



**PPAP AUTOMOTIVE LIMITED**  
**"PPAP Automotive Limited Q3 & 9M FY18 Results Conference Call"**

*Transcript*

***February 15, 2018***

**MANAGEMENT: MR. ABHISHEK JAIN – CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR**  
**MR. MANISH DHARIWAL – CHIEF FINANCIAL OFFICER**



*PPAP Automotive Limited  
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**Moderator:** Good afternoon, ladies and gentlemen. Welcome to the conference call of PPAP Automotive Limited arranged by Concept Investor Relations to discuss its Q3 FY18 results. We have with us today Mr. Abhishek Jain - CEO and Managing Director and Mr. Manish Dhariwal - CFO. Please note that this conference is being recorded. I would now like to hand the floor over to Mr. Abhishek Jain. Thank you and over to you, sir.

**Abhishek Jain:** Thank you, Zaid. Ladies and gentlemen, a very good afternoon to all of you and welcome to the conference call to discuss the financial performance for the third quarter and 9 months ended December 2017 of our company. The company's Chief Financial Officer, Mr. Manish Dhariwal is also joining us on this call.

PPAP is the leading manufacturer of automotive sealing systems, interior and exterior automotive parts in India. The company's state-of-the-art manufacturing facilities are located in northern, western and southern India which is Noida and Surajpur in Uttar Pradesh, Chennai in Tamil Nadu, Pathredi in Rajasthan and Viramgam in Gujarat. All the facilities are equipped with the latest technology available today for polymer extrusion as well as injection molding, the areas of core competence for the company. Today we manufacture over 500 different SKUs and ship over 125,000 parts every day to our customers who are located Pan India with a target of achieving zero defect in quality and delivery.

Our Greenfield project in Chennai has been completed and the one in Gujarat is under progress. We have started supplies from the newly setup Chennai plant as well. In Gujarat, as appraised in our last communication we have already started our facility on rental premises and have started supplies for the newly launched Swift model Suzuki Motors, Gujarat.

Apart from this, our brownfield expansion in Pathredi is also nearly completed. We are working with three Japanese companies for our technology requirements with whom our relationship dates back as long as 25 years. We have also established an equal equity joint venture company with our Japanese technology partner known as PPAP Tokai India Rubber



Private Limited or PTI. This company is in the fourth year of operations. The results of this company is consolidated with PPAP on a yearly basis. In the last year itself, the company has become profitable. Today as a group, PPAP and PTI can cater to the consolidated requirement of sealing systems for its customers giving the company a strategic advantage of being a one shop stop for sealing systems.

Now, I will take a moment to introduce our management. Our company is led by Mr. Ajay Kumar Jain who is the Chairman and the Managing Director. He is also the President of the Toyota's Supplier Association as well as Director of ACMA. I am an Industrial Engineer and have been a part of PPAP for the past 14 years and I am also on the executive committee of Honda Suppliers' Association. Our company's target is always to be our customer's number one supplier. We strive to proactively meet the customers' expectations and are continuously evolving our products and services to meet their anticipated requirements. All our policies and decisions are in line with what the customer desires from us. It is this strategy that has resulted in our leadership position in the respective product segments that we cater to.

Our core competence is in automotive sealing systems are injection products. While we primarily service the passenger car segment, we have also started supplying to the LCV and the two-wheeler segments. After achieving leadership position with all the Japanese OEMs operating in India, our focus is to achieve leadership in non-Japanese OEMs as well. In the passenger car segment, we are already catering to Tata and Hyundai starting with the Eon model. In the LCV segment, we have SML Isuzu and BharatBenz as our customers. In two wheeler segments, our customers are Suzuki Motorcycles and Honda Motorcycles. 10% of our automotive sealing products are exported by our customers as part of their CKD kits to countries like Japan, Europe, Mexico, Venezuela and others.

To give you a brief overview of the industry, the domestic passenger vehicle segment has seen an 8.1% year-on-year sales growth in the 9 months of the



financial year. A total of 2.42 million passenger vehicles were sold in the domestic market against 2.24 million last year and 0.56 million were exported. The industry produced 2.93 million cars which is an increase of 5.4% year-on-year according to the SIAM figures. The commercial vehicles production saw a growth of 3.4%, whereas the two-wheeler production was at 17.16 million which is an increase of 12.5% year-on-year. Again, this is all public data which is issued by SIAM. Overall in the current financial year the passenger vehicles led by strong rural demand, new launches and falling cost of ownership may grow at 7% to 9% according to SIAM estimates.

Now, I will take you through the financial performance for the current financial year. The detailed slides have already been shared with you. I would like to give you a brief summary of the same. The numbers are according to the Indian Accounting Standards or Ind AS. For the third quarter ended 31<sup>st</sup> December, 2017, PPAP recorded a total income of Rs. 90.2 crores compared to Rs. 95.2 crores in the corresponding quarter of last financial year. Consequent to the introduction of GST with the effect from 1st of July 2017, Central Excise, VAT, etc. have been subsumed into GST. In accordance with the Ind AS 18 on Revenue and Schedule III of the Companies Act, 2013, unlike excise duties GST, VAT, etc. are not part of the revenues. Consequently, the revenue figures of December 2016 quarter include the excise duty whereas, December 2017 figures is net of GST.

For the third quarter ended December 31, PPAP recorded a total income of Rs. 90.2 crores as compared to Rs. 84.8 crores in the corresponding quarter of last year registering a growth of 6.4%. The part sales have grown via healthy 18% which is at Rs. 88.2 crores against Rs. 74.9 crores in the corresponding quarter last year. Last year we had a tool sales of Rs. 9.9 crores which was Rs. 2 crores in this current quarter. EBITDA grew by a healthy 15.3% in the quarter 3 which is at Rs. 19.3 crores compared to Rs. 16.7 crores in the corresponding quarter last year. The companies EBITDA margin stood at a robust 21.34% compared to 19.7% year-on-year. Profit after tax stood at Rs. 8.2 crores in this quarter as compared to Rs. 6.6 crores



in the corresponding quarter last year. The company recorded a PAT margin of 9.07% compared to 7.85% in the previous year.

I would also like to take you through the 9 months numbers. The total income stood at Rs. 270 crores compared to Rs. 249 crores in the last year. The part sales in the 9 months have grown by a healthy 16% at Rs. 261 crores against Rs. 224 crores in the 9 months of last year. So, we are continuing our trend of having a higher growth compared to the industry growth. The EBITDA stood at Rs. 56.2 crores in the 9 months compared to Rs. 46.2 crores in the previous year. We recorded an EBITDA margin of 20.8% in the first 9 months. The PAT stood at Rs. 23.3 crores which is up by 42% compared to Rs. 16.5 crores in the 9 months of previous year. We recorded a PAT margin of 8.64% and the EPS for the period stands at Rs. 16.7 which is an increase of 42% compared to Rs. 11.80 last year. The debt equity ratio of the company as on 31<sup>st</sup> December stands at 0.14 which is very comfortable to manage. We have already done a CAPEX of Rs. 41 crores towards the new facility and maintenance of our existing operations. The capacity utilization stood at 80% on a company level. As committed earlier, all our CAPEX commitments are being met by internal accruals. We are continuing development of parts for many new models of our existing customers as well as acquiring new customers and new businesses continuously.

Now, I would like to leave the floor open for questions that you may have. Mr. Dhariwal and I will try our best to satisfy you with all your answers. Over to you.

**Moderator:** Thank you, sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from Suvarna Joshi from Axis Securities. Please go ahead.

**Suvarna Joshi:** Sir, my question was on the business with SML Isuzu. So, how have we been doing there and what has been the contribution of SML Isuzu in this particular quarter? Sir, if you can give as some break up in terms of the CV business in sales in this quarter and 9 months will be really helpful.



- Abhishek Jain:** See, SML Isuzu business the tools are now nearing completion and the project is expected to start soon. So, as you aware that in the initial period for any new business the tooling have to be made. So those tooling are nearing completion.
- Suvarna Joshi:** Sir, we have not yet made in commercial supply to SML, if I understand that correct?
- Abhishek Jain:** Not yet, but it is still under development and in this auto expo they have showcased these new trucks to the public.
- Moderator:** The next question is from Sunil Shah from Axis Securities. Please go ahead.
- Sunil Shah:** Sir, my question is on our supplies to Maruti. So, what is our average revenue per vehicle that we get from Maruti as of now and also the same for Honda? What is our average revenue that is there?
- Manish Dhariwal:** The bulk of the business that happens with Maruti is towards automotive sealing business as compared to the bulk of the business in Honda which is for injection molding. Revenue per car on an average basis is Rs. 1,000-Rs. 1,100 for Maruti and it is about Rs. 6,500-Rs. 7,000 for Honda.
- Sunil Shah:** Sir, what steps we are taking to increase this number from both of them, meaning over a period of time let's say over the next 1 year-2 year, I just wanted to get a sense on the direction about new products or new areas which you would have identified and you are working, now with the auto expo went by, so even the new car launches also. So, just on all of that how are we gearing ourselves for the next leap of growth?
- Manish Dhariwal:** As we have been sharing that our efforts are on to continuously increase our wallet share with the customer. In that direction we are very happy to share that in the new Swift that has started from the Gujarat plant of Suzuki Motors, we are supplying products on the injection molding side also. So, our engagement with Maruti is on the rise and in fact our whole Gujarat strategy is predicated on Suzuki Motors as our anchor customer.



**Sunil Shah:** Sorry sir, but this injection molding with Maruti was the first time thing for us? I think we are always been on the sealing side of the business?

**Manish Dhariwal:** No, we have been doing injection molding business with Maruti. However, size of that business when compared with Honda is of a much smaller nature and we are doing some specific parts on the injection side with Maruti in the earlier times. But now with this Gujarat facility our engagement on the injection molded parts also has increased.

**Sunil Shah:** And sir, can you throw some light on the Chennai plant, we have just started it right, so could you just let us know how that will it shape up for us in the next couple of years in terms of the customer and the revenue and all of that?

**Abhishek Jain:** See, we had an operation in Chennai since 2012. So we were operating on a rental premises and we had a very small assembly operation there and we are already catering to Nissan and other tier 1 customers from that location. Now what we have done is first of all we have set up our own plant and we have put up an extrusion line also there. Earlier all these parts were being made in Noida and then transported over almost like 2,000 kilometers to Chennai and then final assembly was being done there. So, currently those parts will be localized in the Chennai plant. There will not be an additional revenue coming through in the short term. As a strategy because of this plant now we are able to attract more customers in that area especially Hyundai is one of the biggest customers that we have been able to have a break through with in the last year. The supplies for this EON model is going to start and now we are discussing for the next models as well. So, what is our strategy is basically for all the customers in the south area like Nissan, Toyota, Hyundai and other tier 1 customers which we have, we want to localize all the products in that area. So, that is the basic strategy behind the Chennai plant.

**Sunil Shah:** And sir, in this auto expo there were lot of electric vehicles which were on the display from almost every big OEM manufacturer. Sir, any in which we



have played some role even in the pilot project of supplying those sealings and injection molding or anything meaning, of course this would be.

**Abhishek Jain:** Not in India but we are exporting some parts to Japan through Nissan for their model called as Note. So, this is basically a hybrid vehicle now in Japan. Earlier it used to be a pure ICE engine and now they have developed hybrid version also and in all electric vehicle also on the same platform and our parts are being used in that vehicle?

**Sunil Shah:** Sir, those are on the injection molding?

**Abhishek Jain:** Currently we are not engaging with any customer in India especially for the electric vehicle.

**Sunil Shah:** But this Nissan thing is ongoing for us right now.

**Abhishek Jain:** Yes, Nissan thing is being going on for last 4 years now.

**Moderator:** Thank you. The next question is from Ketan Chaphalkar from Zephyr Financial. Please go ahead.

**Ketan Chaphalkar:** My question is basically on the current quarter like in the last quarter we showed around like 20% growth in revenues and significant jump up in profit. So, any particular reason why this quarter was actually very slow down any particular reason for that?

**Abhishek Jain:** See, Mr. Ketan we are in the automotive industry and we are a B2B business. We are not selling anything directly to the customers. So, our sales are directly related to how much cars are being produced by the customers. So, generally what happens in quarter 3 of every financial year there is a shutdown or maintenance shutdown of all the customers. So, like in December Maruti and Honda had their shut downs and they last generally about a week. So, the revenue growth if you compare it on quarter 2 and quarter 3 will actually be an apple to orange comparison. But if you compare our Q3 of this year with the Q3 of last year the total sales show only 6% increase but that is primarily because there was an increase of tool sales in





the last year. But if you compare the part sales which is the bread and butter of the company, so those have grown by 18%.

**Manish Dhariwal:** See basically Ketan, as you would be aware that tooling is something that happens for any new model and it happens once when a new model is launched. And that is something which is not a linearly organized business. So, in the Q3 of FY17 we did Rs. 10 crores of tools sales where as in this quarter the tool revenue is only to the tune of Rs. 2 crores. So, that is why if you consolidate the total then the percentage is looking lower at 6%. Otherwise, if you look at the main parts as we just mentioned it is 18% plus over the same period last year. And the buoyancy is continuing as we see.

**Moderator:** Thank you. Next question is from the line of Hemanth Sriram from Elysium Investments. Please go ahead.

**Hemanth Sriram:** I just have two questions. Broad questions on the business, I believe rubber is the primary material for primary sealing system whereas there has been a shift to plastic for secondary sealing systems. So, do you think all the OEMs have shifted to thermoplastics or secondary sealing?

**Abhishek Jain:** There is a very strong inclination but see, if you broadly look at it basically the western part of the world they are more focused on thermoplastics, sorry the eastern part countries like Japan and all that. But Europe still prefers rubber as their primary material. So, if somebody is using European technology then they prefer to stick to rubber in their primary and secondary but if somebody is using Japanese technology then they prefer using thermoplastics.

**Hemanth Sriram:** And could you contrast the profitability between rubber and thermoplastics usage, about one is necessarily more expensive than the other when you put it in a car?

**Abhishek Jain:** See, there are lot of pros and cons of using both the materials and both the products made by them. So, on one hand rubber product might be little heavier but slightly cheaper than the thermoplastic products. But on the



other hand thermoplastic offers a lot of flexibility in manufacturing, in designing and it is a lighter product at end of the day. So, it supports the customer in achieving their fuel efficiency targets. This is kind of a trade-off between what the customers wants to focus on and even the aesthetics. So aesthetics wise thermoplastic is much more easier and much more better to give a good surface finish like for example TATA they were using rubber outer belts before Nano even for cars like Indica and all, but once we approached them showed them our products in thermoplastics, they were quite pleasantly surprised by the finishing and the aesthetics and then they were ready to switch over from rubber to thermoplastics with us.

**Hemanth Sriram:** And from your perspective thermoplastics should be more profitable to sell versus rubber?

**Abhishek Jain:** We would not say that it will be more profitable. End of the day depends on what all parameters are you looking at. Unless, the entire supply chain is quite efficient then you might have a different situation.

**Hemanth Sriram:** And one final question, it is a very broad industry level question, are there any alternative materials to rubber and thermoplastics that are, that people are experimenting with in sealing systems in general?

**Abhishek Jain:** For us there is also PVC, polyvinyl chloride which is being used. So, initially when we started this business we were using PVC and still we are continuing to use PVC in some products. So again it is not the material per say which adds value to the customer, it is the whole system and the whole design of the complete products. So, based on that then the customer decides whether it wants a rubber product or a PVC product or a thermoplastic product.

**Moderator:** Thank you. Next question is from the line of Suvarna Joshi from Axis Securities. Please go ahead.

**Suvarna Joshi:** So, coming back to my question was so, Hyundai you mentioned in one of the earlier answer is that we started supplies to Eon. So, are there trial



supply or have we started commercially supplying Hyundai for the Eon model and is this for India business of Hyundai or is this getting exported to other countries of Hyundai?

**Abhishek Jain:** Ms. Joshi, we had been focused for almost 2 years to develop this part and have developed our relationship with Hyundai now, especially relating to the Eon model. Now all the approvals and everything are in place and we have started commercial supplies to them. However, they still have some imported parts remaining in their operations. So, it is going to take about 3 months till we have 100% business share of that model. Till such time we have been supplying partially for this Eon model. But the commercial supplies have started now.

**Suvarna Joshi:** Sir, have we seen the commercial revenues of that Eon model coming in this quarter itself and how much would that be approximately?

**Manish Dhariwal:** See, this particular quarter the supply just started. So, the revenue is insignificant, in the Q4 you will see the full starting from the very beginning of the supplies to Hyundai.

**Suvarna Joshi:** Sir, we also mentioned that you are present in Chennai now as of you said it supplier of sealing system. So, will you also be looking to approach OEM on the commercial vehicle side of it may be like Ashok Leyland or may be some other players like that?

**Abhishek Jain:** We used to supply to Ashok Leyland when they had their joint venture with Nissan. So, we were supplying for that for one of their models but the reason why we set up that Chennai plant is to get more customers on board. So, we are scouting opportunities with all the customers there and there are lot of big tier 1 customers also in that area. So, we see some sort of opportunities coming from them as well.

**Suvarna Joshi:** Sir, other question was again on the export front of it CKD exports is something which can be a big opportunity for us going forward. So, can you



throw some light on CKD exports in this particular quarter that we would have done in terms of revenues and volumes if possible?

**Abhishek Jain:** We do not have that break up with us currently available but on a broad level it is about 10% of the sealing system revenue. We can get back to you with the number of parts that we have supplied in the last quarter.

**Suvarna Joshi:** And just one broad level question, you mentioned about Hyundai that there is some content still being imported by Hyundai, so you mention the import of the components are specific to sealing systems or the overall component requirements of Hyundai.

**Abhishek Jain:** So, Hyundai basically imports a lot of components for their cars from Korea. So, they do not have a very high localization content in their vehicles.

**Suvarna Joshi:** So, this is the overall import of components that Hyundai have and we are not just of either the injection moulded cars or the sealing sequence per say?

**Abhishek Jain:** No, overall Hyundai imports a lot of parts from Korea currently also. So, there are lots of opportunities which will be opening up not only for our company but for other companies also because now they are in the mode of localizing all those parts as well.

**Suvarna Joshi:** Sir and one last final question from my side will be we saw Kia Motors unveiling their models at the auto expo which concluded. So, do we see any opportunity over there as well because I believe that can throw up some big opportunities going ahead?

**Abhishek Jain:** See, currently Kia Motors is planning building a plant for 300,000 vehicles per year and I believe they already started building that plant. So, it is going to be about I think 200 or 250 kilometers from Bangalore towards Hyderabad side. Currently we do not have any direct contact with Kia Motors as such and currently they are not looking for localizing of all these parts. But we are sure that once we have more inroads to Hyundai and apart



from Eon we develop more models. I am sure in the future we will have some opportunities with Kia Motors as well.

**Moderator:** Thank you. Next question is from Ritwik Shrivastav from Birla Sunlife. Please go ahead.

**Ritwik Shrivastav:** I just wanted to ask you about you said that there have been less tooling sales this year compared to last year. So, wanted to know if does that mean that there are less newer products, newer customers stands for the future?

**Manish Dhariwal:** No, not at all. See, our order book is very brisk and hopefully, after this quarter that is the March quarter you will not have this question. See, at times it happens that the customer also kind of change the date of their launch. So, that at times result in the shifting of the date of sale of the tools also, so if I can answer your question basically it is all schedule dependent as when the typical model will come on line and when the sales will happen. So, we are working on a number of projects and there is no letup pon that.

**Ritwik Shrivastav:** Also wanted to ask you about the raw materials imported, you said it was about 30% previously. So, had it reduced much or is it at the same level?

**Manish Dhariwal:** See, right now broadly at the same level but then it is a continuous process and our focus towards localizing our raw materials requirements is the continuous process and the numbers expected to come down gradually.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question, I now hand the conference over to the management for closing comments. Over to you.

**Abhishek Jain:** Thank you Zaid and Team of Concept to organize this conference call. I would like to pay my sincere gratitude to all my analyst and investor friends who have taken time out of their busy schedules to listen to us today. Please feel free to contact Concept or us in case you have any further questions. Also if you happened to be in the NCR region, do give us an opportunity to show you around our world class operations. Thank you.



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**Moderator:**

Thank you very much members of management. Ladies and gentlemen, thank you all for being the part of the conference call. If you need any further information or clarification, please email at [ruchi.bhadra@conceptpr.com](mailto:ruchi.bhadra@conceptpr.com). Ladies and gentlemen, this concludes the conference call for today. Thank you all for joining us and you may now disconnect your lines.