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November 22, 2023

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Sub : **Transcript of Conference Call held on 16th November, 2023**

Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 16th November, 2023 with the Investors.

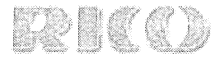
This is for your information and record.

Thanking you,

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

B.M. Jhamb
Company Secretary
FCS : 2446

Encl : As above



“Rico Auto Industries Q2 FY24 Earnings Conference Call”

November 16, 2023



MANAGEMENT:

MR. ARVIND KAPUR – CHAIRMAN, CEO AND MD
MR. KAUSHALENDRA VERMA – EXECUTIVE DIRECTOR
MR. R. K. MIGLANI – EXECUTIVE DIRECTOR
MR. RAKESH SHARMA – CHIEF FINANCIAL OFFICER
MR. B. M. JHAMB – COMPANY SECRETARY

MODERATOR:

MR. VIJAY GYANCHANDANI – S-ANCIAL TECHNOLOGIES



Rico Auto Industries Limited
November 16, 2023

Moderator: Ladies and gentlemen, good day and welcome to Rico Auto Industries Q2 FY24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Vijay Gyanchandani: Thank you. Welcome to Rico Auto Industries Q2 FY24 Earnings Conference Call. From the management we have today, Mr. Arvind Kapur - Chairman and MD; Mr. R. K. Miglani - Executive Director; Mr. Kaushalendra Verma - Executive Director, Mr. B. M. Jhamb - Company Secretary and Mr. Rakesh Sharma - CFO.

Now, I hand over the call to Mr. Kaushalendra Verma for opening remarks. After that, we can open the floor for a Q&A session. Thank you and over to you, Sir.

Kaushalendra Verma: Thank you, Vijay. My name is Kaushalendra Verma, and I am attending this meeting from the Rico Corporate office boardroom with my other colleagues who are in this room. Once again, we all welcome you to our Q2 FY24 Earnings Conference Call. Mr. Kapur is basically in a meeting with high-level Government officials. He is already connected over the phone, once he's fixed in the car, then he will be able to participate verbally.

This quarter, the good news is that IMF boosted India's growth outlook to 6.3% and this positive revision of 0.2% for 2023 is attributed to the stronger consumption in India in this quarter from April to June. What we understand that the China Plus One strategy is also happening and in this regard our team was travelling overseas last month and we got a meeting with the global OEMs in Europe and in North America. We got a very good response from all of our customers to participate in their new programs both for the EV and the Hybrid Vehicles. If you see this year, our order book is close to Rs. 1,000 crores and if I convert that in the revenue per annum, it is close to around Rs. 200 crores per annum revenue, we have already booked. We are in the process of participating in a lot of new programs and we are confident that another Rs. 1,000 crores program-like business we will book by the end of this year.

This quarter, the four-wheeler market has shown a positive sign and we have also grown in line with the market as far as the passenger vehicle segment is concerned. The two-wheeler segment is still a challenge for both i.e. Rico as well as for the market. In the two-wheeler segment, our major customer is Hero, and we were discussing with them price correction for various components. We have concluded the price correction for one of the major components of alloy wheel and they have agreed to our request. This will impact our bottom line and sales going forward. We are further discussing with them for a price correction for other parts too, which is in discussion and hopefully, we will conclude with them in this quarter.

We will now be open to questions and the entire team sitting here will provide the answers and clarification to the questions raised by our stakeholders.

- Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** First of all, this Hero that you mentioned that you have discussed the price correction for one of the part and other things have been discussed, so has the business with the Hero normalized and what is the impact you see on the topline and bottom line that you just mentioned on the Hero part?
- Kaushalendra Verma:** We have basically concluded the discussion for one of the parts which is the alloy wheel and the profitability and overall impact of this product if you talk about that, this product currently is around 2% -3%, now we will take it to 5%.
- Deepak Poddar:** So, this product is now 2% to 3% of your revenue right now?
- Kaushalendra Verma:** Yes, because we have different models of alloy wheels, and depending on the models, the profitability varies from 2% -3%. We were discussing with them to correct our price to take this profit margin to 5% in the alloy wheel, which we have concluded with them, and which will have an impact going forward from this quarter.
- Deepak Poddar:** So, 2% -3% of your PAT margin can increase to 5% PAT margin in this product, right because of this price correction ?
Rakesh Sharma: Yes, Deepak, Mr. Verma is talking about the net margin that we get in that product and as far as turnover is concerned, that will also go up, but as a percentage, it will not be a very big percentage. Currently, it is around 13% of our turnover that comes from the wheel business and it will grow to 13.5%.
- Kaushalendra Verma:** On top of that, we were holding ourselves basically to give them less supply on account of the product profitability. Now, this has been concluded and we are going to increase our volumes to Hero which will take major impact on our revenue for this alloy wheel business.
- Deepak Poddar:** And for the remaining product, by when you are expecting things to normalize, are we in discussion for other....
- Kaushalendra Verma:** We are constantly discussing with our customer and now we are happy that at least they have concluded from one of the major products where we have a lot of pain, and we are also in our advanced discussion for the other products, and we are confident that this will get concluded within this quarter.
- Deepak Poddar:** Secondly, on your guidance front, in the first half, I think we have done close to about Rs. 1,100 crores of topline, while we were targeting Rs. 2,600 crores, so how do we look at that at 11% margin, so we are behind on the margin guidance from that as well, so any change in the guidance that would you want to guide?

Kaushalendra Verma: If you see, our margins are better than the previous quarter i.e. from Q1 to Q2, both on the standalone as well as the console front. Let me talk about profitability, going forward, once you have got the increase from our customers for one of the products, definitely this will help us to grow our margins further. We are in the process of optimizing our resources in line with the overall sales, so that we continue to improve our margins on profitability. Absolutely, at the sales, we have some challenges with one of the passenger vehicle customer which is Renault. Renault uptake is much less as compared to their forecast, which is basically an area of concern, but we are working with other customers to increase our share of business and we have increased our share of business with one of the major domestic OEMs i.e. Maruti Suzuki. If you see in this quarter, we have increased our share of business from 8% to 12%. We are basically a single source to them for one of their products, which is 'Water pump' and 'Oil pump' which goes into their K15C series engine. All the cars that you see on the road at this point of time, they have our product on the 1.5-liter engine. They started with around 1200 parts. Now that volume has gone up to around 2100 and they are further requesting to enhance this volume to 2600. We have basically without any investments, we have freed up the investment from our internal resources by basically identifying the equipment's which are only used for low-volume product. We have requested our customer to take the complete material for their one-year requirement, so that we can utilize this equipment for the high-volume product and that is the way we have reached from 1200 to 2100. In terms of revenue, we have gone from about from Rs. 75 crores to Rs. 150 crores annually, and they have requested another increase which will have the total revenue of Rs. 200 crores. For that also we have been finding out if we can release the existing capital to capture this revenue and we are working on that. Our focus is that we are trying to free up our existing CAPEX which is engaged in the small volume programs where we are requesting customers to take the material in one shot, or we will build some inventory to keep for them and we will supply to them once they need that. So, we will have a better utilization of the capital.

Deepak Poddar: But what I was asking are you targeting Rs. 2,600 crores this year or we are targeting a reduced target from there?

Kaushalendra Verma: Our target still remains Rs. 2,600 crores and we are working towards that.

Deepak Poddar: Because that ideally means that in the second half, you have to do Rs. 1,500 crores kind of a topline at a Rs. 750 crores kind of a run rate because these things do take time, right, so is it a very difficult challenge for you to Rs. 750 crores per quarter in the second half in terms of execution?

Kaushalendra Verma: Yes, definitely, we have forecasted this growth based on the new programs which we were supposed to do the SOP in the different months of the year. There are a couple of programs where we have completed our development and the customer is validating our parts and once, they do the SOP, these volumes get realized. The only challenge is that it little bit depends on the customer SOP also, but we are targeting Rs. 2,600 crores.



- Deepak Poddar:** And in terms of margin you mentioned, 11% also we are still maintaining excluding other income, right in terms of EBITDA margin because in H1FY24 I think it was close to 9.6%-9.7% excluding other income, your EBITDA margin?
- Rakesh Sharma** No, if you see the consolidated results, at present also we are earning in double digit. This quarter, it has been good. On the consolidated front, it would have been better like Mr. Verma said that we have negotiated prices for alloy wheels for our Rico Jimfei subsidiary, but the effect of that has not yet come in our sales and obviously on profit margins also. So, in Q3 FY24 that will be there because the procedural things are owned and the purchase order for that will be released by maybe December beginning or November end. So that is the way, if you see profitability is on track, in fact in standalone we have already crossed 11% this quarter.
- Deepak Poddar:** So, on a console basis, 11% margin excluding other income for FY24 is on track?
- Management:** Yes, it is on track, yes, this quarter also it would have been 11%, but one sale increased for whatever price we have got that has not been accounted for in consolidation, so that will come in the next quarter.
- Deepak Poddar:** And sir, how do you see on the order front, in the defence sector as well, if you can throw some light that what sort of order book traction you can see on the defence side and overall, at the business side?
- Management:** Defence, we are working very aggressively on various programs which we mentioned on previous calls, but currently we are not basically able to bid them, but we are in the advanced discussions and talking to them and pushing them and one of the programs we can do the industrialization and the SOP. We are working on various fronts in defence. Once any of the programs will get materialized, we will give the news to all these stakeholders.
- Deepak Poddar:** So, what is the order book we are initially targeting in terms of the defence sector? There must be another Rs. 200 or Rs. 500 crores, is that the size you are looking at or higher, so some sense you have on that?
- Rakesh Sharma :** See in the case of defence like we have been telling earlier also it is very unpredictable till the time we get the final order because you never know the timing how much delay can happen. So, as far as the target is concerned, the bids are very high, but once we get because we have been following up with the defence for the last say 5 to 6 years, but that has not materialized, so that is why we don't consider that as of now. So, the target depends on what type of order we get.
- Deepak Poddar:** And just last thing as the clarification, you mentioned somewhere Rs. 1,000 crores order book, so what exactly did you mention there, which order book you are talking about here? Is it an export program?
- Kaushalendra Verma:** I am talking about that this year with our various customers like domestic and the global customers, we have already awarded the business of close to Rs. 1,000 crores over a program life. We consider a program life from 5 to 6 years depending on the customer. If you convert

them into peak revenue per annum, which is close to Rs. 200 crore per annum revenue, we have already booked with our customers which will get into SOP in the next 6 to 12 months.

- Deepak Poddar:** This Rs. 1,000 crores is the order book inflow in program, which is the life of 5 to 6 years?
- Kaushalendra Verma:** Yes, Rs. 1,000 crores over the program life considering 5 year program life. So, if you convert it, it has come to be around peak revenue per annum is Rs. 200 crore per annum.
- Moderator:** Thank you. The next question is from the line of Aman Vij from Astute Invest Management. Please go ahead.
- Arvind Kapur:** Hi this is Arvind Kapur here. Sorry, I have just joined. I have just got out of the meeting. I have just sat in the car and joined, and the meeting has started, and I will also be participating along with my colleagues. Sorry, I am not sitting with my colleagues and today I am in the car and talking to you all. Please carry on.
- Aman Vij:** Sir, my first question is on our export business, so if you can talk about the run rate, we did in H1 FY24 was it as per your expectation? Was it slower than your expectation and what is the outlook for the second half H2 FY24?
- Kaushalendra Verma:** Our export is in line with our target which we have set for ourselves in the H1, and our forecast is also similar and whatever we have targeted for ourselves, our export and sales will be in line with that.
- Arvind Kapur:** But having said that, I would like to make one comment whenever we give a guidance on export, we normally give much lesser figures and there is always a pull from the customers, but this is the first time we have noticed that they have actually taken holidays in the month of September and then normally even September holidays, they are working. So, one does start suspecting that is there some tension, but at the moment they are picking up whatever they have promised and it is absolutely in line with whatever we had projected.
- Aman Vij:** Sir, what is our target for this year and next year in exports?
- Kaushalendra Verma:** Till H1, we have completed 22% export of our total revenue, and our target for H2 is 26%.
- Aman Vij:** So, for the full year, we are targeting around Rs. 600 crores?
- Kaushalendra Verma:** Yes.
- Aman Vij:** And for next year, sir, what is our target for exports?
- Kaushalendra Verma:** For next year, as I mentioned in my comment that we are working with other customers on board for the new business and we are in discussion with various customers for their hybrid and EV programs product and we are very confident of the figure which I have told you about Rs. 1,000

crore business or the order book on which we are currently discussing with our customers that will definitely increase our export sales going forward for the next year.

Arvind Kapur: So, when you look at exports, there are two things that we look at, one is of course the new orders that are going to come, it takes about a year or year and a half for them to actually come to production, but we also look at the volume increases that we can by taking a larger share of the business and in some cases, it has happened and we are pushing the other customers to do the same.

Aman Vij: Sir, in the initial part you were talking about Rs. 1,000 crore programs over 5 years, so can we assume that Rs. 200 crores additional per year in exports will come from next year, so this Rs. 600 will go at least to Rs. 800?

Kaushalendra Verma: That Rs. 200 crore is both for domestic and exports.

Arvind Kapur: See the Rs. 600 will go to Rs. 800 but it won't go next year, but it might be another 2 years or 3 years. It will definitely go in that direction that we are very clear in our minds. We are targeting Rs. 1,000 crores in like possibly 3 to 4 years for the export market. That we are very confident with the new program which are coming, but this Rs. 200 crore that we are talking of both domestic as well as the exports.

Aman Vij: My second question is on margin, so we are talking about going with our customers and looking for some adjustments in pricing in terms of alloy wheel, so if you can talk about whether there any other products remaining in our basket where the margins are currently low and where we expect a price rise? So, my question was also to basically from when do we see that 10% -12% of consistent margins on our overall consolidated business?

Arvind Kapur: Let me complete on alloy wheel, maybe KV and Rakesh, you can take it up. The alloy wheel, the price increases that have been given to us are from 1st April, 2023.

Management: Yes, 1st of April, this financial year, sir.

Arvind Kapur: So, the prices we get it from 1st April 2023 and hopefully we will get it probably by the end of this month or beginning of next month. That has been finalized, that is the frozen and the other parts that we are talking of with the clutches, etc. there we have asked for a marginal increase of the prices there also and hopefully those should also be settled, but it has taken us over a year and a half to settle for the wheel which is hurting us the most earlier, but the others hopefully we will do it before the end of the year, but let's hope they do it soon because we were really hurting as far as the alloy wheel was concerned, but now alloy wheel has been settled that is behind us now and we are pushing for the other component as well.

Rakesh Sharma : And to add to our MD's comment, if you see our EBITDA margins in standalone basis, it is already in H1 FY24 we have achieved 11.3% and if you see in consolidated also it is in the double digit, like we have said that 11% is our target to achieve this year, so that we are on track and we are confident that we will be able to achieve that on yearly basis, on consolidated basis.

Aman Vij: My next question is to Arvind sir, 2-3 quarters back, you had talked about an update on the electric fuse orders basically the whole process will be done again, any update on that part because we have been waiting for update on that?

Arvind Kapur: On the electronic fuses and on the fuses in general also the total order got cancelled and the government has sheltered absolutely because there was a lot of favoring things that may be protested against that and now what has happened is that the Government obviously needs the ammunition in any case. So, they have given it to the current suppliers of the ammunition and we have become sub-vendors to them, that is what we had mentioned in one of the meetings whoever gets the order will have to buy it from us in any case, so that tender got canceled, but the government for its immediate requirement the defence people for the immediate requirement have started giving direct orders of 1.30 fuses or 2.30 lakh fuses these are the orders that they given to those current people because they come out with the next scheme. When the defence people come up with the next scheme, it is very difficult to understand the timing, but on the defense, since I am on the defence at the moment, we are bidding for orders of about Rs. 1,000 crores at the moment and it is for various items. One is the shooting ranges I had mentioned last time that we are hopeful we are talking to the Navy, Army, Air Force and also the BSF and CISF and all these, for them to buy these ranges and hopefully in the next quarter we should be able to give you some results for that.

Aman Vij: But on the testing part, the trial part on the fuses, that is still you have to do it again whenever the new tender comes or that is done because we had like 1,000 fuses?

Arvind Kapur: That we put a lot of money, our collaborators send fuses from their manufacturing facilities and everything and all those had to be diffused, so that was a very tedious cycle we went through because we can't just sell the fuses in the market and therefore we had to defuse all the fuses in the government and in the presence of the defence people, but the testing in any case, whenever there is a new tender coming in, even the current supplies have got to go through the testing process. Everybody goes through the process.

Aman Vij: Given there are winter trial and summer trials, it will maybe take another maybe one to two years for?

Arvind Kapur: That is a cycle, but let us see where we are on it, we will get it one day. We are determined to do that.

Aman Vij: And so sorry, you mentioned the word subvendor, we have become subvendor to the suppliers, are we?

Arvind Kapur: Yes, so we supply the main bodies and other components of that thing to those people because they are unable to meet the requirement. They have a strong supplier base, and we were doing it earlier also and so we started supplying to them. We are in the process of doing that now.



Aman Vij: But this fuse part they are procuring from outside India or someplace, they are not buying from us?

Arvind Kapur: Yes, they are basically doing assembly. So, they are importing the fuse portion from South Africa and the battery is also coming from there, whereas we had taken up the responsibility making the battery that use everything and according here in India.

Aman Vij: I am sorry, last part on this, you have talked about we have like 1000 fuses lying in our facility, so what happens with those, will they get wasted because?

Arvind Kapur: No, we didn't pay for it because our collaborators are also involved and it is a very clear thing, on the success of those fuses will we pay, so now since the trials will take place, there is no success, so obviously the vendors that are supplied to transfer the money, but we had to get them diffused. That is what we had to do, so that there was nothing left of the fuses, but on the defence side, we are more active now and now we see the light at the end of the tunnel and so with the Army individually and Navy separately and the Air Force and the other forces also going for these products that very interesting products coming out, even the once we get the order, we will actually put on the website also.

Aman Vij: And you are talking about indoor shooting ranges, right? Or any other products also?

Arvind Kapur: Yes, this is the shooting that can be put anywhere, it can be put anywhere, and you can start off. There is no sound or anything that comes out. We have it displayed in one of our factories.

Moderator: Thank you. The next question is from the line of Neha from SKS. Please go ahead.

Sneha: I just wanted to know your overall outlook for H2 FY24 not just export, what do you think of H2 and next year FY24? Overall outlook for second half H2 FY24?

Arvind Kapur: I don't have the figures in front of me, but I will give you some broad picture in any case. Now, like addition of these the last quarter we had mentioned that we are cut down our production intentionally because we were not very happy with the prices of the deal and we had been pestering them for over a 1-1.5 years and they were delaying and delaying and so we finally said, sorry, we can't complain and that not only we said it, but the other we suppliers who had monkey business, they we all losing money and finally now the prices have been settled. They want us to double, and even triple the volume surprises that we can do. So, that is one possibility that we are looking at, but we want to be sure that our dependence is not only Hero, but it is on, we supply to Honda and where we are negotiating and to Suzuki, Bajaj we are already supplying and we are also talking to Enfield etc., so we will be supplying to all and there would be a subsequent ban on the import of wheels. So, that is what we are working on and so that volume will go up dramatically which we have not factored the whole volume so far. We were not sure whether Hero would actually like to double their volume requirement. So, that is on the wheel front. My colleague, Mr. Verma had spoken about the oil pumps from 1100 or 1200, we went to 2100, now we want to close to 2600 and similarly there are other components like for the EV as

well as the hybrid vehicles. It has one example I must give you is against the price of Toyota we were supposed to spend Rs. 70 crores for this new product that we have developed already, but like Mr. Verma mentioned, what we did was, we have done a lot of cleaning and shop closes, we have taken out the part that was not being fully utilized and some of the component which had come down dramatically at the end of life for the component we have given the supply for the whole year, take out the equipment, now instead of Rs. 70 crores, we will be putting in only Rs. 10 crores investment for that particular project and the turnover would be about Rs. 100 crore. Same thing goes for the oil pump. Whatever we had put in earlier, we utilize the same and or taken out the capital from inside itself to put in the production. So, we are trying to get in maximum capital equipment out of the system and use it for new products and or expansion which are required.

Kaushalendra Verma: You have rightly said sir and for all these additional volume increase and the revenue increase, we are trying to minimize our CAPEX by free up our existing CAPEX which is currently engaged with the low volume program. So, that basically gives an advantage to be competitive with other competition and better margins on the profitability.

Sneha: And sir, if I rightly heard you guys increased your business with Maruti from 10% to 12%, I guess, so what I have generally heard from various like auto component people like Maruti's margins are a bit contracted compared to other people, so will that also impact our margin?

Kaushalendra Verma: Yes, you are right. We have increased our volume share of business with Maruti from 8% to 12% and this is for their new program, the latest engine K15C series engine which goes into most of their cars currently which you see on the road. This is a new program which we quoted to them almost 3 years back and this came into the SOP last year. Yes, Maruti, we have to settle with that slight margin, but we have won this program on a reasonable profit margin and will not impact further increase in the volume on our profitability. Well, it is improved.

Moderator: Thank you. The next question is from the line of Bhaskar. Please go ahead.

Bhaskar: My question is on the land asset that you are planning to sell in Noida, any update on that?

Rakesh Sharma : See, I think you are talking of the Gurgaon property. I think you are talking, so that way these things, we don't have anything in hand as of now, but any progress is there, we will definitely let you know.

Bhaskar: Is there any new products that we are planning to introduce, especially specific electric vehicles in coming years or any kind of collaboration with some other companies because as you know, like the market changing rapidly, the technology wise and everything, so in that case, how we are actually improving our product?

Rakesh Sharma: See our marketing teams are already on the job and they are meeting so many international customers also and domestically also. So, if the need be, we will not shy away from, say maybe erecting the new Greenfield project, but as of now there is no such plan. That we are already

supplying to like we are doing. As far as EV vehicle component supply is concerned that we have been doing for last maybe 8 years or so and 15% of our turnover is already coming from EV and hybrid vehicle component. So, we will continue to grow definitely, but, if need be, we will go for Greenfield project. As of now, there is no such plan to go for any new Greenfield project.

Bhaskar: And in the last call, Arvind Kapur sir mentioned that we are going to have some kind of tie up with some company, if I remember correctly, is there any progress on that?

Rakesh Sharma : Yes, talks are on for many businesses, but as of now there is nothing that needs, maybe sharing with the stakeholders as of now?

Bhaskar: I am just asking about the next financial year like this year we had some hiccups, right, like last quarter we had some issues with Hero, etc., but for the next financial year, do you have a clear road map and are we able to achieve like around Rs. 3,000 crores kind of revenue?

Rakesh Sharma: Yes, that is very clear. In fact, this year also it is everything is on track only. As far as Hero thing was concerned that was very temporary affair and that is over as of now and as far as negotiations with customers is concerned that keeps on happening, but that is not going to hamper our maybe growth. So, negotiations keep on happening. That was a one-off case that we had to stop for some limited period, some supplies have to be stopped. So, these types of things normally don't happen.

Kaushalendra Verma: And as we mentioned that we have already got the business award for a program like Rs. 1,000 crores and some of the programs which are also getting the SOP in the next financial year which will help us to basically to increase.....

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

Kaushalendra Verma: Thanks everyone for joining the today's call and next quarter as we mentioned that and we update the team on all the fronts on the revenue and the profit margin as well as the new awards and as Mr. Kapur said that we are working very aggressively on all the fronts including the defence and in the next quarter, we will give you the better results as committed with respect to our own internal targets and as mentioned that we will definitely will give you more news on the new awards and new business both on defence of the EV and the passenger vehicles and the other things. Thank you so much for joining the call today. If there are any further questions, you can always e-mail us, we will be more than happy to answer that and provide the clarification.

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

