapur:** Well we will do better than whatever we have done now.
- Raghvendra Goyal:** Lastly another question would be on content per vehicle if you can share with, if your desired average content with respect to a two-wheeler in EV that would be great?
- Arvind Kapur:** It is very difficult to define content per vehicle, I will tell you the reason for that. In some vehicles we would be 20%, in some places we will be 1%, 2%, 5% that varies from vehicle-to-vehicle and model-to-model, so it's very difficult to define the vehicle content. I think the ones who define the content per vehicles are making a mistake by defining it, as it is not possible to define it. Now we are supplying components to Maruti and the Maruti vehicles are at Rs. 5 lakhs, 7 lakhs, 10 lakhs onwards, then we supply parts to BMW, now BMW vehicles are in crores and plus so how do we define what percentage of the vehicle it is, so that becomes another challenge. Even though the parts are always double the price of the parts that we supply to Maruti's and others, so it was very difficult to define that. We are focusing a lot on electric and they will notice that the new orders that have come in is about Rs.1,600 crores and now it is a mix of electric as well as ICE engine we are getting orders of both, we are not leaving either, now our focus is on electrification, but we have an order of ICE engines we don't let go of it.
- Raghvendra Goyal:** Lastly can you share the order book or any order wins for the Q3 so last till H1 our order book was around Rs. 1,350 crores so is there increase in that?
- Arvind Kapur:** I just said that the order book now is Rs. 1,600 Crores for the year.
- Raghvendra Goyal:** So increasingly Rs. 250 crores for the current quarter?
- Arvind Kapur:** Yes.
- Raghvendra Goyal:** Thank you for the opportunity. That will be all from my side.
- Moderator:** Thank you. The next question we have is from Riken Gopani from Capri Global. Please go ahead.
- Riken Gopani:** Good afternoon and thank you for the opportunity. I have a few questions firstly if you could help me understand you said that exports for the quarter were at broadly similar levels as the last year same quarter. So if you could help me understand that is it primarily inventory which is causing this impact because we have been sort of expecting that the export business is on a strong trajectory and that you won new orders so what exactly is

driving Y-o-Y slower growth in the export business and in that context for FY2023 what is your expectation now for the export business?

Arvind Kapur: The last quarter in any case for export is always on the lower side.

Riken Gopani: Actually I am just comparing it Y-o-Y so I am assuming that the seasonality existed in both the periods, so I am just trying to understand in that context, what is driving this slower growth?

Arvind Kapur: The last quarter in any case is low, but we are also adjusting for the inventory that surely there because we had almost three months of stock in transit and also in our warehouses, so we were trying to reduce that because we are required to maintain one month stock there. So we had almost three, in some cases four months of stock which is in transit and so we want to cut down that absolutely. Couple of reasons, one is that when it is lying in the warehouse the iron parts after 4-5 months there is a tendency of catching rust so we do not like any rejection or any rework to be done in the warehouses there. So that is one reason. Then aluminum can pick up white rust that is the other phenomenon that is there. Even though our packing is good for six months, but that possibility its always there. It depends on how much time it spends on the sea, that plays a very important role and so that is one and number two, why do we need to pay extra for warehousing costs that for one month we have settled but beyond that we pay extra, so we wanted to reduce the cost there also that is what is happening. This is one reason. But October, November December is always on the lower side every year.

Riken Gopani: So has this adjustment to a one-month inventory period being achieved in exports in the Q3 numbers?

Arvind Kapur: No, now we keep on running up plants to a lower level of production while we keep on shipping also, but we are shipping lesser than before and we are open by March and we will be able to address most of the inventory. I will tell you what happens. See we ship both iron components and aluminum components now if at all there is a shortage of any component and if the goods are lying at sea and we are unable to deliver to the customer we are required to airlift. So the choice was that, so what we did was, we took priority on the iron components and we started shipping pumping more of the components and onto the containers and sea so that they get there in time because they are always three to four times the weight of the aluminum components so in case we are required to airlift I would rather airlift aluminum components than the iron component so that is one focus that we had. So iron component we actually have four months stock there so we are depleting that now. The aluminum was three months but we will deplete that also.



- Riken Gopani:** For FY2022 we did about Rs. 455 crores of exports what is the number that you expect for this year now and for the next year?
- Arvind Kapur:** We are already close to Rs. 400 crores and for the quarter also I think that there would be Rs. 500 crores and next year we are expecting Rs. 600 crores plus.
- Riken Gopani:** Next year our target was Rs. 600 crores on the export business?
- Arvind Kapur:** Yes, 600 Crores plus exports.
- Riken Gopani:** Next question I have is on the contribution of all the key segments in terms of two-wheelers, four-wheelers, what was the contribution in this quarter and how has that grown, each of these segments?
- Arvind Kapur:** The two-wheelers is around 31% plus if you take everything it come about 33%. The 51% is of four-wheeler, that is the cars, autos. Commercial vehicles is about 10% and others was about 6% that is off-road vehicles, etc.
- Riken Gopani:** Can you share either the growth or the similar percentage in the same quarter last year?
- Arvind Kapur:** I can send it to you, we can do that.
- Riken Gopani:** That is helpful and how much would have been the EV contribution in this quarter?
- Arvind Kapur:** EV this year it would be 12% plus and next year EV should be around 17% next year and like I mentioned earlier we are very close to getting another very, very large order and hopefully by the next time, March is the deciding date and we are very aggressive on that. So hopefully in the next quarter we might be able to tell you something.
- Riken Gopani:** If you could also update about the scale up that we have been able to achieve with Toyota and what is the outlook for that business next year?
- Arvind Kapur:** Toyota is very good, in fact they are ramping up whatever capacity they had asked us to put we did put up those capacities and then they wanted us to increase it by another 50% and what the deal we are getting is that we want even more capacities on that. What we are trying to do is trying to accommodate most of the capacities in the current machine investments that have done, but minimal investment that would be required to be done. So we are working on that possibility so that we are able to achieve that. Toyota is going full scale and we were asking them as to why do not they jack up these capacities earlier and why are they delaying it. So they said that they have a problem with the magnets, which are imported either from Japan or from China, and getting delivery of those definite delivery materials last year they are ramping up so that is the challenge they are facing. So one or

two other components are challenges they are facing which comes from Japan. So we are ready to blast out, but they are having issues with that. The demand is huge and because they could too start using it for Maruti vehicles as well and so we are hoping that they are able to solve the issue.

Riken Gopani: Lastly in terms of the operating performance so in this quarter while the revenue has come down Q-on-Q because of the seasonality you were still able to deliver double digit margins, and gross margins have also improved nicely, so if you could help understand that now going into Q4 while you are expecting commodities to remain same and the leverage because of revenue being higher, can you actually deliver 12% plus kind of EBITDA margins or are there any factors which could have some neutralizing impact on the margins as well, which I am missing.

Arvind Kapur: Our internal target is more than 12%, but not for this year, that is what our internal target is and we did mention that in one of the conferences that our internal target is above 12% and we hope that we can keep it in this quarter, but I do not know, but we are assuring you that we will be in the double digits.

Riken Gopani: Thank you Sir. I will go back in the queue.

Arvind Kapur: One other point I would like to make here is that we make one item clutch for two-wheelers and earlier we were selling mainly to Hero but now we do send to the aftermarket as well and we are negotiating with all the other two-wheeler makers in India and we are hoping to get a share of our business from there. It is a cycle and as this item starts coming in our margins will start improving automatically so we will go further up, even in the two-wheeler industry and despite the challenges of two-wheeler industry.

Moderator: Thank you Sir. The next question we have is from Aditya Sen from Robo Capital. Please go ahead.

Aditya Sen: I am already glad that most of the things that we are doing is already in line with our estimates and our guidance except for the two-wheeler and the euro part. I just wanted to know if the margins in the upcoming defence segment is it going to be something different than what we are already doing now, that is the range of 9% to 12% is it going to be something different from this?

Arvind Kapur: Defence is always much better than the commodities of the auto industry. Auto industry components are known as commodities. The defence is always much, much better.

Aditya Sen: Any ballpark figure, like in what range like 10% – 15% or 15% - 20%?



- Arvind Kapur:** I cannot really comment here.
- Aditya Sen:** I understand it is too early to give us guidance but I just wanted to know this because you already do not have any order book figure so we would not be able to figure out anything.
- Arvind Kapur:** Where we reported we kept a margin of almost 22%-23% the last year. Then there was a fluctuation in the price of steel the margins actually came down and now the steel has gone bad and so we are again back to that same level that we are talking of. So when we quote there is 7, 8 items in that so somewhere 25%, somewhere 22%, somewhere 28%, so it depends, and some of the traded items, we keep a flat 10% to 15% that is the other thing, where which we just pass it on.
- Moderator:** Thank you. The next question we have is from Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Thank you very much Sir for the opportunity. I just wanted to understand first now in terms of margins you said that quarter-on-quarter we should see margin improvement so I think earlier we had quantified in the range of 50 to 100 basis points increase in margin on a quarter-on-quarter basis so how do we see that as we speak now?
- Arvind Kapur:** I do not remember really defining that every quarter you see 50 to 100 basis points but we said that every quarter you will see an improvement and we have been touching double digits by the year end, but we are happy to do it now despite the sale being lesser than the previous quarter and this current quarter would be even better than that and next onwards you will see further improvements. A lot of things that we have taken up that have been done here. To give you one simple example I am getting a little technical now, in the iron casting area we had yields of up to 45%, 50%. We have been able to improve them to 65%, even 70% in some cases. So that itself impacts the margins a lot and also frees up a lot of capacities, and we are doing a similar thing, both in the aluminum side and as well as the iron side so all this is happening.
- Deepak Poddar:** 12%-13% margin next year is that a fair number to work with in FY2024?
- Arvind Kapur:** I do not want to make any announcement now, but I will rather surprise you and you will be happy on that.
- Deepak Poddar:** When you are talking about these margins are you including other income as well or is it excluding other income?
- Company Speaker:** Excluding other income is 10.2% and including is 10.4%.



Deepak Poddar: Correct, but because this quarter I think our other income was on the lower side otherwise other income have a sensitivity of 1%?

Company Speaker: Yes, that was because of the adjustments because of merger. So this is only reinstatement impact. So other income and other costs remain almost the same as we declared last time so because of the reinstatement some adjustments are there.

Arvind Kapur: Let me tell you the other income is going to come up further, because the further mergers which are taking place, which I just announced that would also reduce the other income.

Deepak Poddar: Because of the merger now my other income will come down, currently it was about 1.5 Crores so it will be less than Rs.1 Crores going forward?

Company Speaker: It will remain in this range because we have already boosted because of one of the mergers.

Arvind Kapur: The profitability of the other companies will also start merging into this company.

Deepak Poddar: So is that the reason our depreciation and interest also is on the higher note on a quarter-on-quarter basis?

Company Speaker: You are absolutely right. If you see our numbers those were published in Q2 or H1 those numbers have been reinstated and that is showing a huge difference in finance cost and you see that is reflecting in other income also, so both sides it has been adjusted so that is what I was referring to, so it is because of that reason. As far as depreciation is concerned, that is mainly on account of capitalization of all our projects that is during later part of Q2 and during Q3 also so depreciation is on that account mainly and finance cost is just an adjustment.

Deepak Poddar: But going forward is that the range you are working with, in terms of depreciation and interest?

Company Speaker: In terms of depreciation, yes, that is the range and in terms of interest it should be in the same range, but here Rs. 1.5 crores is one time cost only, that is on account of euro volatility that has happened so some reduction in interest cost can be there in Q4 as compared to Q3, but it will remain almost the same.

Deepak Poddar: So Rs. 1.5 crores volatility, so currently it was around Rs.15 Crores so maybe Rs.13 Crores, Rs.14 Crores might be a good range to work?

Company Speaker: That is under the expectation that probably RBI will start reducing also because during past few quarters RBI has increased at least five times the repo rate to the tune of 225- 250 bps

so that has impacted our interest cost, so once it starts coming down our interest costs will come down definitely but otherwise you should expect it in the same range.

Deepak Poddar: My final question is on tax. How do we see the tax rate?

Company Speaker: Yes, tax rate currently applicable on us comes to around 34.5%, but what is going to happen is that this also you will see after merger these are also improving on the account of because there are a lot of deferred tax liabilities we have taken, which I think after merger will get reduced so that will have a positive impact on us, and apart from that it will take around 2-2.5 years' time to recover all our net credits, etc., those are lying to our credits so once we utilize these credits then we will adopt the new regime of 25% so there is going to be a reduction in tax cost.

Deepak Poddar: Effective tax rate for next 2 - 2.5 years will be in the range only?

Company Speaker: Yes, it will be in this 34% range, but there is going to be lot of adjustments in deferred tax so actual interest rates will keep coming down next quarter onwards and ultimately we will end up paying only 25%.

Deepak Poddar: Yes. So cash outflow will be in the range of 25% only?

Company Speaker: Absolutely. So cash outflow is not there at present also, it is at a lower side only.

Deepak Poddar: Deferred tax, you are adjusting a lot of deferred tax.

Company Speaker: Correct.

Deepak Poddar: After 2 - 2.5 years when your entire deferred tax is being utilized then you will move onto the new regime where your effective tax will be 25%?

Company Speaker: We are just waiting for that. So we want to be more than 25%, the current rate, that growth, yes.

Deepak Poddar: Fair enough Sir. I think that is it from my side. All the very best Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, tax rate including the default will be 25%?

Company Speaker: Yes, once we adopt the new scheme. Now on the balance sheet if you see it is 24% around that range it will remain like that, but that is not the actual cash outflow that is going and if



you see our cash flow there is very less amount of tax as compared to what is appearing in the P&L account because of the deferred tax liability.

Pritesh Chheda: What should be the including deferred tax liability next year?

Company Speaker: Ultimately it should be in the range of 25% because once we utilize all our credits we will adopt a new scheme...

Pritesh Chheda: Next year what it should be Sir, it should be 30, 25?

Company Speaker: In P&L it will be in the range of 34% only at the current year.

Pritesh Chheda: My second question is for Toyota, how much from the new plant that we supplied from this quarter?

Company Speaker: So it is about Rs. 40 crores this quarter and going up every month.

Pritesh Chheda: So basically out of Rs. 200 crores of order that we got we have already started supplying Rs. 40 Crores per quarter right, Rs. 200 annual and we have started supplying Rs. 40 crores?

Company Speaker: Yes.

Pritesh Chheda: You mentioned that interest add up Rs. 3 crore one time right?

Company Speaker: No, Rs. 1.5 Crores that is on account of Euro volatility that we had to put down to bring it on MTM. The other portion that you are seeing is the adjustment that you said because of the merger there is accounting adjustments.

Pritesh Chheda: Then on your Rs. 2,400 Crores annual number Rs. 2,350 or Rs. 2,400 whatever you want to mention there was a 15-day plant shutdown for lot of OE's this quarter so that itself means 14%-15% growth Q-o-Q if there is a normal quarter next quarter so based on that we actually had toward 630-640 and we have this Toyota ramp up to happen so it is largely comfortable to reach 2300-2350 plus number is this assessment correct?

Arvind Kapur: 23 plus 100%.

Pritesh Chheda: If you are doing at 10% margin at a Rs. 550 crores revenue you obviously do a better margin when you do a Rs. 650 crores revenue right?

Arvind Kapur: As the revenue goes up you see the margins improving also, but also the cuts that we are making at our system and the efficiency level the improvement that are happening here.

- Pritesh Chheda:** Next on just like Toyota we have got incremental orders from BMW which will help you register the growth in your exports next year what is the progress on those BMW incremental orders?
- Arvind Kapur:** One, we had already got and announced in the last meeting also that is almost Rs. 100 crores a year that we have already bought, that is what the electric vehicle and as the other four- five components which are on the pipeline and that things are here for audit, that audit was excellent and so by March they would make a decision.
- Pritesh Chheda:** At least those Rs. 100 crores incremental order is what you are building in your revenue number export revenue number moving from Rs. 500 to Rs. 600?
- Arvind Kapur:** No, that comes the year after that, that gets in a year after that.
- Pritesh Chheda:** The BMW orders or the export come here after that?
- Arvind Kapur:** We have not factored that into the next year export.
- Pritesh Chheda:** So existing customer and existing product line is where you have to build in this 20% growth for exports next year?
- Arvind Kapur:** Existing customers and there are some new orders from other customers besides BMW and the electric vehicle ramp up that is the other thing that is happening.
- Pritesh Chheda:** That is not BMW that is other than BMW right?
- Arvind Kapur:** No, we are already supplying electric vehicle components to BMW and PSA and Reno. We are supplying to all three of them. So the ramp up is taking place in PSA as well as in BMW and northern is not electric and so that ramp up is already taking place in those supplies. When I am talking of the next orders those are the next generation of components that are going to be developed and for that what we are bidding for which we have already got one order.
- Pritesh Chheda:** When you supply to a new model or a new platform just like the Toyota which started supplying another incremental business to be built on ideally the margin should be better in these orders right versus your existing product line?
- Arvind Kapur:** Absolutely the new products are always better margin than the older one.
- Pritesh Chheda:** Lastly you mentioned, I understood on the interest part now so instead of 15, it should be a number closer to whatever 13, 13.5, the depreciation number at 29.5 you have already capitalized your entire CWIP or there is anything to be left to be capitalizing CWIP?



Arvind Kapur: They have been done, but it is only any new balancing equipment that might come in which would be done again.

Pritesh Chheda: Sorry what is new?

Arvind Kapur: Any balancing equipment that would be coming, some inspection equipment or some washing equipment, etc., etc.

Pritesh Chheda: We want to have a large capex plan over the next two years and all your capex is maintenance of 50 Crores-60 Crores as you mentioned in the past quarter we can safely analysis this Rs. 30 crore quarterly run rate as your depreciation number for next year?

Arvind Kapur: Yes.

Pritesh Chheda: So you will be in a situation where your topline will grow 20%, your margin will expand and you have a similar interest and depreciation number with a 34% tax rate?

Arvind Kapur: Yes, that is right at the P&L.

Pritesh Chheda: My last question is we do not make much number on the casting side, the ferrous casting which is 20% of our business. We do not make any EBIT.

Arvind Kapur: It is less than 15% now and ferrous components also our machines.

Pritesh Chheda: Do we make any EBITDAs on ferrous business where the capacity utilization is less or it was zero EBITDA?

Arvind Kapur: We have been able to free the capacity by improving the yield that is what I just mentioned.

Pritesh Chheda: Are you making any EBITDA percentage positive EBITDA there or you are not making on the ferrous business?

Arvind Kapur: Ferrous side is a challenge but now versus the new which is I think there is a tremendous change that will come there.

Pritesh Chheda: Zero EBITDA will move higher right on the ferrous casting that is what you are mentioning via the yield?

Arvind Kapur: Certainly. Yield makes a lot of difference, there is an improvement of almost 50% in the yield that we were using earlier, from 40% we have gone to 60% plus.

Pritesh Chheda: Has it flowed down in your Q3 number or it will flow in your incremental numbers?



Arvind Kapur: See the number of patterns to be done by over 20 to set the pattern. So we have been able to do I think about 7- 8 of them already and every week there is a new pattern which is being introduced, so it is a process.

Pritesh Chheda: Lastly what will be your debt repayment next year?

Company Speaker: It is in the range of Rs. 90 to Rs. 100 Crores.

Pritesh Chheda: Will we see any debt repayment this year in FY2023?

Company Speaker: Yes, this year also it is around Rs. 90 Crores we have to repay out of that 70 Crores have already been repaid during three quarters.

Pritesh Chheda: So this interest cost is after the repayment so your debt number has come down and yet the interest cost has gone up right?

Company Speaker: No debt number has not really come down as of now, it will start coming down after about one year or so from now.

Pritesh Chheda: There is a debt repayment of Rs. 100 crores this year and the debt repayment of Rs. 100 crores next year.

Company Speaker: There is fresh debt also that we have to arrange for these whatever capex has happened and for operations also working capital needs is going up so because of that reason as of now the debt levels remain at almost the same level.

Pritesh Chheda: So we will see the actual debt repayment next year?

Company Speaker: Yes. I think it will start coming down after a year or so means after four quarters.

Pritesh Chheda: Okay, your debt repayment will come after four quarters, but now you do not have any capex next year?

Company Speaker: No, we do not have.

Pritesh Chheda: So still there would not be any debt repayment in FY2024?

Company Speaker: Because of the working capital needs.

Arvind Kapur: The working capital as our exports go up you must realize that we get a payment after 120 days and that is 30 days of shipment, 30 days of stock and 30 days after that the payment comes in 10, 15 days delayed so it is almost 110 days we factor in when we do our export

costing and so that payment comes. So as the exports go up our working capital requirement also goes up, but we are try to get that hundred also from BMW directly and we have been successful with one of the companies, we are attempting to do that so that our total debt comes down.

Moderator: Thank you Sir. The next question we have is from Mukesh Modi from Modi Fincare. Please go ahead.

Mukesh Modi: Good afternoon Sir, congratulations for the reasonable set of numbers. My most of the questions are being asked about the export and interest and depreciation. Now couple of them which are left is for Jinfei how much we have reached 4 million capacity what is the capacity utilization in Jinfei and Fluidtronics?

Arvind Kapur: The total capacity in Rico Jinfei is 4.5 million and at the moment we are at about 2.2-2.3 million at the moment and this year we will be further increasing the capacity because we have started talking to all the customers now. Earlier we were with Bajaj and Hero now we are adding on Honda and the scooters also. So overall you will see the capacity going up.

Mukesh Modi: By FY2024 should we reach around 3.5?

Arvind Kapur: The targets are 3 - 3.5 we will definitely reach because it is a volume game, the more we produce the better profitability.

Mukesh Modi: What about Rico Fluidtronics?

Arvind Kapur: Fluidtronics in fact last year the turnover is about Rs. 60- Rs. 65 crores and this year they will do about Rs. 130- Rs. 135 crores and next year again there will be an improvement and because these are these new orders we got from Maruti and we started executing both.

Mukesh Modi: Both these companies are EBITDA positive?

Arvind Kapur: Yes.

Mukesh Modi: Capex you said is around the maintenance capex of Rs. 50 Crores for next year only around Rs. 50 Crores?

Arvind Kapur: About the Rs. 40 Crores.

Mukesh Modi: Is there any news on land monetization?

Arvind Kapur: Yes, now the market is improving and Gurgaon is also improving and so we started talking to people and let us see what happens because we are ready.

- Mukesh Modi:** But that can reduce the debt considerably?
- Arvind Kapur:** That will eliminate our debt not reduce.
- Mukesh Modi:** I think that sit from me, I do not have much to ask for, already everything has been asked. Thank you very much and wish you all the best Sir.
- Moderator:** Thank you. The next we have is from Anand Agarwal from Balaji Capital Investment. Please go ahead.
- Anand Agarwal:** First of all thank you and congratulations for the wonderful set of numbers. My most of the questions are already answered. Just one thing I just want to know. What is the 2 or 3 year plan the company has set aside in terms of the revenue and the margins we have already mentioned that you will be in double digit margins so let us say by 25 or 26-27 what is the view of the management?
- Arvind Kapur:** We would like to grow by minimum our internal thing is that we should go minimum by 15% year-on-year but this year of course we are growing higher than 15% we will be around 25% plus and next year also I think that even though 15% was the internal target we will grow more than that and thereafter that again 15% is what we factored at the moment that is what we are getting but we will surprise you, we will do much better than that.
- Anand Agarwal:** So would it be fair to assume that, not 25 as you have grown this year 25 so it would be fair to understand it 20% is a fair enough number?
- Arvind Kapur:** Yes.
- Anand Agarwal:** That is very nice. Thank you so much that is it and congratulations for the good set of numbers and best of all for the future growth.
- Moderator:** Thank you. The last question we have from Suraj Nawandhar from Sampada Investments. Please go ahead.
- Suraj Nawandhar:** Good evening. Sir I just had one question on the defence side, I just wanted to understand that what all products we do on the defence side apart from fuses?
- Arvind Kapur:** See, one is the fuses of course and then one is the firing ranges that I had mentioned and then there is an automatic system for the tanks that we are bidding for. These are some of the things that we are very actively involved at the moment.
- Suraj Nawandhar:** So what would be the revenue contribution from the defence last year and this nine months?



Arvind Kapur: Now it is very minimal, but defence has started, such a challenging, it requires so much patience and many times. We had given **it 7 years** before we really penetrated into the defence and now since we have been honored for that many years now we are getting more and more confident of the penetration into defence and navy and other paramilitary forces. So we are working on all of them and there are climbers and there are various other products which are there and so I think we will give you some good news soon.

Suraj Nawandhar: Any target percentage of your revenue let us say three years down the line or four years down the line you are targeting at least 20%, 10% of your revenue from defence do you have any such targets in mind right now or is it too early to say?

Arvind Kapur: It is too early to decide. Other fuses that will be almost 20% of our turnover, it depends, when they actually start releasing the orders. We have not factored any defence in the growth numbers.

Suraj Nawandhar: So whatever will come that is a bonus for us?

Arvind Kapur: That will be bonus yes.

Suraj Nawandhar: Okay thank you Sir and all the best.

Moderator: Thank you. There are no further questions at this moment in time. I would now like to hand the conference back over to the management team for any closing comments.

Arvind Kapur: Thank you so much for hearing us today and we hope to give you even better results the next time, and I was happy to announce the NCLT the new merger that has been approved just today itself and I think that will other help to improve some of our numbers and we are hoping that will give you better and better results in every quarter. You see a change every quarter. These are all 100% subsidiaries of Rico which will start merging into Rico that will happen now and subsequently we are looking at the possibility of merging all the auto components into one, but that is later on days. Thank you so much and hope to see you soon.

Moderator: Thank you Sir. Ladies and gentlemen that concludes today's conference. On behalf of S-Ancial Technologies thank you for joining us. You may now disconnect your lines.