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Sub : Transcript of Conference Call held on 10th August, 2022

Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 10th August, 2022 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 Q1 FY-23 Earnings
Conference Call”**

August 10, 2022



MANAGEMENT: **MR. ARVIND KAPUR- CHAIRMAN, CEO & MD**
MR. O.P. AGGARWAL – CHIEF ADVISOR (FIN & A/Cs)
MR. SURENDRA SINGH – PRESIDENT & COO
MR. RAKESH SHARMA- CFO
MR. SANDEEP RAJPAL – VICE PRESIDENT (MARKETING)
MR. B.M. JHAMB – COMPANY SECRETARY

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



Moderator: Ladies and gentlemen, good day and welcome to Rico Auto Industries Q1 FY23 Earnings Conference Call. As a reminder, all participant's 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 touchstone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vijay Gyanchandani from S-Ancial Technologies Private limited. Thank you and over to you, sir.

Vijay Gyanchandani: Thank you. Welcome to Rico Industries Q1 FY23 Earnings Conference Call. From the management we have today. Mr. Arvind Kapur – Chairman, Chief Executive Officer, Managing Director, Mr. O. P. Agarwal – Chief Advisor, Mr. Surendra Singh – President & Chief Operating Officer, Mr Rakesh Sharma – Chief Financial Officer, Mr. Sandeep Rajpal – Vice President (Marketing) and Mr. B. M. Jhamb – Company Secretary.

Now I request Mr. Arvind Kapur to take us through the key remark after that we can open the floor for the Q&A session. Thank you. Over to sir.

Arvind Kapur: Good evening. My name is Arvind Kapur, and I am sitting here in the conference room of Rico with my colleagues who are also here to take on any questions that might arise out of this meeting but in general we are happy and the company is doing well this quarter. We have done better than whatever we had budgeted, I think we are about almost 6%-7% higher what we had budgeted for this quarter and we are hoping that in this second quarter also we will be better than the budget that we had taken up.

The couple of reasons for this fortunately the GDP is good and the monsoon has been about 6% plus and with the festival season also around. We are hoping that the next couple of months, should be very good and in fact we should be much above the budget that we had done in the beginning of the year. The commodities are showing some signs of stabilizing and we are happy about that because what was happening was that every time there was so much lag impact that the recoveries we had to take from the customers and that was actually stretching us in our finances also but now it is stabilizing. The semiconductors, the availability is better but we feel that it will take at least till the end of 2023, before availability would be full that would be because of the new plants which are coming up all over the world and new capacity which will be created and we are hoping that at least from the year after there will be not been a problem. But the availability is going up and down and, in some cases, people have

been doing a very good job. Some of the customers, they have actually been able to corner a lot the semiconductors better than the other but by and large it is improving.

Of course, the geopolitical situation specially what is happening around Taiwan that is of concern and as we all know that Taiwan produces almost 60% of the total semiconductors in the world. So, that could become a major issue. It is like the oil in the Middle East there. I think a lot of security needs to be provided there that is very important and critical. The Ukraine war however carries on and which is not a good sign and Europe with the gas prices and everything going up. We do see some signs of stress which are there but having said that the sales of the cars still continue to do well and our customers are doing pretty well. We have a bit of good news, the investment that we had done for Toyota, last year and also it is still happening in Toyota. The production has started. We have started delivering and just the other day, we were given a message that they wanted almost 130% capacity enhancement and we are looking at increasing their capacity without any major investments to be done. It is by improving the efficiencies and also may be some add-on equipment but very little. For 30% to 35% increase the total investment will not be proportional to whatever we had done in the past. It would be just a couple of crores, 1- 2crores or 5 crores that is what we are estimating. Because the building is in place, the power and everything, the utilities are in place, the die castings are in place, the machineries line are in place.

We are going to improve the efficiency of the machinery line further and but there would be some capacity and as when required in some of the machines which are bottleneck machines. So, we are very happy and excited about the demand for hybrid vehicles is tremendous, the response has been very good for Toyota and also Maruti is also very happy with the response that they are getting from their customers. So, it is a very good sign that is happening. So, this is towards our electrifications, this is a major project for us.

The two-wheeler industry still keeps on suffering and we are hoping that with the monsoons being good, the farm equipment going up, the rural areas good pick up and we are going that the two-wheeler industry actually grows this year. But having said, we have grown by almost 34% quarter-on-quarter in the two-wheeler industry in particular. Last year, we were 119 crores in the quarter and this year, we are almost 200 crores, 192 crores. So, there is a major growth, we have done and that is primarily because taking a larger share of the businesses. So, that is how we have grown and the other thing that has been added is the wheels that we supply, there we have taken a major share also and so we are happy as far as our growth is concern. But in case the two-wheeler industry bounces back, this growth will be even higher than whatever we have been able to do so far.

We are very happy about the four-wheeler industry we grew by almost 50% this year over the last quarter, in the car industry, our supplies have increased and it is all for the newer components, the newer models which are coming up, which are being introduced, which are doing very well both in Maruti and Kia. Kia does a waiting of almost about 12-13 months in some of the model components we supply and for Maruti also, there is a waiting, in some of the new models that have been introduced. Toyota is doing exceedingly well and so we are very excited too. We think that the car industry will grow further.

The chip shortage that of course is always an issue as that gets eased out. I am sure that this will also go. So, your company has also done very well in the commercial vehicles. We have grown by almost 12% over last year and in others we have also grown. And in the electric vehicles we have already crossed 50% of our turnover on electrification and this will keep on going up you will see quarter-on-quarter that this number will keep on going up. We have bid for the next version of electric vehicles and we are hoping that we will get a fairly large share of that business. So, things are pretty good and we are hoping that it will continue like this. Some of the challenges, one is the sea freight which is a challenge and getting compensated from a customer that is a challenge and the customers do understand and, in some cases, we have already got it and other cases we will get it. It is just taking little longer time, our results would have been even better, if the freights had been paid back to us because the freight jumps was tremendous from \$4000 to \$14000. So, that is the jump in the freights that has happened but we will get compensated from a customer, it is only a matter of time. So, the recovery would actually take place. Our debt to equity ratio is less than 0.5 and the CAPEX that we intend doing would be, our depreciation, normally we match the depreciation. Our depreciation in the group would be INR 90 crores but our CAPEX would be in the region of about 50+ crores that is what are targeting that includes the maintenance capital and CAPEX and everything else. So, our target is to keep it under 50 crores because by and large most of the things are in place but this would mainly be on the occupant that is required as balancing occupant in some to the places and replacement occupant that might be required. So, this is in a nutshell what your company is doing.

Our EBITDA, in percentage wise, we are about the same as in last quarter but we will be in the double-digits in this current quarter and our target is to be between 12%-13% as far as EBITDA is concern and which we are very confident of achieving. We have plants in place to do that. That is it from my side and I think we can open it for questions and answers.

- Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Rishikesh from RoboCapital. Please go ahead.
- Rishikesh:** Sir my first question is you mentioned about double-digit margin is in Q2 itself, right?
- Arvind Kapur:** This year, we will cross double-digit and we might be able to get it in the second quarter, we are all working on that.
- Rishikesh:** You mentioned 12%-13%, if I am not wrong.
- Arvind Kapur:** No, I said we will be double-digit this year, definitely and but our target is to achieve 12%-13%, which we are confident of achieving it if not this year, certainly next year.
- Rishikesh:** But sir, earlier we used to guide in 10%. So, on what basis exactly are we guiding, are we upgrading our guidance?
- Arvind Kapur:** Based on whatever exercises, we are doing in our plant and if you look at the turnover going up, it is without any major investments which are taking place. So, it is obviously better utilization occupant, etc. and also improving the efficiency level in all the plants. So, everybody is working on it and if you look at the individual cost, our labor cost has come down, our power cost despite the oil prices going up, we have been able to save and maintain our power cost also, oil and gas cost. This is despite the fact that the gas cost has gone up by almost 20% - 30% and we have been able to maintain it by efficiencies and better utilization of our equipment and as by and large it is better utilization and more turnover from the same equipment that we have that we will do the saving and utilizing the same manpower.
- Rishikesh:** So, basically, you are saying, this year we might touch double-digit number and next year can be 12%-13% with Q2 or Q3, may be, we can touch that double-digit, correct?
- Arvind Kapur:** Double-digit we will touch and the 12%-13% we are talking of, next year certainly but better this year. Every quarter you will see a change.
- Rishikesh:** And sir, what would be our revenue guidance for this year?
- Arvind Kapur:** Like last time, we mentioned we will be around INR 2400 crores, which will be a growth of almost about 25%-26% in the group.
- Rishikesh:** And sir what would be our debt outlook?

- Arvind Kapur:** Debt to equity ratio would 0.5-0.6 and we will maintain the loans, by and large, we are not taking any more loans. The working capital requirement actually both are as our exports go up and our exports have gone up almost, this year would be INR 100 crores more than previous year and our exports payment you must realize we get the payment. It is 10 days to the port and another for Europe it is almost about 30-40 days for shipment and for US including the waiting it is taking us almost 8-10 weeks to 12 weeks to get our goods into the dock and we maintain 30 days stock at our warehouses there and after delivery to the customer, it takes us 30 days. So, it is a cycle of almost 120 days. So, as exports go up our requirement for working capital for exports goes up. Otherwise by and large, we will be in the same bracket.
- Rishikesh:** And I do not know if I heard it correctly or not in your opening remarks you said that 50% of revenue is towards electric vehicle segments.
- Arvind Kapur:** No, it is 15%, we have already crossed 15% and every quarter there is a change that is happening and you will see this 15% going up quarter-on-quarter. But our target is to touch 40% in the coming years.
- Rishikesh:** Coming years in FY 2023 or FY 2024?
- Arvind Kapur:** FY 2023, FY 2024, may be FY 2025 also because some of the orders have been released now for deliveries in the year FY2024-2025. So, that is important.
- Rishikesh:** Okay so around that time, we can do 40% of EV contribution.
- Arvind Kapur:** Yes, but I hope, the IC engine also keeps them growing and we grow faster even in the current businesses, we are hoping for that also.
- Moderator:** Thank you. We have the next question from the line of Mukesh Modi from Modi Fincap. Please go ahead.
- Mukesh Modi:** Sir in this quarter, what will be the break up for export and domestic?
- Arvind Kapur:** I have the figures for this year, we are growing almost 30% in the export, it is about INR129 crores.
- Mukesh Modi:** INR 129 crores exports? And sir it seems mostly the rise has come from the volume. Is there any price contribution also in this growth?
- Arvind Kapur:** Both it is volume as well as the price and also new component which have gone.

- Mukesh Modi:** Okay, so value price will be around how much sir, if u can give, if it is possible.
- Arvind Kapur:** Value? What you want?
- Mukesh Modi:** I mean the break up of volume and value?
- Arvind Kapur:** I would like to have it a guess but we can share figures later on surely. The commodity price increase is one part, which we get quarter-on-quarter. For the value, it has almost got 10% increase and for volume it is about 90% increase approximately but we will workout the exact details and share it with you and earlier the price increase because the variation in the commodity prices was tremendous that used to be much higher but now as commodity prices are easing off that is also stabilizing but having said that the freight is one thing that is going to impact because the freight cost have gone up tremendously and we are seeking compensation for those freights and also the energy cost for the exports, we also seeking compensation for that as well but there has been an increase in volume and also new customers which have been added and where the volumes are also going up.
- Mukesh Modi:** And sir last time, you said the airlifting, we are yet to receive around INR 30 to INR 40 crores, still it is pending. Any of them has come in this quarter?
- Arvind Kapur:** They are adjusting part of it in the pricing itself and part of it is coming, we got INR 5 to INR 7 crores in that additional but more is coming and I think August, September, we should get most of it but some of it will also get adjusted in the prices over the year.
- Mukesh Modi:** August, September maximum, we will get?
- Arvind Kapur:** August, September maximum and remaining balance will be fully adjusted in the price. That will be over and above the increases we have asked for energy cost and for the freight cost.
- Mukesh Modi:** And sir, you said about Toyota plant which has started so I mean can you just give a ballpark, what contribution it can give for this quarter and year as a whole from Toyota plant, our Chennai plant.
- Arvind Kapur:** This year, we are expecting a turnover but I think over INR 100 crores is from Toyota project. It is about INR 120 crores if I remember and with the volume further going up at 30%-35% and that is going to further enhance it but the exact numbers I do not have in front of me but we can share those numbers with you. But here I would like to add another thing that the Toyota thing was about a INR 100 crores to INR 120 crores a year that is the peak turnover and that will go up by 30%-35% based on the new

volumes that are coming up and as volume will start from next onwards. Then we also have received further orders for Toyota through their subsidiary which is also about INR 50 crores that order come and that should start in production in FY 2024 end and that would be an add-on to this, that is not part of the figure I am telling you and besides that these Toyota figures I am giving you are primarily only the Toyota figures from Chennai one or two projects that we had done investment. This does not include what we supply from India to Toyota, those are additional amount.

Mukesh Modi: So, if even INR 120 crores is not there then that means we will have an asset turnover around 1:1, right?

Arvind Kapur: Another 30%, we added with minimum investment, so got almost about 1:1.

Mukesh Modi: And lastly about this Rico Jinfei and Fluidtronics. Sir your guided for 319 for Jinfei and 130 for Fluidtronics. So, if I were to calculate this then the 2400 which you are giving seems to be quite conservative sir, I think my calculation were around 2700+

Arvind Kapur: We hope to go to 3000 but we rather be conservative and cross that rather than give you a larger figure and then next year you will tell me, look you had told this. So, we are giving a conservative figure and from 60 they have gone to 130, almost doubling in RFL and in Jinfei, they are also going up from 150 to almost and mind you this is all two-wheelers. We are snatching the business from others from China and other places. Sorry in Rico Jinfei it is two-wheelers but RFL is all Maruti and they all for car for packing the vehicle.

Mukesh Modi: And one more, sir the other expense this year, in spite of such rise in the sale, the other expense is reduced is there any forex gain we have calculated here.

Arvind Kapur: You are talking about quarterly or yearly.

Mukesh Modi: Quarter-on-quarter and even year-on-year. From INR 39 crores to INR 37- 38 crores.

Management: Quarter-on-quarter there is an increase.

Arvind Kapur: That has got a freight which has not been compensated by the customer so far and year-on-year.

Management: It is because of the savings we have made in packing and other air freight also.

- Arvind Kapur:** Last year, in ever call, we were talking about the air freights and some other issues we had with our customers, those are behind us and those are not coming into the figures now.
- Mukesh Modi:** Sir, this working capital you have been talking, there is an increase in working capital requirement. I just want to know, increased finance cost which we are calculating is it going to remain stagnant or it will be continuous rising, quarter-on-quarter basis what is your expectation about the finance cost?
- Arvind Kapur:** Now the RBI, they have stopped increasing the interest rate. Because the day they increase the rate then the very next we receive calls from banks stating we too are increasing a 0.5 so hopeful that should stop now and because that has a direct impact on whatever borrowings we have from the bank and we are hoping that from next quarter, it tapers the top, at least it brings it down to 0.25 and then gradually stops doing it and that is a direct impact on this.
- Mukesh Modi:** Yes, that is hitting the major portion of our profit like.
- Arvind Kapur:** But our borrowings will not be much. Our mandate is to be in the limit that are already there.
- Moderator:** Thank you. We have the next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** First of all, I wanted to understand the tax rate, how do we see the tax rate, this year, then next year.?
- Management:** In case of tax, as of now, we are under MAT we are paying. So, it comes around 18%.
- Deepak Poddar:** But on P&L it is currently 40% plus.
- Management:** There is some deferred tax adjustment would be there. So, that is all.
- Deepak Poddar:** So, that will continue. So, on a reported basis 40% plus tax rate would be fair to assume.
- Management:** On an average, it comes to around 23% in our case but we have under MAT because some accumulated losses but after merger also we benefit on that account of accumulated losses from subsidiaries. So, it will be around 18%-19%

- Deepak Poddar:** Because FY 2022 it was 37%, right?
- Management:** I will have to check that again, some deferred tax adjustment would have seen there, but we will come back to you on exact reason for that.
- Deepak Poddar:** And my second questions is on your margin now when you said double-digit margins you are expecting this double-digit margin for entire FY 2023. That is what you are kind of indicating?
- Arvind Kapur:** We are at 9.8 approximately 9.9, 10 we will definitely crossover and hopefully by the end of the year, we should be around 11%-11.5% and if not more. Unless there are some surprises which come on the way like there is another war which starts off, I think we are line and this year itself, we might be able to cross 12%.
- Deepak Poddar:** By fourth quarter may be.
- Arvind Kapur:** Yes.
- Deepak Poddar:** But this outlook includes your other income, right?
- Management:** Yes. So, percentage is calculated after in dominator also other income is included and in nominator also.
- Moderator:** Thank you. We have the next question is from the line of Ankur Agrawal from RC Wealth Solutions.
- Ankur Agrawal:** Sir since you doing projects worth INR 2400 crores turnover by FY 2023. Do you have any project that will take you till FY 2025?
- Arvind Kapur:** We have all the order books in hand and we have all but I do not have the calculation in front of me but hopefully we should be growing by over 15%-20% year-on-year. That is what our target is. About 15% growth definitely.
- Ankur Agrawal:** 15% year-on-year.
- Arvind Kapur:** Yes, 15%-20%
- Moderator:** Thank you. The next question is from the line of Hiten from Joindre Capital.
- Hiten:** My first question is on the Toyota Chennai expansion that we are doing. So, can you throw some light like what is the CAPEX there and by how much our capacity is growing up and what kind of products we will be manufacturing there etc.

Arvind Kapur: The project cost was INR 135 crores and we have written that and there have been slight delays on delivery of machineries primarily because of our electronics not available to the suppliers or machine. Number 2, also the rewards etc. which were getting delayed by the customer but we were supposed to spend this money last year but it got split up between last year and this year and by the end of the year it would be fully utilized. And the turnover now with the enhanced order that we expecting will be around INR 140 to INR 150 crores that is what we estimate on the Toyota project. This includes the land building and the utilities etc. A land was already there, the building had to be constructed and all the equipment had to be bought. So, this includes all that and I was there yesterday in Chennai plant and it has come out very well and as the production has started, we had the top Toyota team visited us yesterday and they also come to check whether what the status was. So, that is what is happening with Toyota project and this is all for electrification project mainly for hybrid vehicles. And we have also secured an order for again Toyota through their subsidiary that is for e-transmission and that would be used both for hybrid as well as the electric vehicle.

Hiten: Okay sir, the construction of this plant is already completed right?

Arvind Kapur: Not fully completed the building is fully ready, rest the utilities is pending and even now some building construction is ongoing and there some machines, one is to be shipped today from Italy. The second one would be shipped somewhere in December from Italy and by and large those two die casting machines are left and there would be some things like furnaces etc. which would require but the machining lines are almost all there. I do not think there is major reduction in the machining line but it is mainly the die casting machines which will come in by September end by January end it should reach here will be installed. And till then what we are doing is we are actually utilizing our capacity in the Bawal plant and other plants and supporting the Toyota project because they are going full blast there's a tremendous demand for the hybrid vehicles that they are getting.

Hiten: Sir, When will this plant be starting contributing to the revenue next year second half?

Arvind Kapur: We have already started delivering we have been delivering for the last three months or four months but slowly ramping up but I think from next month onwards, it is almost to full capacity we are supposed to supply to the demand.

Hiten: Okay, So, you are telling INR 135 crores worth delivery has been done and the revenues are starting to come from this plant, right?

Arvind Kapur: INR 135 crores worth delivery did not happen it just that two of our major die casting machines cost itself is about INR 135 crores. They are in transit; one is in transit and one is being shipped today actually. And it will take about a month and a half to come and another month to start and the second machine would leave somewhere in December, which by February, we will have it in production. Other than for those machines, we are utilizing capacities in our other plants.

Hiten: Okay, sir so how much expense balance is left out of 120- 135?

Arvind Kapur: 35 is there. 35 for two machine, as far as I know. Maximum 40.

Hiten: And sir, next question is on capacity utilization. What was the capacity utilization this quarter and last quarter and you gave the export numbers of INR 130 crores Q1 FY 2023, what was it in last quarter and last year?

Arvind Kapur: INR 98 crores.

Hiten: Q1 FY 2022.

Arvind Kapur: As far as utilization capacity is concern, we make about our specialized the components, like for two-wheelers, we make the complete clutch assemblies and then we automate the aluminum wheel, where at the moment we are running at about 70% capacity utilization. And with the orders coming in, I think from next month onwards, we are going to be close to 85-90% utilization in the aluminum wheels as far as wheel is concerned and then further, we are improving efficiencies. So, there will be a certain capacity that we will be able to increase without any investments in those plants. In the clutch, which is a major component, we supply to two-wheelers, there we are supplying but 45% to 50% for Hero's requirements, and we intend going up to almost 65% to 70% of their requirement and we are also developing clutches for the other two-wheeler companies. So, those are competitively where less investments are required and the capacity can be enhanced immediately. But now if you look at the other components we supply to BMWs, and Volkswagen and to PSA and all these companies. We supply almost 400 different types of components, which range from the engine blocks, which is the main heart of the total vehicle, we supply to Kia, we supply to Reno and Nissan, we supply to Tata for the commercial vehicles and these are aluminum blocks and we are the largest producer of the aluminum blocks. There we keep on the capacity goes up and down as depending on the customer requirement, but there we are at about 80% utilization at the moment. Then there are other components where we have ups and downs, like the two-wheeler industry in general is not doing too well. So, some of the two-wheeler occupants is not running at full

capacity, they are running at about 40% or 50% capacity. And if, we look at the commercial vehicles, they are doing well, there we are running at about 80% capacity, passenger vehicles, some of the models we are running full capacity and also increasing capacities. And in some models, the older models they are dying and so obviously the capacities are being vacated there. And as the capacities get vacated, we transfer those occupants to the newer components which come in. So, it is a very complicated, it is not a single product item that we have so that we can define the capacity utilization. We have 400 to 450 different types of components absolutely different types components.

Hiten: As our exports are growing like INR 100-130 crores this year, in this quarter. So, are we doing any order cancellation or delay due to macro issues in Russia, Europe etc. of the demand is....

Arvind Kapur: No in fact our export requirement is going up even more and we are getting more orders for exports both to the US as well as Europe. Europe is mainly a lot to the electric vehicle components and for that because of subsidies they are on producing a lot because demand is good. There's no cancellation at all.

Hiten: And sir are there any margin difference between domestic and export business?

Arvind Kapur: Well, the weakest margins are in the two-wheeler industry because the competition is tremendous there and that vehicle is also not very, compared to, they call it the poor man's vehicle and the next the competition comes in from large producers of components like Maruti Suzuki very competitive buyer but as we go to towards the higher-end model, the margins start improving, and as we start the exporting to luxury vehicles, the margins get even better. So, it depends on where we are exporting, or what we are selling to, the margins vary accordingly.

Hiten: And sir my last and final question is again on the margin, you mentioned that we are going to do around 11- 11.5 % of margin this year gradually encouraging from next quarter itself. So, this will be coming from operating leverages, right.

Arvind Kapur: Yes.

Hiten: Okay, I am asking this question because of material cost, when you compare in terms of sales is gradually going up from 56% to 61% in this quarter, when you compare it for last quarter, so just wanted to understand are we really able to pass the commodity price to the customer as commodity prices are coming down?

- Arvind Kapur:** See the commodity prices are pass-through and there is a lag, you know, in some cases it take six months to pass it on, most of the cases, it is three months. So, until the realization does not take place, the covering we do, goes to the next quarter. For the last two years the commodity prices have been going up year-on-year, quarter-on-quarter and every quarter the lag keeps on growing and the compensation comes in much later. And fortunately, they are stabilizing now, and hopefully, we will start making money on that front also.
- Hiten:** Sir, can we do for the next quarter also a 10% EBITDA margin, assuming commodity prices is coming down,
- Arvind Kapur:** Look, we are on it, we will definitely achieve it.
- Moderator:** Thank you. We have the next question from the line of Ankur Agrawal from RC Wealth Solutions Private Limited. Please go ahead.
- Ankur Agrawal:** Sir, from our sales volume how much is from two-wheeler and how much from other industry.
- Arvind Kapur:** Two-wheeler for us is about 32% to 33% and the rest from cars that is about 48 to 49% and the commercial vehicles is about 11% of our total sales other of about 7% to 8%.
- Ankur Agrawal:** Sir this two-wheeler which is about 32% does it include IC engine and EV sales also.
- Arvind Kapur:** Till date we were mainly toward IC engine but we have started supplying wheels to EV. So, slowly we will enter into it. We would like to supply more to the EV but at the moment the volume is pretty low. And acceptability was there a lot of excitement when Ola and everybody came in. But when the fire started happening, there is a lot of reaction that is taking place in the market. So, we found there was a reaction by the customers also. And secondly, the facilities were charging etc. It will take some time to mature. And I think we have by then of course we will be deeply entrenched in the supply of EV components.
- Moderator:** Thank you. Next question is from the line of Utkarsh Somaiya who is an individual investor. Please go ahead.
- Utkarsh Somaiya:** Can you please tell me your net debt as of the first quarter?
- Management:** See, total debt is INR 475 crores.
- Utkarsh Somaiya:** And of that short-term is how much?

- Management:** Short-term is INR 190 crores approximately. This I am talking about standalone basis.
- Utkarsh Somaiya:** Long-term is INR 190 growth you said, right?
- Management:** No, long-term is INR 285 crores around 285. That includes whatever current maturities are there, including that.
- Utkarsh Somaiya:** And the guidance you gave for this year was INR 2400 crores of topline and approximately a 10% EBITDA margin, right?
- Management:** Yes.
- Utkarsh Somaiya:** Can you tell me off that INR 240 crores EBITDA that we expected to how much is expected to convert into operating cash flow?
- Management:** As far as depreciation is concerned, that is in the range of INR 90 crores. So, broadly, that we can maybe, we are talking of EBITDA. So, this is cash only broadly and if we say deduct from this whatever we have to repay as loans. So, for balance nine months, we have to pay only INR 60 crores amount.
- Utkarsh Somaiya:** Okay, so you will do $250 + 90 - 60$ so around INR 280 crores of capital.
- Management:** No 250, depreciation is already there, because we are talking of EBITDA. So, out of 250, $80 +$ some interest cost, you can include in that. So, around INR 100 crores to INR 110 crores will go in these things, balance will remain with us.
- Utkarsh Somaiya:** So, the balance. This is after debt repayment.
- Management:** Yes, after debt repayment.
- Utkarsh Somaiya:** And sir, in FY 2024 What kind of top line do you envisage given that you are going to get more capacity? And
- Management:** Which year you are talking?
- Arvind Kapur:** The internal target is more than 15%. But 15%-20%, that is the growth, we are looking at. And based on the orders which are in hand, which the customers have indicated to us that includes a new program, which we have, some of them would be launched next year. Some of them would be launch the year after that and in some cases, they will be launched in FY 2025, the peak will come in FY 2025. So, based on that, this is what we estimate 15%-20% growth, definitely

- Utkarsh Somaiya:** And at your peak utilization, what revenues can give.
- Arvind Kapur:** Let me add here, if the two- wheeler industry bounces back the growth will be much more.
- Utkarsh Somaiya:** Okay, and at your peak utilization after all your expansions what revenue you can do.
- Arvind Kapur:** Look our mansion is a constant frame that will keep up because balancing equipment on all, we will keep on adding but safely we can touch about INR 3000 crores.
- Utkarsh Somaiya:** So, you can INR 3000 by FY 2024, or FY 2025, one of the two.
- Arvind Kapur:** So, yes there will be some other capacity as when that will happen because if we even limit ourselves to INR 40 to INR 50 crores of investments, that does include some equipment, which is maintenance as well as some balancing equipment that would help us in improving the productivity of the current lines that we have.
- Utkarsh Somaiya:** And so just one last question I have been looking in the last 10 years, your return on equity has never exceeded 10% to 11%. So, is that expected to change going forward I mean, you do have growth but your ROE are single digit and, in few years, they have been 10% to 11%.
- Arvind Kapur:** With the profitability come up you will see a change happening on this in any case and if and in fact there will be an improvement and you will see a change.
- Utkarsh Somaiya:** So, in terms of improvement, you mean the margin can increase by maybe 2% to 3%, right? The asset turnover is likely to remain the same, right?
- Arvind Kapur:** At this quarter it is 7.3% actually 7.3%.
- Utkarsh Somaiya:** So, ROEs will increase to the extent of margin expand is that is that something. Okay, so still you should not be crossing 12% if I am wrong, please correct me if I am wrong.
- Arvind Kapur:** The target is there, so that cost of money we should cross that in any case and we should actually cross 12%. We are heading towards that with the new component which are coming in there we have better margins than the older components.
- Moderator:** Thank you. The next question is on the line of Ankur Agrawal from RC Wealth Solutions Private Limited. Please go ahead.
- Ankur Agrawal:** Sir, in the 32% volume you get from, two-wheelers how much of it could be converted to EV or and the engine part involved in it.

Arvind Kapur: The wheel is common between electric vehicle and IC engine; the braking system is common between that and that. Of course, every design differs from other. The electric vehicle design is separate but we are making Jacky components and braking systems etc. We make a lot of IC engine also now I think this percentage is going to remain, reason being that we are hoping that we think at least that the two-wheeler industry has hit the lowest and after that improvement should take place and we are hoping that this quarter also because of the season and better monsoons we will see better results. So, this percentage will remain but the components of IC engine, the engine will remain for another 20 years definitely and parallelly whatever opportunity we are getting for making some of the transmission components, some of the electric motor components that we will continue aggressively follow up.

Moderator: As no further questions from the participants, I now hand the conference over to the management for their closing comments.

Arvind Kapur: Thank you so much. And we do find a lot of interest in the electric vehicles and your company is also focusing, a lot on electrification and electric vehicles. And in fact, the most of the courts and most of the negotiations that are going on with our customers is on electric vehicle components. And we are all excited about it. But it is mainly for exports in the domestic market. Unfortunately, the growth is slower than as what is happening in Europe and other places. So, the opportunity is obviously, less, but we are we have our ears and eyes open and we are always there to negotiate with our customers for the electric electrification and electrical components. Our priority is that and that is what we are actually following up. And having said, that, the growth is taking place and the like the passenger vehicles and commercial vehicles have bounced back very aggressively this year. Hopefully, we should cross 3.6 million total passenger vehicle sale and the commercial vehicle sale also there will be there should be some record two-wheeler industry, we are hoping that it bounces back. And because it has probably reached the lowest ebb. If that bounces back our turnover goes up even more than INR 2400 crores. And we are hoping that that would also happen. We are invested in all the projects which were lined up. And some of the new project which have come up, we have another addition almost this quarter, we added about INR 150 crores of new orders. And in some cases, they come up this year itself, in some it starts next year, and in some cases starts a year after that. So, those we are picking up and we are also negotiating very aggressively on, is where are they I think more than 50% is the electric vehicle component in the Mushashi and that they all affected. And so we are on it and we feel that on quarter-to-quarter, you see the results improving both in the EBITDA and also in the bottom line. And you see the better improvement and the utilization of capacity, which we have installed. And in the case of Toyota, we had to install the capacity almost one year in advance. And we did about 70% of the capacity



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one year in advance. Balance, of course is yet being installed but the utilization of the rest of the plant is actually happening a little better. So, we are there is a lot of excitement that is on. And let us hope China and Taiwan do not do anything which harms the world and otherwise I think India should do very well and your company would also do very well. Thank you so much for today's meeting.

Moderator:

Thank you very much members of the management. Ladies and gentleman on behalf of Rico Auto Industries that concludes this conference. Thank you for joining us and you may now disconnect your lines.