PHOTOS: SANJAY BORADE

Bouncing back

PPAP plans to expand to the South and the West

Abhishek & Ajay Kumar Jain: reinventing the business

The year 2013 will not be easily erased from the memory of the 61-year-old Ajay Kumar Jain, CMD, PPAP Automotive Ltd (formerly Precision Pipes & Profiles Co Ltd). It was in this year that the yen-to-rupee exchange rate almost doubled – from 36 paise to about 70 paise. This had a negative effect on PPAP's raw material price, which constitutes about 60 per cent of the company's production cost. PPAP imports high-end polymers like thermo plastic olefins (TPO) to make over 500 different automobile sealing system products, ranging from outer and inner belt moulding to windshield moulding, roof moulding, etc, for its customers in the passenger car segment.

"We were badly hit then and the profit margins slumped badly," says Jain. "It was a tough year, there was stagnation in demand and exchange rate was fluctuating. We had to re-invent ourselves and execute a joint plan to develop local raw materials or procure them from Thailand. The products we make have to perform in varying temperatures. A car may be running in Rajasthan or Leh, where the difference in temperature could be 100 degrees, but our product still has to come good".

Jain has been associated with the industry for more than four decades, initially being in the family's PVC pipe business and continuously evolving with forays into new ventures, which utilised the latest technology and superior manufacturing techniques. He ventured into the automotive components business about 30 years ago, when Maruti started making cars. At about the same time, he also separated from the family business, which coincided with Suzuki initiation of the vendor development programme that encouraged the development of auto ancillaries around its plant.

Steady growth (₹ crore)

	FY13	FY14	FY15
Total Income	215.43	246.76	318.50
EBIDTA	15.58	27.78	44.50
EBIDTA margin (%)	7.23	11.26	13.97
EBIT	1.63	16.52	22.97
PAT (before extra-ordinary item)	1.54	10.92	12.03
PAT (before extra-ordinary item)	1.54	5.46	12.03
PAT margin (%)*	0.71	4.43	3.78
EPS*	1.10	7.80	8.59

*Before extraordinary items.

Active in the auto sector, Jain has served as president, Honda Cars India Suppliers Club during 2011-12. He is now vice-president, Toyota Kirloskar Suppliers' Association – a position he assumed in 2006.

PPAP was established in 1978 to make custom-built extrusion products. The company commenced its automotive parts business in 1985, when Maruti Suzuki cars entered the Indian market. From having only a single buyer, Maruti, PPAP expanded its customer base to include other major OEMs, as the Indian auto space opened up. Today, it is the single biggest supplier of automobile sealing systems to Maruti Suzuki, Honda, General Motors, Toyota, Renault Nissan, Tata Motors, Ford India and Mahindra &

Mahindra, along with several other OEMs. The company has five manufacturing facilities – in New Delhi, Noida, Greater Noida, Pathredi (Rajasthan) and Chennai. Since the 1980s, PPAP has had technical collaboration with Tokai Kogyo Co, Japan, for automotive sealing systems and Nissan Chemitec Corporation, Japan, for injection molded products.

"Honda India has been utilising PPAP since inception (1998) for PVC extrusions and plastic parts and finds it quite satisfactory on QCDDM parameters. The company has potential and has followed the concept of 'Make in India' from the initial days. It has laid emphasis on localisation in tooling, raw materials and processes and has been using localised machines and equipment for various non-complex operations and for critical application they follow their collaborators," compliments a Honda spokesperson.

Over the years, PPAP has developed strong technology alliances with Japanese companies to cater to the ever-increasing demands of its Indian and MNC customers. In 2012, the company also ventured into EPDM rubber based automotive sealing system, by establishing a joint venture with its technology partner Tokai Kogyo Co.

"The company's core competence is in polymer extrusion-based automotive sealing system and injection-molded products," says Abhishek Jain, Ajay Kumar's son and ED, PPAP. "We have the capability to extrude up to four materials in the same profile, according to customer specifications, and can process engineering plastics like PVC, PP, ABS and TPO," he adds. Abhishek, a B Sc in industrial engineering from Purdue University, US, worked for a shortwhile in the US, before joining the company in 2003.

PPAP entered the bourse in 2008 with an initial public offer (IPO), offering equity shares at ₹150 each (it is currently priced at ₹125). The market cap today amounts to ₹175 crore. And the Jain family continues to hold a large chunk of shares – about 63 per cent – in the company.

In terms of financial performance (*see table*), after 2013, the company has bounced back with its revenue going up from ₹215 crore (2013) to ₹246 crore (2014) and ₹318 crore (2015). "Key ratios, such as profit margins, etc, has also improved by the year," explains Manish Dhariwal, CFO, PPAP, who has over two decades of experience, working with Lazard India, IL&FS, etc. At the balance sheet level, the company has a reasonable sales capital efficiency of 1.2 times and has generated ₹318.5 crore in sales, on net assets of ₹267 crore. It also has a stable debt-to-equity ratio of 0.36 times.

Leading supplier of automobile sealing systems

Finance costs

For the first quarter of the current year, PPAP's revenue of ₹72.49 crore showed a negative growth of 2.2 per cent year-on-year in the quarter ended June 2015 (Q1 2015-16). However, it was able to rein in both direct and indirect expenses and clocked an operating profit of about ₹6.6 crore in the next quarter, growing at 47 per cent y-o-y. The finance costs meanwhile grew rapidly, providing an overall net profit and EPS growth of 23 per cent y-o-y.

"Over 2013-15, PPAP has shown strong growth in revenue, operating profit (EBIDTA) and net profit at 22 per cent, 50 per cent and 179 per cent CAGR, respectively. The EBIDTA margins too have steadily improved during the same period. In the first quarter of 2015-16, the company recorded EBIDTA margins of 17.25 per cent, which rate the management expects to sustain, going forward. RoCE and RoE are also expected to improve, due to the improvement in asset turnover," observes Ajay Shethiya, analyst, Centrum.

"The company is well-positioned and offers handsome returns on long-term investment," says Shejal Ajmera, analyst, Crisp Idea, a financial and information services firm, which focussed on providing equity research, portfolio management, personal wealth management and brokerage services. "Overall, we are excited about the potential of PPAP and expect it to manage its growth with a sharper focus on cost side this year." In its report on PPAP, Crisp Idea has observed that the company's revenue has grown by 16.5 per cent CAGR over the last nine years, which "we feel it can accelerate to a new growth trajectory of 23 per cent over the next few years, as it grows in size, scale and expertise. We expect significant improvement in the demand for automotive sealing systems and injection-moulded products, with the likely introduction of GST in 2016-17. This can provide further fillip to PPAP's growth".

Meanwhile, in the last three years, the Jains have been investing about ₹100 crore - ₹37.5 crore is in the JV; ₹55 crore in the existing plants; and balance earmarked for land acquisition in Gujarat and Chennai. "The overall capex for 2015-16E is expected to be ₹30 crore, part of which will be spent towards the new facility in Chennai and the rest incurred as part of the maintenance capex. We will finance the capex through internal accruals," concludes Ajay Kumar.

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