

**RICO AUTO INDUSTRIES LIMITED**

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Sub : Transcript of Conference Call held on 13th February, 2020

Dear Sir/Madam,

Please find enclosed herewith the transcript of Conference Call held on 13th February, 2020 with the Investors.

This is for your information and record.

Thanking you,

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


B.M. Jhamb
Company Secretary
FCS : 2446

Encl : As above



**“Rico Auto Industries Limited
Q3 FY2020 Earnings Conference Call”**

February 13, 2020



**ANALYST: MR. SAURABH BHAVE - S-ANCIAL TECHNOLOGIES
PRIVATE LIMITED**

MANAGEMENT:

- 1) MR. ARVIND KAPUR - CHAIRMAN, CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR**
- 2) MR. O.P. AGGARWAL - CHIEF FINANCIAL ADVISOR**
- 3) MR. SANDEEP RAJPAL - VICE PRESIDENT**
- 4) MR. RAKESH SHARMA - CHIEF FINANCIAL OFFICER**
- 5) MR. B.M. JHAMB - COMPANY SECRETARY**



Moderator: Ladies and gentlemen, good day and welcome to the Rico Auto Industries Limited Q3 FY2020 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. Saurabh Bhavnekar from S-Ancial Technologies. Thank you and over to you, Sir!

Saurabh Bhavnekar: Hello, Good Evening. This is Saurabh Bhavnekar on behalf of S-Ancial Technologies welcoming you all to Rico Auto Industries Limited Q3 FY2020 earnings conference call. From the management we have Mr. Arvind Kapur – Chairman, CEO and Managing Director, Mr. O.P. Aggarwal – Chief Financial Advisor, Mr. Rakesh Sharma - CFO, Mr. Sandeep Rajpal – Vice President Marketing and Mr. B.M. Jhamb – Company Secretary. Now may I request Mr. Arvind Kapur to take us through his opening remarks subsequent to which we can open the floor for Q&A session. Thank you and over to you Sir!

Arvind Kapur: Good evening. My name is Arvind Kapur. I welcome you to today's conference call. Let me talk about the industry first. I think we are all aware that the industry is going through a tough phase and for the last two quarters we were hoping that the next quarter would be better than the previous one but it has been more and more challenging. Earlier it was because of various confusions that was created by some government officials regarding the electric vehicle then again the confusion on BS IV and BS VI vehicles but the BS IV vehicle would be allowed to be sold, and now of course the transition will take place from next month onwards and this quarter there is a lot of pressure on discounts primarily because the people are waiting right till the end of March so that they can maximize the discounts they are able to get for the BS IV vehicles.

What we feel is the confusion that is created by the electric vehicles, the announcements that were made that has toned down slightly and now people are clear in the mind and the government also clear in mind that the electric vehicles will take longer than what the government has predicted they wanted about 50% of vehicles to be electric by 2030 which is very very difficult to achieve. We in Rico feel that the ratio of electric vehicles by 2030 would be above 20% plus minus 5% that is what we feel it would be but I would not call it electric vehicles I would call it electrified vehicles, these also include hybrid vehicles and hybrid will also pick up steam and more and more vehicles of hybrid will be sold in the market.

This will happen and then there would be new technologies which will also come in by the year 2030. There is a lot of changes and developments that would happen and it will take a longer period for the electric vehicles to come in primarily because of the infrastructure to be created and also getting the costs down to the level of the vehicles which are normally bought by the customers in India where bulk of the vehicles are sold.

This quarter will be tough and now because of the Coronavirus which is happening in China and impacting the globe, what ultimate impact it will have I think we have all still trying to judge but we all feel that it will have a major impact (a) it could be the lot of logistics that will be impacted, lot of imported components which comes in from China those would get impacted and not necessarily the mechanical components even the electrical and electronic components which comes from China, a lot of raw materials like silicon and other things which come in from China so all this will have an impact but we are all still trying to see where all it would be impacted and it all depends on how long it is going to last, it is estimated that for the next five to six months we might not be able to control it but we are hoping for the best and we hope that the next one or two months there will be something found which can help the corona patients.

Coming back to the Company, the turnover of the company, we have been able to sustain it, our drop has not been too much if we compare it to last year on a consol basis. For nine months our total revenue has gone up slightly. We are at Rs.1085 Crores and our exports have also gone up. Like I had said in the last meeting and the meeting before that and the export order that we get this year are normally for 2021 end or 2022 beginning so that is the cycle of the export orders.

If you see our exports coming up primarily because of the components order we had won two years back and the investment we had made for the year-year and a half time and that is why you see the exports going up also. Our domestic sale, if you look at the domestic sale as far as some of our current customers in the motorcycle, there our sales went down that is primarily because our customers motorcycle trade is about 16% lesser in the market than the previous year. The car industry is also not doing too well. That is also in the range of about 15%-16%. Commercial vehicles are again down at 22% so whatever our supplies are to the engine makers, who supply to commercial vehicles those are impacted but having said that, we have been making investments in the last two years and so with the newer customers like KIA and PSA etc, and so there we are fortunate that the sales are growing well and we are part of that growth story of these companies and that has also helped us in the domestic market.

So we have been able to maintain our sales and the exports also we have been able to do that, but one promise that we had made we will cross Rs.2000 Crores this year that in the last meeting I did say it will be about Rs.1700 Crores but it appears that we will not be able to cross more than Rs.1500 Crores this year. We are sorry for that and our teams are putting a lot of effort, the new components are coming in and those are fortunately doing well but the current components of the older customers there of course the challenges are there and sooner the market improves the better would be for us to recover as well.

I did mention that our focus is exports, and we had mentioned last time that the total orders that we have in hand that we have been able to get for new vehicles as well as some of the replacement vehicles as well, when I say replacement I mean from BS IV to BS VI some of the components are actually gone for one to the other and that the total components that we have got is about Rs.5900 Crores, so the total order we have got this year Rs.1300 Crore and in that the new vehicles are Rs.965 Crores and the replacement is about Rs.355 Crores. This is the annualized peak value but if I look at the program value it is Rs.5900 Crores is the total value

that we are in at the moment which are confirmed order where we received some advances in some cases we have received the letter of intent and we only hope that the global markets are not impacted for too long with the Coronavirus.

The profitability was impacted in this quarter and in the last quarter and the quarter before that also primarily because of the premium freights we have obtained for the new components we have developed and we were behind schedule as far as the price are concerned. So we have to push sales by air and we continued doing that; however, it has reduced a lot in the last quarter and this quarter again it will reduce further and we are hoping by March end, April middle we would get out the premium freight that we are paying which has directly impacted the bottomline. The total air freights alone in the region of about Rs.11 Crores I am talking about the difference between the sea freight and the air freight. So that has impacted our bottomline as well.

In the meanwhile, we have started a Pathredi Plant. The production has started and Toyota is our main customer there and besides Toyota we also have Musashi and other customers, Renault from where we are supplying and the other plant which started was the Halol Plant that has primarily for the CBS, the combined breaking system for Hero and we supply to their plant in Halol. We are expanding further in Bawal and also in Chennai. These are the two plants where we are expanding. The Board had sanctioned Rs.112 Crores for this year. The total investment that we will make this year will be in that region only.

Our oldest plant is Dharuhera and we are struggling there that has pulling us down, in fact last year we incurred a loss of about Rs.25 Crores and so we have decided to take drastic actions in the next meeting I think we should disclose what all is happening there and we should be able to get over this loss that we incurred under that particular plant. This will again impact our bottomline.

The capex for the years to come now we would be in the region of the depreciation that we have, the last three years our investment has been fairly higher primarily because of the new class of components that we are getting and mainly the component which are produced on 2700 very large die casting machines and there would be very few of them in India and so our investments have been mainly on those large machines. We would be getting one more machine in that class so that we are out of the normal competition that we face on a daily basis on smaller die-casting machines.

On the monetising front, the Gurgaon land that we had spoken about earlier we have professionals in place, getting all the documents and everything perfected and that the market of course situation is pretty poor at the moment, we do not have any, we have not really come to the market and hopefully the markets should improve within a year or so and then of course we will get aggressive on that front as well.

That is it from me and open to questions.

- Moderator:** Thank you Sir. Ladies and gentlemen we will now begin the question and answer session. We have the next question from the line of Vaibhav Sanghavi who is an individual investor. Please go ahead.
- Vaibhav Sanghavi:** Good evening Sir. Sir the question I have is that the oldest plant which you have mentioned, I just missed the number that what was the total loss last year as well as the loss number for the current nine months?
- Rakesh Sharma:** Last year it was in the region of about Rs.35 Crores, last to last year was Rs.35 Crores.
- Arvind Kapur:** Last year was Rs.30 Crores and this year we are estimating a loss of about Rs.25 Crores and which we will make it zero hopefully by May end.
- Vaibhav Sanghavi:** The other question I had from the electric vehicles point of view how many components total we supply for electric vehicles?
- Arvind Kapur:** At the moment, we have three customers where we supply electric components and those are very prominent ones BMW, PSA and Renault.
- Vaibhav Sanghavi:** What my question is that, how many components we supply for electric vehicles?
- Arvind Kapur:** Around 12 components as of now.
- Vaibhav Sanghavi:** Any plans to sort of increase this?
- Arvind Kapur:** Yes, of course the focus is well and at the moment we are supplying component we are also looking at the prosperity of supplying system so for their assemblies so we are working on that.
- Sandeep Rajpal:** Because these 12 components also have different volume ranges from 150,000 till 350,000 so which some have started this year and some would be starting in April and some starting next year. So it is a mix and parallelly we are working on more programs with our customers at the quotation stages so many programs are under discussion in the pipeline also.
- Vaibhav Sanghavi:** Would you be able to give some kind of sort of idea about the EBITDA margins so EV component versus non-EV component?
- Arvind Kapur:** We have not done it individually, but they are better price primarily, see the other components that we supply for IC engine and the component that has to do with, those are large volume half a million – a million, in this case the volumes are less and with lesser volumes obviously the prices are little higher.
- Vaibhav Sanghavi:** So margins are higher in EV you mean?
- Arvind Kapur:** Yes, definitely.

- Vaibhav Sanghavi:** By what percentage is there some rough idea?
- Arvind Kapur:** To be honestly it is around 7% to 10% higher than the other components.
- Vaibhav Sanghavi:** In this margins, like this kind of a gap?
- Arvind Kapur:** The margins are low, then provided to pick up the quantities that we are promising that is the challenge.
- Vaibhav Sanghavi:** Currently with the current volume that you are saying is about 10% higher so if we improve the, if the volumes are increased in future this margin will increase further?
- Arvind Kapur:** Well the volumes go up then the customers are demanding more competitive prices, so we pickup larger variety of component that is what our intention would be. This pricing is always the fight between customer and us, so I mean like our attempt is always to be around 20% and what we land up that is second story but our attempt is always to get a better price.
- Vaibhav Sanghavi:** Understood. Sir one last question is that for Hero the Q1, the Hero had 7% growth and Q2 they had 7% decrease but our share of Hero was 11% up in Q1 and 7% down in Q2 so where does it stand in Q3?
- Arvind Kapur:** Overall, Hero if you talk about nine month basis they are down by almost 13%-14% and considering the kind of components that we are doing and we are in the process of migration from BS IV to BS VI in BS IV we had some limitation in certain plants where we were supplying, we were only supplying to one model and now in the BS VI we have been able to capture multiple models so going forward I think this year despite Hero being lesser our percentage would be not as much this but is still better off based on whatever we have been able to harness till now.
- Vaibhav Sanghavi:** Can you give me the number for Q3 that how much down they were and what was our share?
- Arvind Kapur:** Q2 as compared to Q2 they were down by almost 10% or 11% while we were down by around 10%. Even if Hero does same sale as last year our sales for Hero will go up, that is primarily because we are getting into larger bunch of components and also one additional is the clutches and where earlier we had a JV but now we are independent and the cooling off period will also over and we are working on a much larger share of clutches now and that would have a major impact on the sales to Hero. Also definitely part of the in-house R&D that we have actually spends in the last three years on the clutch.
- Vaibhav Sanghavi:** Good to know. Thank you Sir.
- Moderator:** Thank you. The next question is from the line Utkarsh Modi from Mody FinCap. Please go ahead.

- Mukesh Modi:** This is Mukesh Modi. Sir, can you please give the split between export and domestic this quarter?
- Arvind Kapur:** This quarter the exports are Rs.88 Crores and the second quarter it was Rs.76 Crores and nine month consol Rs.253 Crores.
- Mukesh Modi:** Sir and this rate of depreciation should continue for this quarter also?
- Arvind Kapur:** Yes.
- Mukesh Modi:** Because what has happened Sir if you analyze quarterly performance the entire benefit of the raw material cost have been eaten away by other employee for other expense and all this things. So ultimately on EBITDA level we are quite down as compared to Y-o-Y basis?
- Arvind Kapur:** See the employee cost is primarily is the addition for the, we try to keep the employees three to six before we start supplying so basically training the people and also the customer comes and audits all that and this is all for the supplies that is going to start commencing from April onwards and in some cases they have already started and also so that is the reason you find in Bawal plant and in the plant in Chennai, there is increase in manpower and Pathredi is a new plant so that is where the additions also there and there is a reduction, if you look at plant wise our high pressure die-casting plant there we produce almost 150-170 people and if you look at Dharuhera we have already reduced about 111 people and our next target is 257 people. So that exercise is going on and the manpower increase is primarily wherever business has grown or is going to grow. So if you look at the sale impact that will happen both this year and next year, in Chennai this year we receive Rs.180 Crores, I am talking about Chennai alone and next year we would be achieving Rs.300 Crores. If you look at our Bawal facilities these are the two plants which are mainly expanding, there this year the sale would be Rs.265 Crores and next year it will be over Rs.400 Crores.
- Mukesh Modi:** So the main benefit of the same will come in next year for this manpower addition?
- Arvind Kapur:** So you are seeing the manpower this time and other is Pathredi which is a brand new plant and there the new people who have actually come in. So that production started from the January 1, and you will see the impact of this coming this year onwards. It is important that we have customers like Toyota and Renault there in our Pathredi plant and in our Chennai plant we are fortunate that our customers are doing well, KIA is doing very well and so we are sole suppliers to them.
- Mukesh Modi:** Sir on Pathredi plant what kind of money we must have invested by this time?
- Arvind Kapur:** Till now we have invested at about Rs.60-65 Crores in Pathredi.
- Mukesh Modi:** What is the revenue from Pathredi plant on this quarter Sir?
- Arvind Kapur:** It was just started from first of January.

- Mukesh Modi:** So it must be negligible then?
- Arvind Kapur:** Yes, at the moment it is negligible next year Rs.40 Crores and the year after that is about Rs.100 Crores.
- Mukesh Modi:** Sir another one, the charges which you were telling about the air lifting I think all the other expense which are increased only because of that?
- Arvind Kapur:** Yes.
- Mukesh Modi:** So that is going to be last only for this quarter then onwards it would not be there right?
- Arvind Kapur:** No not at all. We do not like it.
- Mukesh Modi:** Even we also do not like it Sir. It fall the bottomline.
- Arvind Kapur:** We are sorry for that but we are getting out of it.
- Mukesh Modi:** Lastly Sir about the margin, we were gaining for about 11% -11.5% to 12% kinds of margins still we are on 9.3% so how would you see that?
- Arvind Kapur:** We were very confident around Rs.1700 Crores this year and because the investments are there people are there the engineers are there and so that sale loss which is come in that has actually impacted the margins. We would have crossed that whatever we had mentioned we would actually cross this. But hopefully Coronavirus does not impact too much, if it impact too much then of course it is going to be another challenge but otherwise I think we are on the right track.
- Mukesh Modi:** Sir this corona does it impact us also to a great extent?
- Arvind Kapur:** See directly does not but indirectly does, now aluminum alloy we buy, the alloy people get silicon from China, they supply 95% of the world requirement so the silicon is not coming from China, how you are going to make the alloy so these are some supplies that will start coming in. But there is plenty of stock in the market but this is one of the things that I am just aiming and some of the companies are buying electronic components from China and if those components stop coming here for sometime then the car production will come down, the motorcycle production might come down.
- Mukesh Modi:** So indirectly it will have effect.
- Arvind Kapur:** Yes. Otherwise for us it will really a matter because we do not import anything from China however we are exporting some components to China and that will be postponed for some time, but by and large but directly all its export front that we would be imagine.
- Mukesh Modi:** Okay got it Sir. I think that is it from my side. Thank you very much Sir.

- Moderator:** Thank you. Next question is from the line of Vaibhav Sanghvi who is an individual investor. Please go ahead.
- Vaibhav Sanghvi:** Can you tell us that what was the total loss due to the air freight in this year so far and how much more do you expect till it lasts?
- Arvind Kapur:** See the total would be at the moment is Rs.11 Crores and the total would be in the region of about Rs.12-12.5 Crores. We had mentioned Rs.15 Crores in the last concall but we have been successful in recovering some costs from our customer and we are still talking to our customers to recover more fund. But at the moment we have taken that as a part.
- Vaibhav Sanghvi:** Okay. Sir how KIA is doing and how much revenue we had from KIA in Q3?
- Sandeep Rajpal:** Currently all this programs that we are supply to all those are export programs so basically right now what is happening all the cylinder blocks that they are making the engines and they are exporting those engines to Europe and other locations the current vehicle that they have started to manufacture in India Seltos for that currently the engine block and all this being imported from China. We are working on the development of that and by April-May we will be starting those parts also so we will be single source for all the engines vehicles that they will make in India and also some of those will be supplied to Hyundai as well. Only the new vehicles that they have recently launched Carnival that is big SUV in the lines of similar to Toyota, Innova and may be slightly bigger but for that the volumes are not very high so they will be importing the engine or the key component for that because of the volumes will not be very high but overall for the all high runners and the future coming model we will be supplying the block for them.
- Vaibhav Sanghvi:** The last question, Sir could you tell us that have we started getting orders for the wheel business? I think we are planning to launch wheel business right?
- Arvind Kapur:** Aluminum wheels we are supplying for a long time and what we had mentioned was we expect a substantial increase in the business there primarily because we were adding another customer, now that customer because they hold two wheeler markets in India crashed by 15%-16% they had plenty of stock of those materials and commitments to the current supplier. So now I think some of those suppliers are from China and so one of the impact could be that this will get transferred, I am not going to say thanks to Coronavirus, we do not like Coronavirus but that could be an impact on us.
- Vaibhav Sanghvi:** So that would be a positive impact which is not started yet but you might get the orders?
- Arvind Kapur:** No, wheels have approved, everything is done, capacity is created. We have already invested in it. So we are ready to do, so at the moment we are supplying to companies like Bajaj and Honda and we are adding other customers.
- Vaibhav Sanghvi:** Thank you.

- Moderator:** Thank you. The next question is from the line of Sandeep Kumar Verma from Axis Bank. Please go ahead.
- Sandeep K Verma:** Just wanted to check on the expenses which you had incurred because of some of the consignments which were not been accepted by BMW and PSA so last quarter, in the last to last quarter in Q2 you had incurred an expense of some Rs.12 Crores and in Q3 what was the expense that you have incurred and because of the return of those consignments?
- Arvind Kapur:** No, there is no consignments which were returned. Who told you it was returned?
- Sandeep K Verma:** See return I mean those airlifted.
- Arvind Kapur:** No we incurred premium freight, so premium freight primarily because it took us longer time to develop the component and bring them to total production and we are required to maintain 30 days stock in our warehouses in Europe, in Munich as well in US and our stock was just about one week.
- Sandeep K Verma:** So you airlifted all those components and then you had to rework.
- Arvind Kapur:** No in the launch phase, we are always required to have people that is separate that cost is not the cost you are talking of, this is on average that has impacting us. That inspection and all is part of the project, so that is on pre-launch of any new components that is always done.
- Sandeep K Verma:** So there are no expenses which has been incurred, additional expenses which has been incurred because of this.
- Arvind Kapur:** No, in the pre-launch phase where we have of course that cost is there but the primary thing is so for the pre-launch days we always send a people from here and also appoint a local person there, a local agency there and so this time there was a launch of several different component both in BMW, PSA, GKM and other companies. It was multi-company that we have to launch at the same time all came in that quarter.
- Sandeep K Verma:** So it is not going to impact your profitability?
- Arvind Kapur:** No, those are factored in the only thing that it takes a couple of longer time that they are factored in but air freight is one thing and for the air freight we are fighting with the customer or we are negotiating with the customer and we should get major portion of it back. But we are assuring that we do not have those things in writing so we had absolutely done the treatment here.
- Sandeep K Verma:** So that will be refunded, whatever airlift cost?
- Arvind Kapur:** Yes, our people are constantly in touch with them.
- Sandeep K Verma:** Sir with respect to your KIA sales what would be the quantum of sales to KIA?

- Sandeep Rajpal:** This year we will do close to I think Rs.30-odd Crores between Rs.30 Crores and Rs.35 Crores and next year our target is to do over Rs.110 Crores – Rs.120 Crores.
- Arvind Kapur:** Based on the current projection by the customer of the number of program and models which they want to produce, so hopefully the recent outbreak of Coronavirus should not impact that but if everything goes well I think we will be crossing the Rs.100 Crores market store.
- Sandeep K Verma:** Okay, because they are also going to launch Carnival in this month?
- Arvind Kapur:** No they have launched it already.
- Sandeep K Verma:** Sir in terms of your capex plan what is the additional capex that you are planning in coming three months as in this quarter?
- Arvind Kapur:** Coming three months about Rs.10 Crores. See our sanction was Rs.112 Crores and we will be within that.
- Sandeep K Verma:** Within Rs.110 Crores.
- Arvind Kapur:** Yes, what was sanctioned by the board, but next year onwards it will come down drastically, in the last three years we have actually total investment done about Rs.300 Crores last two years but now next year onwards I think it will come back to the depreciation level.
- Sandeep K Verma:** The last thing Sir, how do you see the margins in Q4 EBITDA margins?
- Arvind Kapur:** You will see a change, you will see a tremendous improvement here primarily because of these air freight coming down drastically and that will have an impact and then of course we have like that will be seeing a manpower in the old plant that we are talking off and the total could end by May but the process have already started and everyday yes there is a reduction in manpower that comes there and that will impact directly the losses that we incur in that plant. In spite of that you will see the production in Bawal and also in Chennai the new products which have been introduced and the shipments have started so that will also contribute to the margin.
- Sandeep K Verma:** Sir last thing with respect to Coronavirus so the company is like getting alloys from China so any alternate sources that the company has identified and on the top of it?
- Arvind Kapur:** We do not get alloy. We get the alloy makers in India. They import silicon from China and people have already started looking at Argentina and other places where they get the silicon so that process have already started and we are fairly confident that they will get from those places then we can also get it from Denmark. About 20-25 years back we used to import from Denmark and these are the other places where it is available and people will start importing and it will be little more expensive but those choices are there.
- Sandeep K Verma:** Okay so do you have sufficient inventory of those alloys?

- Arvind Kapur:** At the moment, we have, see alloys we have enough and our alloy suppliers we have enough but in some cases we are buying molten metals and that is on a daily basis, so there for those plants we have started stocking up extra aluminum alloy. So we are taking actions wherever whatever is required.
- Madam, I will keep on talking till somebody comes in line. So, we have been very fortunate that we did compensate sales by adding new customers and supply to the newer customers and hence you see the last nine months we have actually grown and we are hoping that this quarter also we will grow and both in the exports as well as international markets but apologize, sorry that we will not be able to achieve Rs.2000 Crores and Rs.1700 Crores, that we have promised but we are working on that and we are pretty confident that we will be there.
- Moderator:** Sir we have the next question from the line of Vaibhav Sanghvi who is an individual investor. Please go ahead.
- Vaibhav Sanghvi:** Sir I have a quick question that as you said that from a revenue point of view we have still grown compared to last year right, but we had from EBITDA margin in profit point of view we are down, even if you add the air fare loss the freight loss we had till now we have incurred about Rs.11 Crores to the profit still we are down compared to last year from a profit point of view so like profit before tax right now is about Rs.32 Crores for last 12 months if I count and if I add another Rs.11 Crores?
- Arvind Kapur:** Vaibhav, you have pointed earlier also our depreciation had gone up and because of the investment that we had done and those machines are start up production and besides that our manpower cost also be like I mentioned earlier we had acquired manpower in advance to train them and to get them board.
- Vaibhav Sanghvi:** Understood, got the answer. I think depreciation you can, even if I forget the depreciation still at operating level also it is down but I think that because of the manpower.
- Arvind Kapur:** Yes, but then the manpower cost, they have come productive from this quarter onwards, some of them this quarter and some of them next quarter so that will also have an impact, if you see the percentage of manpower to the total sales that will improve also.
- Vaibhav Sanghvi:** So can I say then from Q4 onwards at operating level I think we will become better on Y-o-Y basis?
- Arvind Kapur:** Yes, you will see that result this quarter.
- Vaibhav Sanghvi:** That is a sustainable then going forward?
- Arvind Kapur:** Yes.
- Vaibhav Sanghvi:** Okay, thank you.

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

Arvind Kapur: Thank you so much. Thank you so much for spending time with us and we assure you that the teams are working hard and very diligently, under the circumstances whatever is happening in the market despite that we are rejigging up businesses, rejigging up methods of producing and like I had mentioned earlier there is a lot of automation which is also being introduced, we have a separate team of about 25 people who do only automation and we have other team which produces only special machines, where our productivity also goes up very high end machines that we produce, those are CNC machines, all computerized and matching the finest in the world just to improve productivity and improve the profitability. So we are working on all this lines and the market unfortunately did crash last year and also the confusion of BS IV, BS VI which also led to one of the reasons for leading to this besides of course the insurance costs has started imposing on two wheelers as well as the four wheelers and also the commercial vehicles it was very actioned towards and surprised everybody because a couple of years back they were actually penalizing the people who are overloading the trucks then all of a sudden they started increasing the axle load, so all these factors all happened in this year and this had an impact on, so their budgeting, their planning everything went for a six. Hopefully, I think we have bottomed out and unless Coronavirus plays havoc, I think the next year should be much better than this year. But only praying and hoping that we get out of this Corona situation. Thank you so much and you are free to write to us and we will respond to any questions if they are there and any other questions which is left out please do call us and we will reply. Thank you so much.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of S-Ancial Technologies I conclude this conference call. Thank you for joining us. You may now disconnect your lines.