RICO AUTO INDUSTRIES LIMITED

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Sub : **Transcript of Conference Call held on 12th November, 2024**

Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 12th November, 2024 with the Investors.

This is for your information and record.

Thanking you,

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

RUCHIKA GUPTA

Digitally signed by RUCHIKA GUPTA
Date: 2024.11.16 15:24:06 +05'30'

Ruchika Gupta
Company Secretary
FCS : 6456

Encl : As above

Rico Auto Industries Limited Q2 FY25 Earnings Conference Call

November 12, 2024

MANAGEMENT: MR. ARVIND KAPUR – CHAIRMAN, CEO & MD
MR. KAUSHALENDRA VERMA – EXECUTIVE DIRECTOR
MR. R.K. MIGLANI – EXECUTIVE DIRECTOR
MR. RAKESH SHARMA – CHIEF FINANCIAL OFFICER
MS. RUCHIKA GUPTA – COMPANY SECRETARY

MODERATOR: MS. HAZEL RATHOD – S-ANCIAL TECHNOLOGIES

Moderator: Ladies and gentlemen, good day, and welcome to Rico Auto Industries Q2 FY '25 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Hazel Rathod from S-Ancial Technologies. Thank you, and over to you, ma'am.

Hazel Rathod: Thank you. Good evening, everyone, and thank you for joining us for Rico Auto Industries Q2 FY '25 Earnings Conference Call. From the management, we have with us Mr. Arvind Kapur, Chairman, CEO and MD; Mr. Kaushalendra Verma, Executive Director; Mr. R.K. Miglani, Executive Director; Mr. Rakesh Sharma, Chief Financial Officer; and Ms. Ruchika Gupta, Company Secretary.

I now request Mr. Arvind Kapur to take us through the key opening remarks, after which we can open the floor for the question-and-answer session. Thank you, and over to you, Sir.

Arvind Kapur: Good evening. This is Arvind Kapur from Rico Auto, and I welcome all of you to the Rico investors call today. A lot is happening in the world. The elections have taken place in almost all the democracies in the world. And there have been a lot of surprises that we've all seen. We've seen changes in governments, and we've seen the rightists come in, be it in Europe or be it in America or be it in any other country.

There are a lot of changes which have happened. And so I think everybody is waiting and watching as to what would happen to the global policies that would take place by Mr. Trump coming in the US and by the other changes which are taking place in the world and if the people get more protective about their countries, so it is all wait and watch at the moment.

Coming back to India, the GDP growth last time, we had mentioned that it would be around 8.2%, but now it has been downgraded slightly to about 7.5%-7.3%. But we are hoping that we'll still be touching around 8%. And India is still a great story, and let's hope that it continues like this. We've had a good monsoon. So I think the market should be good. We do see it in the pickup of the motorcycles, especially in the rural areas. There has been a very definite growth in the 2-wheeler industry. The pickup in the market has been pretty good.

The car industry did well as far as the season is concerned, but there is some stress that is coming up in the car industry, primarily in the cheaper vehicles, the entry-level vehicles. And the industry is all working to see how the demand could pick up in that sector as well.

The commercial vehicles are down, and until the investments start taking place in the infrastructure, that would remain impacted. And that we are hoping that after the elections in Maharashtra and other places, we might see some more investments taking place in the infrastructure. So this is broadly what the market is like.

I must mention about the exports. Your company has been doing pretty well in exports. But in the last quarter, I mentioned that because of this geopolitical activity and the wars which are taking place in the Middle East and in Europe, especially, the exports have come down, and we are looking at alternatives. And our exports, if you compare them to the previous quarters, have come down by almost 15%, 16%.

That's almost about INR75 crores from whatever we had done in the previous year in the same quarter. But we've been able to compensate it by adding on more customers and also getting larger share of businesses from our current customers in the domestic market. So we lost about INR75 crores there, but we gained almost over INR150 crores- INR200 crores on the domestic side.

And by the end of the year, we think that our exports would be on an annual basis, we'll be about INR72 crores down. But our domestic market would be almost about INR300 crores plus. And we are putting in more effort to see that the domestic market also picks up. But in the exports also, we managed to get more orders, and there would be supplies that would start by the end of the third- fourth quarter. So next year, we are hoping that we'll be back to the previous figures for exports that we were doing earlier.

If we look at the turnover of the company, in the first quarter, we had mentioned that the second quarter would be flat, but I'm happy to announce that we have actually grown by over 7% in the second quarter. We are happy with the growth. And so whatever 7% growth that we have anticipated in the third quarter, we have been able to prepone it to the second quarter.

In the third quarter, we are hoping to grow by another 1% or 2% or 3%. And the last from now onwards, I think the growth would be about 20% in the fourth quarter, including the second quarter put together. So we are close to the target that we had promised you in the beginning of the year, and let's hope we exceed it. So that's what we are working on.

On the profitability side, we are very hopeful that by the end of the year, the last quarter, we -- our profits will be better than the last year's profits. And the impact that you see in this quarter is primarily because of the aluminum lag, which would be compensated to us in this very quarter. And so annualized, our profit will be better than the previous year. And that's what we are looking at this year. We are very confident of that.

And in the domestic market, we are picking up more orders and some of them are in the 2-wheeler industry and also in the car industry, that's Maruti and Hero and also Piaggio and the other makers. The advantage of the domestic industry is that the turnover and the production and the profitability start showing up immediately.

Whereas in the export front what happens is that it takes almost 6 months to 1 year before the turnover actually comes into the book, the investments take place much in advance. So we are trying to get a larger share of the businesses on the current businesses that we're doing with the current customers, primarily because we had surplus capacities because of exports, and we have diverted them into the domestic market.

And on the new plant at Hosur that we are setting up, we have started flattening that. We are preparing the ground for starting of the construction. I think in another quarter's time -- by next quarter, I think we should start the construction there. And we'll also start making the buildings as well as also start ordering the equipment that is required.

This plant is primarily dedicated to Toyota -- supplies to Toyota for the hybrid vehicles and electric vehicles and also to the suppliers of Toyota. So we are very happy and very confident that plant coming up in time and also starting of the production in time in line with the requirement of the OEMs.

That's it for me, and we are open to questions and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session.

Arvind Kapur: Till the questions come in, I can still continue. And on the defence side, we have started making the containers, the shooting ranges, which were required for defence. And this is for the Navy and the Army, and we started producing those. And the orders are pretty good, very healthy, and we should deliver the initial orders, which we received for about 45 -- 35 containers. Those will be delivered hopefully by March end. And we are bidding for another 100- 150 containers. So that would also get finalized before, I think, January or February.

Moderator: The first question is from the line of Bhaskar, an individual investor.

Bhaskar: Just a quick one on the defence side. In the last quarter, we mentioned that we would get some revenue, right? In that INR35 crores to INR40 crores revenue, which we're waiting actually to get invoiced to us. So that amount we received it or it's still pending?

Arvind Kapur: Yes. I had mentioned that we'll get INR35 crores in this quarter, the production has started. We've done about INR8 crores to INR10 crores, and this in fact gets covered in this particular quarter.

And so we are online as far as this is concerned and all the orders are in place and the inspection and everything is also carrying on. Enterprise, this is a challenge, making the containers and getting them approved in time before the end of the quarter, but that process is on.

Bhaskar: But last time, it has been communicated that we are kind of just waiting for the payment only, right? It's not a kind of passing...

Arvind Kapur: No. Not the payment. No. We never said that. We said that we should be able to have the turnover of this. We never said the payment. Payment comes in much later. But we are talking of the dispatches that will take place.

Bhaskar: Okay. In this case, like when we get the actual payment from the -- whatever we dispatch in this quarter and next quarter? Do we get any payment for this or we need to wait for the next financial year?

Arvind Kapur: No, no, we get 100% payment back, but the only thing is that it depends, there's a system of delivery, you get 80% payment on delivery, and then, after the inspection is over at the customer end, the final payment is received. So that's a cycle of almost about 3 to 4 months before the final payment comes in. But that is all defence -- that is a process they follow, so we are okay with that.

Bhaskar: Okay. That means it's most likely that we won't get any payment in this financial year, right?

Arvind Kapur: No, no. We'll certainly get payments in this financial year. We will certainly get payments this financial year also.

Bhaskar: I mean net full payment, I mean, to say.

Arvind Kapur: Beg your pardon.

Bhaskar: Because it's full payment, I mean, like 80%, we may get it. But to get the 100% payment, as you mentioned, like it will take 4 months, so we are already in mid-November, right?

Arvind Kapur: Yes. That's okay. So that's a cycle. I think we don't have a choice there. That's okay.

Bhaskar: Okay. Because we just want to get an idea, right, what kind of revenue we get because we are expecting like the next year, at least, from the defence, we'll get more good margins, then it will improve the overall margin, right?

Arvind Kapur: 1 minute. See, revenue, the billing will be full -- the full billing will be there. But the payment releases -- the revenue will be total. But the payment that is released is 80%, and then, they release 20%.

Bhaskar: Okay. What I mean to say like it won't improve the overall margins, right, for this year. That's what I mean because we are still not paid something.

Arvind Kapur: It will improve the margins also. It's only the cash flow thing that gets delayed by that thing. And our credit period from the government is 45 days only, but the whole process takes 3 to 4 months, okay? So that's normal...

Bhaskar: Okay. So actually, the net profit figure will be there, but the actual cash won't be there in our book.

Arvind Kapur: Yes. Actual cash takes time, yes. But the margins would obviously be captured when we do the billing. Yes.

Bhaskar: Okay. Okay. Yes. And the second thing is do you have any chance of actually getting into US new electric vehicle customers like Rivian, Tesla, or anyone we are approaching? Is there any way that you can.

Arvind Kapur: Can you please repeat your question again?

Management: Mr. Bhaskar, your voice is not clear. Your voice is not clear.

Bhaskar: In OEMs, you pretty much-covered everyone, right? You have touched going to Toyota, and all the big companies. But the new-gen electric vehicle companies like Tesla, Rivian, Lucid, are we by any chance, we had any contact with them to supply?

Arvind Kapur: We had already -- our discussion with Lucid is already taking place. And with Rivian also, our discussion is taking place. In fact, one of my colleagues was in Tesla about a month back, and we're visiting them, and we've already visited them. So discussions are taking place with all the customers.

Bhaskar: Okay. Okay. The main reason is like because Rivian actually is trying to change their suppliers, right? So that's the reason I asked. Even though they are not having big volumes now, most likely the volumes move from old OEMs to the new ones like you, right? That's the reason.

Arvind Kapur: So we are discussing for all the new programs, we are discussing with all the large electric vehicle makers, including Toyota and Maruti Suzuki also for the electric vehicles, which are in the future.

Bhaskar: Okay. And the last one is like how much will be that defence this year, the total revenue from the defence?

Arvind Kapur: We are estimating INR50 crores plus/minus INR20 crores. That's what we are estimating.

Bhaskar: Okay. From INR30 crores to INR50 crores, something like that.

Moderator: The next question is from the line of Akash Verma, an individual investor. Please go ahead.

Akash Verma: So as we see in Q2 FY '25, the revenue was INR580 crores, domestic was INR497 crores and exports were INR83 crores. So what would be the expected revenue from domestic and exports in Q3 FY '25 and for the full year?

Arvind Kapur: See, for the full year, the domestic would be in the region of about INR2,000-plus crores. It will be around INR2,100 crores. That's what we are estimating as far as domestic is concerned. And exports would be close to INR375-400 crores, around that.

Akash Verma: Okay. And will there be any improvement in the EBITDA margin?

Arvind Kapur: Certainly. We will be better than last year.

Moderator: The next question is from the line of Siddharth from Tenex Capital. Please go ahead.

Siddharth: So Sir, just that over the past few years, we've been targeting. At some point, we were looking at some INR3,000 crore kind of revenues with operating margins improving to an extent, being also aided by defence contracts. Now, obviously, last year, clearly, the revenues fell. And this year also, we don't seem to be -- I mean, what we've been guiding doesn't seem to be in sight. So how do we look at revenues from here, let's say, over the next couple of years, rest of FY '25 and FY '26?

And what are the kind of margins and what are the levers to our margins? You said we will be better than last year. We seem to be at closer to 10% bank for quite some time. Long term, we've been guiding at a higher number. So how do we look at this?

Arvind Kapur: Siddharth, good question. This year, our target is to be around 11% and possibly plus 11%. That's what we are targeting. And this is despite whatever is happening in the market here. We are getting a better share as far as domestic is concerned.

In the export front, unfortunately, the electric vehicles in Europe, they've dropped by almost 40%, and we are still trying to get compensation for all the investments we had done, and that would also add to the bottom line. We have been compensated to some extent, but we'll be getting further compensation for the investments we had done.

Having said that, we have also diverted some capacities from the export to the domestic so that we sweat our assets rather than just keeping them idle. And last time, I had mentioned to you that for FY '24-'25 and FY '25-'26, there would be growth of about 12%. These are the orders already in hand and I'm basing it on that. I'm not talking of the RFQs and the other orders that we have not received till now.

After that, the growth that is taking place for the orders which are in hand, where the production starts happening in FY '24-'25, FY '25-'26, FY '26-'27, FY '27-'28 and FY '28-'29, we are growing by almost about 8% to 10% with the orders already in hand. But we are very certain that by the end of the -- now if you look at the total orders we've already received till now, it's to the tune of INR490 crores on an annual basis.

This is the highest we've received in 1 year. We still have 4-5 months to go, and we are confident that this INR490 crores will get converted to almost about INR750 crores to INR800 crores. That's what our internal target is. And that is on an annual basis.

And I'm not saying that all this turnover will start coming from next year onwards. The turnover will start coming, okay, some next year, some the year after that. And having said that, then there are RFQs, which are pending, and our success rate has been close to 47% to 50% success rate that we have on the RFQs.

And if we take those into consideration, then we are growing by almost 15% to 18% every year. That's what the growth is, and we are close to INR5,000 crores by FY '29-'30. That's what we are targeting, and that's what we are determined to achieve.

That is also helping us to get better margins because there are a lot of exports in this also. And we are hoping that with the tougher policies of the U.S., where China Plus One is now actually taking shape at the moment. And we are hoping that -- we are getting more aggressive inquiries now for immediate shipments to take place. And exports definitely have a better margin, and we are hoping that our margin would also improve.

Our target is to cross 13% in any case. That's what our internal targets are. And that's the target that has been given by the Board also to our teams. Yesterday also, in discussion, this was the main discussion that was taking place that 13%, how can we do it sooner than later? So I'm not saying that we'll touch 13% after 5 years. What the target that the Board has given us that next year we should be crossing 13%.

Siddharth: But some path from 10% to 13%, it all sounds very nice. We haven't ever done 13%...

Arvind Kapur: Siddharth, no, it's not 13%. It is 11% this year. We'll be crossing 11% this year. So sorry, it's 11% to 13%.

Siddharth: Okay. Fair enough. And Sir, what is the progress on the defence side? It was looking very promising until 2, 3 quarters back, and we were looking at some reasonably big orders. And if my memory serves me right, you were saying that the margins in exports will be significantly higher than the 10%- 11% that we talk about in the overall auto business. So how do we look at this business over the next 2-3 years? What scale this can get to? And what could be the EBITDA margins?

Arvind Kapur: See, defence, we've been working in defence for almost 10 years now. And it's only now that the true orders have started fructifying. And the margins are a lot different than the auto industry in the defence. And when we tell you that we are going to do INR45 crores or INR50 crores this year, internally, our target is to cross almost INR75 to INR100 crores.

But we are only talking about INR45 crores, INR50 crores because we want to achieve those targets. Because in the defence, there are a lot of things we get delayed in the last minute. And so we don't want to make any promises now and land up in issues. And if you look at the bidding process that is on at the moment and where we are involved, with the orders in hand, the orders that we are talking or discussing, it's over INR300 crores to INR400 crores a year.

But at the moment, we don't have them in hand, so I don't want to give any commitment on that. But earlier, we were bidding at much smaller orders. Now these orders on the containers, shooting range is much higher.

Siddharth: Okay. So when we say we are not -- there were targets we had over the next...

Arvind Kapur: Yes. So, in defence, Siddharth -- just Siddharth, one minute. Like in the auto, we are fairly sure as to what the turnover is going to be and what the commitment of the customers is. And unless there's a geopolitical crash that takes place, like in Europe this time because of the Ukraine war and also the EVs were dropping absolutely, the auto sales have actually come down, unless something like that happens.

But in defence because it's not very -- we know we can get the orders, but when it comes to execution and actually getting approvals, etc, that sometimes can take a little longer. We are in it now, and we are confident that we'll also mature over time and be able to give you better commitments as far as defence is concerned.

Siddharth: Sir, finally, from my side, our revenues, which were closer to, let's say, INR2,160 crores last year or a little more than INR1,100 crores this year. Let's say, by FY '27, what is the number we should be looking at, if we get some sense of that?

Arvind Kapur: Yes, yes, yes. I'll tell you. FY '26-'27, the orders in hand already, which we are required to execute, we are in the region of INR2,920 crores. That's about close to INR3,000 crores. That's what the orders in hand are. And we are ready for the deliveries to take place.

Siddharth: So we are saying that FY '27, we should be INR3,000 crores in revenues and...

Arvind Kapur: We are a little short at the orders in hand, we are a little short of INR3,000 crores. We are INR2,920 crores to be exact, INR2,920 crores.

Siddharth: And you did at, let's say, between 11% to 13% margins. That is what...

Arvind Kapur: Yes. The Board has given us a target of 13% on this, 11% to 13%, Yes. So the year after that, we are close to INR3,200 crores.

Siddharth: Sir, we wish we get there because unfortunately, over the last couple of years, we've had some of these discussions, and unfortunately, obviously, the environment has also been difficult, but we've never been close to those numbers. So just wanted to just...

Arvind Kapur: Siddharth, these numbers I'm telling you are the orders in hand. I'm not talking of the RFQs in hand. The request for quotes are separate. If I total those, then we are close to INR4,000 crores. We are not talking about those. That we would give you as a surprise.

Siddharth: And this doesn't take into account anything meaningful from defence, just to clarify?

Arvind Kapur: No, no, no. It is primarily auto.

Moderator: The next question is from the line of Darshil from Finvest Advertisement. Please go ahead.

Darshil: Yes, my question is like, of course, we are seeing some pressure in the international market for the auto side. So looking for the next 2 years, are we focusing on the domestic side or we will again shift -- we will drive for push for more towards the international orders going forward, again, after once Trump comes into the White House? So we can see some auto side getting more boost, something like that because he's, of course, trying to put a tariff on China, even in the BYD section, so you can just give me some inputs on that?

Arvind Kapur: Well, I think President Donald Trump, who got elected, is already putting his stamp on a lot of policies which are taking place now. And there are a lot of changes that have already started happening in the world. He's been there only for 3, 4 days so far. And we see some better negotiations taking place in the Middle East as far as the war is concerned. And there's also negotiation taking place how Ukraine war can end. All that process has already started despite the fact that he's not taken over as the President.

But having said that, we also see a lot of excitement in the market here because of the pressure on China that he would like to exert, and also, he is being very friendly with our government and supporting our government. So I think that will also help the Indian market as well. Having said that, these political changes will keep on taking place, but we do get impacted, but our focus will always be in our customers, be it in the domestic market or the international markets.

The pressure we are exerting an equal amount of pressure for the exports as well as the domestic. And in fact, at the moment, the domestic market has grown faster than what we had anticipated. Okay. Our share of the business has grown faster in the domestic markets. There has been growth as far as 2-wheelers are concerned, and the car industry is also growing, even though we would hope that it grows at a much faster rate.

We expect it to grow by 10% to 12% this year. But let's see what happens at the end of the year because today, we are under pressure. But we are not leaving the domestic market or the export market as far as our market is concerned. So the focus is completely there.

Darshil: Okay. And are we doing any strategy to acquire some more market share on the domestic side as you are more focused towards the domestic side? And if you can just brief me about what the current market share we are having right now on the domestic side?

Arvind Kapur: No, if you look at the customer, wherever we were 50%, we are going to 60% to 70%. In Maruti, in some cases, we were 80%, and we've gone to 100% in some components. And where we were required to supply 70%, we are touching 100% in Maruti Suzuki because the other suppliers are not supplying. So, all that is happening. And so, we are increasing our share in domestic market, by and large, the big players have 2 to 3 suppliers.

And so they normally distribute 50% and 30% and 20% that's the ratio they normally have. And our second ratio is 70% to 30%. That's what they normally put in. But we have been able to exceed whatever the percentages that the Marutis and Heroes and others have set in. And we are still fighting for more. And we are working on that, and we are confident in that.

And then the other thing is some of the prime products that we have, some assemblies, where we do a lot of R&D, those products also we tried to push and give better performances and better quality. And to give an example, in the 2-wheeler industry, the clutch, we have a very -- huge R&D in that. We invested a lot in R&D. For the first 4- 5 years, there was only development that took place.

But now the results are coming in, and we are -- we have been able to get a better share from Hero as well as now Piaggio, the Italian company, has finally approved us. Japanese companies have approved us for the precision material that we are making. So we are making inroads everywhere, wherever these materials -- these special materials are and special components are.

Moderator: The next question is from the line of Bhaskar, an individual investor. Please go ahead.

Bhaskar: I just forgot to ask about the land parcel we are planning to sell. Is there any news on that?

Arvind Kapur: No. Bhaskar, at the moment, there is no development. I did mention last time that the differentials that we were getting was about INR300 crores to INR400 crores. And I don't think it is worth doing that because this is a huge plant. And we are looking at a differential at least about INR1,000 crores so that the shareholders also benefit from that. And we are working on it. The day we get it, we will dispose this off.

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

Arvind Kapur: Well, thank you so much. And I only like to give you the confidence that if you look at the results, the costs are under control. The raw material is a pass-through. So there's a lag at the moment. And so whatever raw material we consumed in the last quarter, that will be paid this quarter. And so the results will get even better.

So 11% is a very achievable target that the Board has also given us and our internal target is also to cross the last year's performance that we had. The Board has also told us to look at 13% and how we can achieve 13%. In fact, that's a presentation we need to give to the Board in the next quarter and with absolute firm steps to be taken and how further costs can be changed and improved.

You will see improvement in the electricity cost and the labour costs and other costs as well. And there's a lot of work that is carrying on. There's a Rico Production System that we've introduced where in many cases, we've been able to reduce manpower by almost 40% to 50%. And that we are doing across the board now. And we've done it in almost 30% of our production areas, the large production areas, and we are trying to implement it in all the other areas as well.

There's a lot of work that is happening and a lot of excitement that is there. And we do understand that the market is under pressure at the moment, but we are confident that we will exceed the expectations. It's like we had promised that if the second quarter is flatter, then third quarter has 7% growth, but we've been able to prepone that by one quarter. We did that growth in the second quarter itself. And we are hoping that we exceed whatever we are promising at the moment.

Thank you so much for attending the conference and taking the time to be with us. Thank you so much.

Moderator: Thank you, Sir. On behalf of Rico Auto Industries Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.