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RAIL:SEC:2024

August 23, 2024

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Sub : **Transcript of Conference Call held on 20<sup>th</sup> August, 2024**

Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 20<sup>th</sup> August, 2024 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 FY25 Earnings Conference Call**

August 20, 2024



**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:** **MS. HAZEL RATHOD – S-ANCIAL TECHNOLOGIES**

**Moderator:** Ladies and gentlemen, good day and welcome to Rico Auto Industries Q1 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 touchtone 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 Q1 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 Mr. B.M. Jhamb, 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. My name is Arvind Kapur and I welcome you all to the earnings call. The Indian economy fortunately is doing well, and the monsoons have been very good, and they have been more than normal and so we are happy about that. And we do see a traction in the rural markets as far as -- because of the monsoons. And we see a better pull of the 2-wheelers in the rural market, which is very good for us. And we also see that growth coming from our 2-wheeler customers.

The GDP has grown by 8.2% in the first quarter, which has been very good. And the unfortunate part is the geopolitical things which are happening around us, especially Bangladesh. At the moment, there is no direct impact on our company and/or in the auto industry. There are one or two Indian companies that have OEMs who have plants there, and who assemble vehicles there. We are still awaiting what could happen in that in the current circumstances.

If we look at the global geopolitical what is happening, we have been impacted by what is happening in the Middle East and what is happening in Europe. In

the Middle East, that has impacted our freight rates, mainly for exports to Europe as well as the U.S. and the time that it takes for our shippers to reach U.S. and Europe, that has also gone up drastically.

And if you look at the other impact we see in Europe is that the demand for the electric vehicles has really come down. What we have been told by our customers in Europe is that the demand will grow by almost 10% in this current year, but we have seen a 30% drop in the demand. So there's actually a 40% impact that has come in the electric vehicles in Europe.

That is partly because of the prices; and number two, the dependability on electric vehicles when it comes to extreme weather. In the U.S. this time there were extreme weather in Chicago and other places, the charging stations and others did not work. And the mileage that was promised by the OEMs, they were nowhere near that.

In fact, if the mileage offered was 400 kilometers, people barely got 100 or 120 kilometers for the full charging that had been done. So that led to a lot of disappointment, and then many customers are shifting from the electric vehicle to either hybrid and/or ICE engines.

In India, our inflation has come down to 3.54%, which is very good, this is better than the RBI targets. And we are hoping that we will remain below this. And what we see is that like I mentioned earlier, the rural market is improving. And so we see the sales of Hero and Bajaj and TVS their sales in the rural area have gone up and there is more pull from the customers.

From Hero and from others, we have also managed to get orders for newer components besides increasing our share of the current components. From Maruti also, we've gained more orders. We've tried to cover up the losses that we incurred in our exports by covering up in the domestic market and we are working still further on it.

The exports this year would be -- last year we have crossed about INR500 crores. That's the maximum export we've done per year. And this year, we would be less than that. We would be around INR475 crores to INR480 crores, but that's partly because some of the older models, which were running for last 10 to 15 years in the electric vehicles and -- 10 years in the electric vehicles

and in the ICE engine about 12 years, those have -- their life is over and the demand came down, but we have got the orders for the newer components.

So this year, we will be about INR480 crores, and next year the orders in hand and the commitments that are there from our customers and the preparation that we are doing is for almost INR600 crores. But having said that, we are monitoring the situation in Europe as far as the Ukraine war is concerned, if it remains limited to that extent, it would be okay. But if it expands, then of course, it would be a big challenge for the total industry.

And in the Middle East also, we are hoping that there would be some sort of an agreement between Israel and the Palestine and there would be less tension there. And if the war expands, then, of course, these figures could change. But at the moment, we have the orders in hand, we have got advances. We are preparing for exports of INR600 crores next year, and that will be the highest exports we would have ever done.

The other good thing that is happening in India is that the acceptability of the hybrid vehicles. And as you know, your company was the first company to make the hybrid components for Toyota and Toyota and Maruti Suzuki are expanding.

UP government has given some discounts on the hybrid vehicles and -- for the sale of hybrid vehicles in UP. And we are hoping that other states will also do the same even though there's a major opposition from the other OEMs, especially the ones who do not have technology for hybrid vehicles, that's Tata giant and Mahindra giants and they are obviously opposing it.

But we are hoping that the traction there's a big demand for hybrid vehicle, there's a big waiting for hybrid vehicles. And we are hoping that the future would be in the direction of hybrid vehicles, and that would go in our favor.

For that, we did make an announcement in the last meeting that we had bought land in Hosur, close to Bangalore. So closer to our customers, located either in the Hosur area and/or in Bangalore, that's Toyota and AISIN and other people who are there. So we've set up the plant there.

And on the balance sheet side, I would like to tell you that the profits have come down. The EBITDA came down primarily because the raw material prices have gone up, aluminum prices went up by almost INR20 to INR30 a

kg. And in some cases, special aluminum went up even more. So there is a lag of around about INR9 crores, which we will get covered up in this particular quarter.

And so that is one. And again, there's one -- another figure of retrenchment compensation on the workers in Dharuhera plant, there were 49 or 50 workers who were left there and we were unable to use that land and building, which is there at Dharuhera. There was no manufacturing going on there.

And we thought that it would be better that we utilize the space for manufacturing rather than just keep it empty. So we have settled with these workers and now everything is over there. This figure will not be repeated ever again. And we are going to use that facility at Dharuhera for expansion of our RFL, where we make the oil pumps and water pumps and also we'll further enhance the capacity of the pump making in that area. Those are my opening remarks and I'm open for questioning.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sanjeev Damani from SKD Consulting. Please go ahead.

**Sanjeev Damani:** Sir, first thing I want to know is regarding the facilities that now we have opened for manufacturing of components for Toyota. For that plant and machinery, how much capacity it is running now and how much revenue it has generated in the last quarter or is likely to generate in this quarter? Kindly reply, sir?

**Arvind Kapur:** Yes, just a minute. What we are manufacturing in Chennai for Toyota, that is the first facility we have set up. Okay, that facility was primarily for Renault Nissan and then we expanded the facility there for Toyota. And there, at the moment the utilization is about 56% -- between -- it varies between 56% and 58%. There were some models to be introduced by Toyota which they postponed to January and April next year. And once those come in, then, of course, the utilization will be around 80% in the Chennai plant.

But the further capacity that we are talking about Hosur, that is also for Toyota and for their ancillaries, which is Aisin and the others, and that plant primarily would be for the Toyota. And there the orders that have been received is

already to the tune of about INR350 crores and that we would be manufacturing partly in Chennai and mainly in Hosur.

**Sanjeev Damani:** Okay. Sir, if I rightly heard INR350 crores, kindly confirm because the voice was breaking?

**Arvind Kapur:** So the Hosur facility, the new orders which have received are for INR350 crores.

**Sanjeev Damani:** Okay, sir. And what will be the execution period? Is it for 1 year or quarterly basis or how it is going to be?

**Arvind Kapur:** In 2026 we start the production in Hosur and the peak value would come in 3 years from the date of start.

**Sanjeev Damani:** Okay. Got it, sir. Sir, one more question. We have also mentioned that we are going to manufacture a lot of parts for electrical vehicle as well. So is it for 2-wheeler, 3-wheeler and 4-wheeler also? That is my first question. And second question, how much turnover we derived in last quarter from electrical vehicles part and what we are going to get from this quarter onwards?

**Arvind Kapur:** So, we are primarily supplying parts for electric vehicles, primarily to BMW and we were supplying to Stellantis that is PSA and also to Renault Nissan. Renault Nissan is the smallest and we also have orders from the Tata's for the electric vehicles. And the turnover has actually come down, I'm talking about pure electric. But if you look at the hybrids it has gone up. And we regard hybrids and electric in the same category, we call it as electrification.

But this year the exports to BMW and Stellantis has come down by almost 30%. Whereas the anticipation was there would be a growth of 10% this year. And this is primarily because of the preference of customers in Europe for more dependable vehicles which are the hybrid vehicles.

**Sanjeev Damani:** Are the parts same for electrical as well as for fossil fuel engine-driven vehicles or they are different?

**Arvind Kapur:** See, the part is designed specifically for a vehicle, but the equipment that we use is exactly the same. The equipment that we use for die casting or machining or for testing or assembly or whatever is totally fungible. We shift the machines from one end to the other end depending on the volume that we get from customers.

- Sanjeev Damani:** Okay, sir. Thank you very much and all the best for the current quarter and future quarters. As you have mentioned that now you have revised prices upward from last quarter, so recovery of cost will be there. So I think here onwards, our margins will improve. Am I right, sir, my understanding?
- Arvind Kapur:** Yes. See, we've not revised the prices. The prices automatically get revised every quarter. So there's a lag of the pricing as far as the aluminum part is concerned. And so the last quarter prices we get for this quarter quantity supply, so that is what happens.
- Sanjeev Damani:** Okay. So there is some cost-plus basis arrangement with the OEMs? Is it like that?
- Arvind Kapur:** It is only the indexation of the raw material.
- Sanjeev Damani:** Okay got it, sir. Thank you very much, sir. You guided me best. Thank you very much.
- Moderator:** Thank you.
- Arvind Kapur:** This is Arvind Kapur, again. I'd like to add one more point here. Last year, the whole year, we picked up new orders to the tune of about INR450 crores a year. And in the first quarter of this year, we've picked up new orders for another INR458 crores in the first quarter of this year. These are the new orders. Some of them we would start supplying by the end of the year or the end of the last quarter. but most of them would come in the middle or the next year end onwards. So in another 2, 3 years' time there's an addition of almost INR805 crores per year to the manufacturing.
- Moderator:** The next question is from the line of Ashish Jain an Individual Investor. Please go ahead.
- Ashish Jain:** Good evening sir. This is Ashish, and my question is to Mr. Arvind, sir. Sir, I would like to ask a question when our company is going to achieve INR5,000 crores revenue per annum? And when our net margin -- net profit margin would be 5%? Are we satisfied with what we have achieved or what we have been achieving or we are looking for more? If yes, then what we are thinking about that, what we are planning about that? And if we know, then why we haven't thought about that?



**Arvind Kapur:**

We are obviously not happy with whatever we did in the last quarter. But that quarter if you remember, I did announce in the last quarter that the improvements will start happening from the second quarter onwards of this year. And you'll see from this running quarter onwards.

As to your question of INR5,000 crores, I have the figures in front of me. The target is by FY 28-29, we should be in the region of about INR4,800 crores to INR5,000 crores, this is FY 28-29 and this is based on the orders in hand and the negotiations which are going on for the further orders that we are earlier expecting.

And what we have considered is only where we have 50%-plus surety that we would get those orders. So we are working on that. And the margins, we have been making investments and our turnover this year technically we should have been crossing INR2,700 crores-INR2,800 crores.

At INR2,700 crores- INR2,800 crores, our margins would have been around 4% to 5% as is. But that has got delayed primarily because of some of the programs which got canceled and some of the programs which got delayed. And -- but this is the nature of our industry. Toyota delayed some of the -- introduction of some models. And so the investments that we have done and those were obviously -- of course, we keep on asking the customers for some compensations on whatever delays there are, which is very tough to get, but we keep on trying to get those.

The disappointing part was the -- we were very happy that we are supplying these electric vehicle components to BMW and Stellantis, the disappointing part is that the market of electric vehicles in Europe has just come down by 30% to 40%, partly because there are some subsidies which have come and partly because of the satisfaction of the customers -- the satisfaction of the final user of the electric vehicles. So that has been a little disappointing.

So those are the capacities which are lying vacant. But fortunately for us, because we have flexibility in our system, we have been able to utilize those capacities for our domestic customers like for Maruti and for Hero, and we'll be using it further for the other customers as well. We do, but of course, the problem is that there's always a lag in taking advantage of that situation.

So INR4,800 crores to INR5,000 crores for FY 28-29 that's what our internal target is. That's the figure that we've given to the Board also and that has been approved by the Board. So this margin, if you look at it line-wise, there is an improvement everywhere. Our costs are coming down. We may be able to curtail and control the cost. In the raw material, it is primarily because of the price increase, which is a lag effect which we'll get in the next quarter in any case.

So next quarter, if the aluminum prices remain constant or if they come down, we get an advantage in that, but we get a better price of the raw materials. This is what happens.

**Ashish Jain:** Okay. May I ask you, sir, another question? Am I audible?

**Arvind Kapur:** Yes, please carry on.

**Ashish Jain:** Sir, I consider you -- sir, you are one of the greatest in this industry and you are the veteran of this industry. What you are seeing in the future, sir, of this industry? Like I want Rico in top 3 of the nation. And what do you think about this? Can we take Rico in top 3 in the next 5 years?

**Arvind Kapur:** Top 3 in what? The type of components we produce, certainly, we would be amongst the top as far as the variety of components or the type of components that we specialize in, and we are expanding our R&D capabilities and also our improvement in manufacturing and improvement of profitability in those particular type of components.

So as far as aluminum part is concerned, we are probably the largest in India for die casting and machining. And the orders that we are getting are all, they are not in the 12%, 13% range of EBITDA, they are in the range of 18% to 20%. That's what we are targeting. And so we have been a little slow in getting the orders, but now there is aggression. There's China Plus One also happening, and we are taking advantage of that, and that's how we are -- we have been able to get this INR450 crores orders in the first quarter this year. And we are hoping to pick up another INR400 crores of orders before the end of the year.

So we are talking of almost INR900 crores per year turnover orders that we'll pick up for the domestic as well as the export market this year itself. This will be the highest that we would have ever got confirmation for, for the new order.

So we are working on it, and we are working on all quality products and also with customers which are the best.

We had talked about companies like BMW, Knorr-Bremse, Cummins, Mercedes-Benz, we are talking about all these big players as far as exports are concerned. In the domestic market, we are expanding our capacity with the Maruti and Hero and Toyota. Toyota is going to be a very, very important customer and probably the largest customer in years to come.

And Renault Nissan has really let us down. We set up the Chennai plant only for Renault. Their sales seem to be dwindling and they keep on promising that this don't happen every quarter. But -- so what we have done is, we have started shifting -- we have shifted and we have started shifting further some of the components from their lines to the other line.

But unfortunately, there are some large capacity machines, which are lying vacant, and those also will fill up. We are looking for newer orders for those. And those are probably going to be in allied lines and of different lines that we are looking at. Ashish, are you -- is it okay?

**Moderator:** Yes, sir. Mr. Ashish has been disconnected. We will move on to the next question, it's from the line of Akshay Sharma.

**Akshay Sharma:** Would you like to help me know the update on the defence segment?

**Arvind Kapur:** Yes. Okay. At the moment, we have orders for the Ranges, I think I've mentioned this last time also. And I think this quarter onwards, the shipments are taking place, and I think INR35 crores to INR40 crores worth of goods will be dispatched in this quarter itself. And then there'll be further -- every quarter, you see some change happening on those. And these are for the Navy as well as for the Air Force and also we're getting newer orders from the other forces as well. So we're working on those fronts, and we see the traction taking place now.

**Akshay Sharma:** Yes, that's it from my side. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Neha Sharma, an Individual Investor. Please go ahead.

**Neha Sharma:** In the start so one just small question. So in the Defence segment, the quarter seemed quite stagnant. So can you throw some light on the same?

**Arvind Kapur:** This quarter, we'll be dispatching. These are defence when it's ready for inspection and this and that, it takes a month or two. So all that is happening. So anyway, things are lying ready and under inspection, and we would be dispatching them immediately. You have to take the average -- you might not be able to take the turnover month wise or even quarter wise because overlap will go to the next quarter.

**Neha Sharma:** Okay. And sir, one more question. How do you see it going ahead 2, 3 quarters down the line?

**Arvind Kapur:** You're talking of defence or you're talking of in general?

**Neha Sharma:** Yes. For the defence segment.

**Arvind Kapur:** This year, we had initially said that we'll be doing about close to about INR50-INR60 crores this year, but I think we'll cross that and next year would be even higher. Next year would be, I think, double that. So we're looking at the defence is looking up now, shaping up now. It's a mindset change of the defence authorities, placing the orders with the domestic industry and accepting them. And so that is changing now. We see that also and they are looking for Make in India products now.

**Neha Sharma:** Okay. That's it from my side. Thank you, sir.

**Moderator:** Yes, sir, there's a question, it's from the line of Sunil Nagpal from Lotus Investments. Please go ahead.

**Sunil Nagpal:** My question is what would be the margins on the defence front, whatever production we are expecting in the next 2, 3 quarters, to start off it?

**Arvind Kapur:** Okay. When I say defence, there is some machining component where the margin is under 10%, is about 9% to 10%. And then the -- we have got other components we are talking of, there the margin is in the region of about 15% to 18% to 20%, depending on what item we are supplying. And so that's the range that we are working on. And as the volume picks up, the margins also will get further fine-tuned.

**Sunil Nagpal:** So on an average, can we assume 15% across all the defence products?

**Arvind Kapur:** Yes, it will be -- yes, 15%+.

**Sunil Nagpal:** Average, yes.

**Moderator:** Yes, sir. There are no further questions. I would like to hand the conference over to the management for their closing comments.

**Arvind Kapur:** So in closing, I'd like to say that this particular quarter has been a little disappointing. And -- but we had mentioned in the last quarter conference call that we will see the improvement coming from the second quarter onwards. In the second quarter, we expect the sales to go up by further this quarter, we went up by 5%, but next quarter, we expect another about 7%, 8% increase and the quarter after that, we expect another 7%, 8%; the last quarter, the increase is almost 20%.

And this is as per the current manufacturing schedule that we have from the customers. Further on this by getting the largest share of the business and also newer component, which can be started immediately, both with Maruti and Hero, and with Bajaj, which are the fastest to start with.

For the exports, it is almost a 6 months to 1 year cycle before the components actually come into production from when we get the order to the first supplies. And -- but for the domestic market, some of the customers, we are able to push some of the components. We are very happy that last year, the -- I'm repeating it.

Last year, the total orders we received were INR450 crores per year to be supplied, and this year, in the first quarter, we've been able to manage INR458 crores, and we are hoping for another around the same amount, INR450 crores to INR500 crores to be added further to this. So this is probably the highest number of orders that we would have picked up.

Now when I say order means confirmed, picked up and this -- in case dies and other equipment are required, advances are given to us. And the deliveries for it would start, in some cases, starting in the first -- in the last quarter of this year, but most of them would start in the middle of next year and the year after that.

So we have orders for FY 25-26, we have orders for FY 26-27, where the production deliveries actually start on them. We are very happy that these orders have come in, and these are all good margin orders and they are new

orders and the -- and for high-technology stuff. For exports, this year, we'll be touching about INR475 crores, INR480 crores.

But next year, the orders that we have in hand and the deliveries that we are required to give, we will be crossing INR600 crores next year. And that would be a substantial jump for the exports. We will very much cover up for the losses in the components like PSA and others where the drop has been drastic. And let's hope the market improves and let's hope things calm down in Europe and the electric vehicle market again picks up.

And we have bid for many electric vehicle components for BMW and others as well. And we are getting orders for those as well. But the thing is, are they going to pick up the quantity that they are promising today, that is one big question that is coming to our mind. So we are being a little cautious when it comes to investment as far as the electric vehicles are concerned.

But on the hybrid, we are very excited about those and very excited about the confidence and faith that Toyota is reposing on us over the Japanese companies which are in India. And we won these orders in competition with Japanese suppliers. And we are all very excited about it and are very happy about the confidence of Toyota on us. And that's all but let me tell you that this current quarter will be better and the quarters that you will see from now onwards will be even better. Thank you so much.

**Moderator:**

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