PPAP AUTOMOTIVE LIMITED

"PPAP Automotive Limited Q1FY18 Results Conference Call"

Transcript

August 11, 2017

MANAGEMENT: MR. ABHISHEK JAIN - CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR

MR. MANISH DHARIWAL - CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, welcome to the Conference Call of PPAP Automotive Limited arranged by Concept Investor Relations to discuss its Q1 FY'18 Results. We have with us today, Mr. Abhishek Jain - CEO and MD; Mr. Manish Dhariwal - CFO. At this moment, all participant lines are in the listen-only mode. Later, we will conduct a Question-and-Answer Session, at that time, if you have a question, you may press '*' and '1' on your telephone keypad. Please note that this conference is being recorded. I would now like to handover the floor to Mr. Abhishek Jain. Thank you and over to you, sir.

Abhishek Jain: Thank you, Stanford. Ladies and gentlemen, good evening to all of you and welcome to the conference call to discuss the Financial Performance of the First Quarter ended 30th June 2017 of our company.

The company's CFO, Mr. Manish Dhariwal is also joining us on this call.

To begin with, I will provide you a brief background about our company. Kindly refer to the presentation which is already shared with you. Our company was incorporated in 1978 to manufacture Custom-Made Extrusion Products, and we started the Automotive Parts business in 1985 with the start of Maruti Cars in the Indian market. We are a leading manufacturer of Automotive Sealing Systems, Interior and Exterior Injection Molded Products. Our company state-of-the-art manufacturing facilities are located in Noida, Greater Noida, Chennai and Pathredi in Rajasthan.

We have also commenced the construction of our factory building in Gujarat from where we would be supplying Injection Molded Parts to Suzuki Motors, Gujarat. Apart from this, we will be starting supplies from our newly set up Chennai plant also during the current financial year.

We are working with three Japanese companies for our technology requirements. The relationships with these companies are more than 25 years old. Apart from our main company, we have established a joint venture company with our technology partner as well. The company name is PPAP Tokai India Rubber Private Limited. The Joint Venture PTI is also gaining size and is doing well. After the establishment of this joint venture, as a group, our company can cater to the requirements of the entire Automotive Sealing Systems of our customers. Today, the company manufactures over 500 different products for its customers and continuously targets to achieve zero defect and zero PPM in quality and delivery performance for all its customers.

Our company is led by Mr. Ajay Kumar Jain. He is also the President of Toyota Kirloskar Suppliers Association.

I am myself part of the Executive Committee of Honda Suppliers Association.

Our company's target is always to be our customers' no. 1 supplier. We strive to proactively meet the customers' expectations and are continuously evolving our services and products 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. The company's core competence is in Automotive Sealing Systems and Injection Molded Products. You can have a look at the products that are manufactured by us in the presentation shared with you.

We primarily service the Passenger Car segment and recently we started supplying to the LCV segment as well. In India, all the Japanese OEMs who have their manufacturing facility here are our customers. Local makers like Tata, Mahindra are also being catered by us. 10% of our products are being exported by our customers as CKD exports to various countries like Japan, Europe, Mexico, Venezuela and other places. During this quarter, we will be starting our pilot supplies to Hyundai as well. Apart from this, we are continuously engaging with all our customers for their new product requirements.

Our company offers complete Print to Build Integration for all our customers. We get involved with them at the design stage and provide support during the entire development process. We have our own design center, tooling facility as well as an exhaustive testing and validation facility. This integrated capability is a very strong comparative edge over our competitors as we are able to give our customers an integrated and a cost competitive solution for their requirements. We have a track record of superior performance with all our customers and we will continue to be amongst the preferred supplier for them. We are making our best efforts to retain our market leadership position.

To give you an overview of the industry, passenger vehicle manufacturers started the year with strong sales as most of the car players reported double digit growth in sales in April and May 2017. However, in June, sales slowed down and saw a decline of about 6% as most of the manufacturers and dealers realigned their inventories ahead of the nationwide implementation of GST.

Going forward, demand is expected to improve on back of various initiatives taken by the government in the union budget. Also, the tax reduction for individuals is likely to have a positive impact on the two-wheeler and the small car demand. Overall, the current year may witness double digit growth in the passenger vehicles, which is led by strong rural demand, new launches and falling cost of ownership. In July, we have already seen the domestic sale of passenger vehicles grow by more than 10%.

Now, I will take you through the Financial Performance for the Quarter ended 30th June 2017. First of all, I would like to inform you that this is the first quarter where we are reporting the numbers according to Indian Accounting Standards which is known as IND AS. So the results for quarter ended June 30, 2017 have been prepared in compliance with these standards.

For the first quarter ended June 30, 2017, our company recorded a total income of Rs.93.31 crores as compared to Rs.93.23 crores in the corresponding quarter of last year. According to IND AS, this turnover is inclusive of the excise duty. At a net level, the total income is Rs.82.09 crores against Rs.80.66 crores. Although the total income shows an increase of 1.76%, our Parts sales have increased by 11% in line with the industry growth.

The Tools sales which are one-off items were less compared to the same quarter previous year.

Overall, the sales during the first quarter of financial year are typically lesser than the fourth quarter of financial year owing to the plant maintenance shutdowns of our customers. This year due to GST implementation there was a further decrease in wholesale sales to dealers due to inventory reduction activities. Despite these factors, we were able to maintain an increase of 11% in our Parts sales.

In the 'Presentation' which is shared with you, we have considered the net of excise income to calculate all the ratios so that you can have a fair idea about the performance of the company. The EBITDA grew by 28% in the current quarter under review and it stood at Rs.15.70 crores compared to Rs.12.28 crores in the same quarter last year. Our EBITDA margin on net income stood at a robust 16.83% compared to 13.17% in the previous year, showing a improvement of 4%. Profit after tax stood at Rs.5.93 crores in this quarter compared to Rs.3.54 crores in the same quarter last year, which reports an increase of 67%. The company recorded PAT margin of 6.36% compared to 3.80% which is an improvement of 2.56% margin.

On the expenditure side, there has been an improvement on the material side due to internal efficiencies improvement. However, the employee cost has increased due to the factoring of the revised bonus payouts as per the law. Other expenses and depreciation remained almost flat. Due to continuous repayment of long-term loans, the interest cost has also seen an improvement.

Due to the above factors, the EPS for the quarter stood at Rs.4.23 per share compared to Rs.2.53 per share in the same quarter last year, which shows an increase of 67%. The trailing 12 months EPS stands at Rs.18.83 per share compared to Rs.13.01 in the previous year.

Now, I would like to leave the floor open for questions which we would be happy to answer. I and Mr. Dhariwal will try our best to satisfy you with our answers. Over to you, Stanford.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the Question and Answer Session. We take the first question from the line of Viraj Kacharia from Securities Investment Managers. Please go ahead.

Viraj Kacharia: I just have a couple of questions; first is, on the operating performance. If we look at our operating profitability performance over the last 2-3-years, the bulk of the improvement has come from increase in our gross margins. So if we take March 2017 and March 2015, we probably at the same top line which is around Rs.96-Rs.97 crores, but we have seen jump from 36% gross margin to almost 50% gross margin and that has been by and large a trend and it has been the key driver of improvement in EBITDA margins. So basically just want to get a sense on what have been the key factors contributing to this and how much of this increase has been led by gains from crude and other raw materials, if you can just provide some qualitatively, quantitatively some color on this?

Manish Dhariwal: The turnover as we informed in the earlier part of the conference comprises of the Parts sales and the Tools sales. The Parts sales have seen growth of 11% Y-o-Y. As our Parts sales increase, our EBITDA margins improves because the fixed cost element, it basically spreads over a higher base. This particular quarter, the Tools sales were lower from Rs.12.52 crores to Rs.5.33 crores. That is why at a gross level, the numbers are looking same.

Viraj Kacharia: No, my question was more on the gross margin say in FY'15 which we earned and earned in FY'17, this is a significant improvement and that has been primarily the key reason why we have seen significant improvement in the operating margins and that trend we are also continuing to see in the last two quarters as well. So basically just wanted to get a sense that the movement from 40% gross margin to 50% gross margin is driven by what factors, and how much of this is actually led by let us say gains from crude and other raw materials prices?

Manish Dhariwal: While at a base the raw material is made out of crude, but the crude price movement does not have a direct correlation with our raw material price, because as you are aware, the crude went as much as 100 plus dollars and then now it is hovering at less than half whereas that is not the case with us in terms of our raw material cost. So basically the raw material cost has come down primarily because of the steps taken at various levels, at the customer level, at our raw material sourcing level and most of all, the raw material utilization improvement. Like we have worked on improving the efficiencies, as a result of which the consumption has gone down and that has been a gradual consistent process.

Viraj Kacharia: So basically if one were to put it, if crude were to turn adverse, what level do we think the gross margin would be a sustainable range going forward?

Manish Dhariwal: What we are seeing is that the crude has been volatile in the last couple of quarters, it is not that it has not had movements, but our material cost may fluctuate one or two percentage points because of the product mix change, forex change etc., but otherwise it has remained kind of in the same direction.

Viraj Kacharia: We have seen some gain in terms of operation cost. So do we see any further areas in terms of the operational cost structure where we see further areas for rationalizations of savings going forward?

Manish Dhariwal: Again, that is the continuing process, we are working on all the aspects. So, if we split the other expenses, we are working on power cost, we are working on freight cost, other consumable cost, and the repairs & maintenance. There are certain costs which we want to increase by design, like our travel cost that increases because of our continued interaction with our collaborators abroad and the frequent travel that takes place for the purpose of building of our design and development team. These will continue. As the turnover improves, if the Parts sales improve, then because part of costs are fixed, operations cost will further reduce in terms of percentage to sales.

Viraj Kacharia: If you look at our employee cost structures, it is one of the highest in the industry. So basically just want to get a sense, do you see any scope for further rationalization in any of these areas or we are at the threshold level in terms of operating cost structure?

Manish Dhariwal: As you rightly observed that the manpower cost is on a high side, but the thing is that as you heard us in the beginning, that there is a plant coming up in Gujarat, there is a plant coming up in Chennai, all these plants would require manning. So there will be a bit of that adjustment that takes place. As the turnover increases, our manpower is not expected to increase in the same rates. So that cost have also basically come down.

Viraj Kacharia: Second question was on the growth side. You talked about the overall Parts business growing by 11%. Now if we look at the overall basket of key customers, if I look at the production numbers in Q1, they have grown somewhere around 13-14%. So directionally, if we look at overall mix as well, basically Maruti and Honda are somewhere close to 80% of overall sales. So basically how we were looking at overall growth trajectory in terms of both qualitatively and also in terms of the mix going forward?

Manish Dhariwal: Qualitatively, as you are aware, we are continuously working on improving our customer mix, and with the onboarding of Hyundai, that big customer who was not part of our mix is also there. So that certainly is improving. To your other question, if you look at the market, Maruti is actually selling bulk of the cars. Every car that gets sold, we in one way or the other participate in that sale. What we are working towards is that whenever any car gets sold, we should be there.

Viraj Kacharia: No, basically where I was getting at from, you talked about the overall Sealing market where we are by and large a dominant player in the polymer base and we have started catering to rubber base sealing through the JV which itself is a much more larger market in India. So there is still a good amount of market which is still not catered by us ex-Hyundai. Basically, directionally, wanted to get a sense on how we are looking at that in terms of customer segments which is still not catered in the Rubber segment like Hyundai, where do we see scope for further markets or yields?

Manish Dhariwal: We are working on all fronts and like on the Automotive Sealing side, we have added Hyundai, CKD exports are on the rise, and then in terms of Injection Molding, Maruti is going to be playing a bigger role once our Gujarat plant is operational.

Viraj Kacharia: Last question was on the Injection Molding side. You talked about looking to cater to Suzuki Gujarat plant and SML Isuzu going forward. So what is the typical content value per vehicle which you will be catering to, like in case of Honda, we cater to almost like Rs.6,000-7,000 content value per vehicle, in case of Suzuki or in case of Isuzu at the moment?

Abhishek Jain: In Maruti, right now, we are catering to about Rs.1100 or something. In Injection side, but slowly and slowly this number is improving. I do not have a number right now for you, but we are continuously engaging with the customer especially from Gujarat and our Pathredi plant. So we are getting lot of interest from the customers.

Viraj Kacharia: If we look at our overall depreciation on annual basis we have almost like 25-26th year of depreciation charges. If you look at percentage of sales, it is almost 7-8% of our sales, and it has been very high for last 2-3-years. So broadly what is our depreciation policy?

Manish Dhariwal: In the depreciation policy, there has been no change and basically is looks higher as a percentage to sales, it is because of the capacity utilization not at its optimal level. As we have maintained that our capacity utilization is about 65%-70% level, but the depreciation is charged full. So therefore obviously as a percentage of sales, these numbers look higher, but then as the sales improve, this number is expected to come down.

Viraj Kacharia: So typically, we charge any plant or machinery with the 5 or 6 year kind of useful life or what is the approach we usually take with?

Manish Dhariwal: Useful life we take at about 10 years.

Moderator: Thank you. We take the next question from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: First of all, can you give us a timeline of when is the Gujarat and Chennai plant likely to start?

Abhishek Jain: Sales from Gujarat plant is going to start in September of this year and from the Chennai plant we are setting it up completely and that approval process from customer is just taking some time, but I think we should be able to resolve it by the end of this fiscal year.

Puneet Gulati: So by March '18, the plants will also be ready and it would be supplying at the same time or?

Abhishek Jain: The plants are already ready, we have already sent the machinery and everything, installation is going on. So once we are ready, we require an audit from Nissan side. That is taking slightly more time than expected.

Puneet Gulati: From where are you supplying the Hyundai from?

Abhishek Jain: We will be starting from this quarter initially from this Noida plant, but eventually from Chennai plant.

Puneet Gulati: Will the pricing be adverse because you are supplying from Noida there will be a transportation cost or do you expect that to be compensated?

Abhishek Jain: No, not really. Extrusion Parts are generally not that transport heavy. So it is not a very big impact. Now since GST is already there, there is no concern of taxation across boundaries also.

Puneet Gulati: Secondly, you gave this number of Rs.1,100 per car of Injection Molding products that you supply to Maruti. Is there a similar number available for Honda as well?

Abhishek Jain: Honda, we are more than Rs.5,000-6,000 per car on Injection side.

Puneet Gulati: And for Sealing products?

Abhishek Jain: Sealing products is roughly Rs.1,100-1,200 per car.

Puneet Gulati: For Maruti, will there be something similar for sealing side?

Abhishek Jain: Yes, almost similar.

Puneet Gulati: What new products are you currently evaluating and will Gujarat plant add to new models or will it be more new products as well?

Abhishek Jain: Injection side, we started developing this SML instrument panel and we are also discussing for some other business with Maruti also and some other customers also. Unfortunately, I cannot disclose you all those information because not started right now, but we are engaging with the customer. Basically, what we are planning to further increase the capacity utilization of our injection assets for us both on the short-term basis and on the long-term basis.

Puneet Gulati: What would it be currently?

Manish Dhariwal: Capacity will range about 70%-75%. So what we are trying to do is that finding out some ways whereby the idle capacity that is there, that can be be employed.

Puneet Gulati: If you can give a similar number for the utilization rates for your Sealing related assets?

Manish Dhariwal: About 65%

Puneet Gulati: So Sealing is actually lower than the Injection Molding, is it?

Manish Dhariwal: Yes, on a totality basis I would say that, but then there are some lines which are very kind of product-specific, there the utilization is rather low. So that is why it comes down.

Puneet Gulati: Lastly, some color on the pricing, just alluding to the previous participant's question, if there is a movement in crude price or any other raw material, does it get passed on as per formula or do you need to do fresh negotiation on that?

Manish Dhariwal: In some cases, there is clear pass on, in some cases, it is not. So where a clear pass on is not there, then if something out of the usual happens, we can make representation to the customer.

Puneet Gulati: How should we think about what kind of products had passed on and where it does not get passed on, some broad philosophy behind it?

Manish Dhariwal: It also at times depends on the customer, like some of the parts of Honda, there is a pass-through.

Moderator: Thank you. We take the next question from the line of Abhay Mallota from Max Future Capital. Please go ahead.

Abhay Mallota: I have two questions, sir; one is relating to the new plant and another one relating to a joint venture company. Sir, Can you tell us the Chennai and Gujarat plant that you are putting up, how much CAPEX would be there in Chennai plant and Gujarat plant?

Manish Dhariwal: The total will be in the range of about Rs.35 odd crores but then that would be like spill over two financial years, some part of the work was already done last year on Chennai plant, this is total for both the plants.

Abhay Mallota: How will be funding this - out of internal accrual or by some term loans?

Manish Dhariwal: The cost would be met by internal accrual.

Abhay Mallota: You are also expanding at Pathredi as I get it from annual report. So how much you are putting at Pathredi expansion?

Manish Dhariwal: About Rs.5 odd crores.

Abhay Mallota: Next question is related to a joint venture company. I have seen your annual report sir, the Rs.48.35 crores has been invested in the joint venture company. That constitutes how much percentage of the stake we are holding sir?

Manish Dhariwal: 50%

Abhay Mallota: It means 50% is held by our Japanese partner?

Manish Dhariwal: Correct.

Abhay Mallota: Then he must have also put in Rs.48.35 crores?

Manish Dhariwal: Correct.

Abhay Mallota: How much capital would be required to start the project?

Manish Dhariwal: After this, last infusion of capital that took place in the last year, we are not expecting any further capital infusion required there. You must know that this is a pure 100% equity financed project, there is no debt there. Now the business is profit-making, it is throwing positive cash. So, all its future requirements are expected to be met by internal accruals and the capital that has already been invested.

Abhay Mallota: Sir, has it commenced the production?

Manish Dhariwal: It commenced the operations three years ago, in fact, we have already seen break even and we made a profit last year.

Abhay Mallota: But what is the current turnover of this company?

Manish Dhariwal: Rs.50 crores is the turnover of the joint venture.

Abhay Mallota: Sir, after expansion of this Chennai and Gujarat plant and plus Pathredi plant which you are putting Rs.5 crores, can you give us broadly a guideline for the growth in the sales in FY'18 and FY'19?

Manish Dhariwal: We shall be attempting to grow at a rate higher than the industry.

Abhay Mallota: Sir, the industry is growing at the rate of 9-11%

Manish Dhariwal: Well in that case we expect to do better than that.

Abhay Mallota: Broadly looking to the automobile figures can we grow by double digit figures?

Manish Dhariwal: As a company policy we don't give sales guidance.

Abhay Mallota: Sir, just projected growth, don't need exact figures.

Manish Dhariwal: As mentioned earlier our attempt would be to grow higher than the industry.

Moderator: Thank you. We take the next question from the line of Chetan Vora from Value Quest Investment. Please go ahead.

Chetan Vora: You said that in your sales growth of close to 1.5%, the Parts sales increased by 11%. So what was the remaining component which de-grew?

Manish Dhariwal: The Tools sales were Rs.12.17 crores in the first quarter of the last year and this quarter the Tools sales is just about Rs.5.3 crores, there has been a dip in the Tools sales, but there has been 11% increase in the Parts sales. So the total number is coming to be flat.

Chetan Vora: When you say the Parts sales, it includes both - the Sealing and Injection Molding, correct?

Manish Dhariwal: That is correct.

Chetan Vora: Wanted to understand you said that the gross margin has improved because of the internal cost efficiencies which has gone up from last June '16 quarter it was 46%, right now it is at 51%, so you said it is because of the internal cost efficiencies. What is that the company has done because of this 500 bps improvement?

Manish Dhariwal: The significant part of the improvement has come in the material cost. If you will go to a previous quarter, you will see the similar percentage is there. If I can take you to say March quarter, the material cost was about 49.7%, then December quarter it was again 49.9%, so it has been hovering around that levels.

Chetan Vora: Vis-à-vis the March quarter also the RMC has improved actually, it has gone down from 49.7% to 48.7%, why would that be?

Manish Dhariwal: That is correct, again, (+/-1%) happens, like we are changing the product mix, even we do more than 500-odd products. So that can happen.

Chetan Vora: Because what my understanding was that you had told us earlier that the margins in both Injection Molding and Sealing only the same, right. It is not like that the Injection Molding sales was higher and because of that the gross margin was higher or vice versa?

Manish Dhariwal: Again, at a broad level, the business contributes around the same turnover barring a few percentage points here and there.

Chetan Vora: No-no, the turnover I understand, but what about on the profitability front?

Manish Dhariwal: We basically look at the performance numbers at a consolidated level for both the businesses – Injection as well as Extrusion.

Chetan Vora: But in terms of profitability, I do not want the number but directionally the Injection Molding is higher or vice versa, can you give us that thing on the qualitative front?

Manish Dhariwal: There are differences. Injection Molding is slightly more capital intensive whereas the Extrusion business is more human resource-heavy. So these distinctions are there.

Chetan Vora: The March '17 as well as the December '16 sales growth was close to 24% and 17%. How much from that would be the Parts sales growth?

Manish Dhariwal: In December, the Parts sales growth was about 7% and it was 22% in March '17 and it is 11% in this quarter.

Chetan Vora: The employee expenses have increased because of the yearly increase and the bonus being affected in this quarter, is that right?

Manish Dhariwal: That is right.

Chetan Vora: As you said the employee cost to sales will be only remaining at this level – 16%, 17%, is it fair to understand?

Manish Dhariwal: The significant part of this cost is of a fixed nature. The increase sale will not require the same incremental growth in the manpower cost. The manpower cost grows at about 10-12%, there is general increment and maybe whatever new addition that happens. But if the sales growth is higher than that, then as a percentage of sales the manpower cost will come down.

Chetan Vora: What kind of movement is there on the raw material cost – has it started up-trending or what the gross margins will be at this level?

Manish Dhariwal: The quarter that went past, there was not significant change in the raw material pricing. Although one has been seeing some amount of volatility on the crude price, but there is nothing of a directional nature that can be perceived.

Chetan Vora: So you are not seeing any sort of cost push because of RMC, right?

Manish Dhariwal: Not there.

Moderator: Thank you. The next question is from the line of Abhishek Ji from Vision Capital. Please go ahead.

Abhishek Ji: Export is the 10% part of our revenues, right, you said?

Abhishek Jain: We are not exporting directly overseas, but this is done basically by our customers, its CKD.

Abhishek Ji: Is it done through our JV with our foreign partners or do we do it directly?

Abhishek Jain: No-no, we do it on a standalone basis in this.

Abhishek Ji: Any plans of directly tapping that particular export market because I am talking on the background that it has been heard that India has been looked at as a manufacturing base for the export for entire world, so are we looking at that particular export abroad actively?

Abhishek Jain: Recently, we started exporting products for the Kwid to Brazil market also. We are not doing any aftermarket products. Whatever we do is OEM products. So we are continuously engaging with the customers for any opportunities. Like out of our customers, Nissan-Renault joint venture and Toyota. So these two companies are primarily focusing on exporting lot of products to the subsidiaries. Also, like in India FCI has IPO, we are trying to establish contact with other IPOs also.

Abhishek Ji: So do you see more of growth avenues in this particular way going ahead or you feel domestic is a lot more way ahead?

Abhishek Jain: I think India has a fantastic opportunity in front of us. There is a lot of opportunity to cater in India also. Automotive market is currently the fifth largest market in the world. It is slated to become 3 in the next 10 years. So I think a lot of excitement is there in India. If we are able to cater to those requirements, then I think we will have a good future ahead of us.

Abhishek Ji: You also said that the Tools growth came down from Rs.12 crores to Rs.5 crores this quarter, right YoY. What was the reason you said for it – is it because of GST and the destocking kind of thing?

Manish Dhariwal: Tools sales is a total different ball game altogether. Tools sales is a function of the customers launch program. Tools sale happens once in the course of the model. It has nothing to do with the GST or anything.

Abhishek Ji: So this trend will normalize going ahead, right, it was just a one-off?

Manish Dhariwal: No-no, it will always be a lumpy kind of business. There is no uniformity in the Tools sales because this does not happen on day in, day out basis, it happens on a project wise basis.

Abhishek Ji: This particular business will always be a bit of lumpy?

Abhishek Jain: Yes, that is correct.

Abhishek Ji: Recently, I just read somewhere that PPAP as a group are trying to involve more of Robotics in the manufacturing and that is where even the plants which are coming up, there more of Robotics which they are applying rather than human resources. So are there any chances of reducing the human resource cost because of this and do you see any merit in that may be more of operational efficiency because as our previous counterpart was saying that we are bit of higher side on human resource expense?

Abhishek Jain: Actually, human resource expenses if you analyze it more deeply then we have a complete R&D team in the company. So almost like 3-4% of this expense goes into that department. So that is primarily being done to have good long-term future of the company. That is a major factor why this cost looks very high compared to other industries or something. We are continuously focusing on introducing more Robots in the operations. But our purpose is not to reduce manpower or manpower cost, it is basically to improve the reliability and quality of our products. So we do not calculate that if we introduce one robot, how many people can be reduced or something. So we basically calculate what benefits that are going to come in terms of the product and how that robot is going to add further value to the customer in supplying a defect-free product basically to our customers. That is the primary focus why we are focusing on robotization of our operations.

Abhishek Ji: To basically improve the quality of whatever the products which you are delivering, not on the expense side?

Abhishek Jain: And reliability.

Manish Dhariwal: The rejection of the product will come down significantly once the process gets done by the robotic process.

Abhishek Ji: So are we pioneering or you are seeing the same kind of traction in other auto and companies as well because I have not heard many of the companies significantly using robots and things for this particular going ahead?

Abhishek Jain: Lot of companies especially in the automotive industry are focusing on robotization. Our customers today want zero PPM in quality and delivery.

Manish Dhariwal: We are supplying close to about 1.5 lakhs pieces on a daily basis.

Abhishek Jain: Those 1.5 lakhs pieces have to be zero defects. So there is no other way of ensuring that it is zero defects. If you have manual intervention at each and every process, then it makes the job very difficult. But if you have automated process, where you have proper system in place and proper SOP in place and the machine is doing the work correctly, then you can guarantee zero defect 1.5 lakhs piece to the customer.

Moderator: Thank you. The next question is from the line of Ajay Sethia from Centrum Broking. Please go ahead.

Ajay Sethia: If you can just take us through what is the update on SML Isuzu and Suzuki Motorcycles in terms of timeline, what are the kind of revenue which we can expect and what is the progress so far?

Abhishek Jain: We already started supplying to Suzuki Motorcycles. I think we have some new components also which are starting up this month. That has come in routine now. SML Isuzu, the development is still going on. So T-zero samples have already been supplied by us. So things are in order now.

Ajay Sethia: Any indication in terms of content per vehicle for both SML and Suzuki Motorcycles, I know it is too early to say, roughly a ball park compared to Rs. 5000-6000 which you are talking on the Sealing in the injection side?

Abhishek Jain: Right now for Motorcycle business, total we would be around Rs.400 or Rs.500 all the parts put together. But I cannot say if it is per motorcycle basis or something, but total is around that. SML side, it is still in development stage. So right now we are developing the parts for them and we are discussing more assemblies also with them. So we do not know right now how much business it is going to be finally.

Ajay Sethia: Earlier we were talking about reduction in rejection rates. Just to get a sense what is the current rejection rates, any number on that?

Abhishek Jain: Injection side, it is less than 1%, in Extrusion side it would be in the range of about 5%.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Managers. Please go ahead.

Nikhil Upadhyay: Sir, my first question was just one clarity; so the Hyundai sales which we would be catering to, would it be through the standalone company or is it through the JV?

Manish Dhariwal: Standalone company, that is main PPAP Automotive Limited.

Nikhil Upadhyay: With Chennai and Gujarat plant, once the plants have been started, I think when we met, you mentioned that what we were trying to do is moving some of the existing machines in Chennai and Gujarat. So effectively the utilization of 65% will remain the same even once Gujarat and Chennai start at the machine or the plant and equipment level?

Manish Dhariwal: It will improve. The business for Suzuki Motors Gujarat is going to be new business. That will be done by out of the existing machines.

Nikhil Upadhyay: So we have not bought any large CAPEX behind the machine side of it?

Manish Dhariwal: Correct.

Nikhil Upadhyay: Because as we are using our idle machine in order to improve the utilization, as we see the demand growing, what is the CAPEX behind putting a new line in existing facility, so basically a Brownfield expansion, what is the range of CAPEX which we need to do?

Manish Dhariwal: At this point of time, we are actually not looking at that at all because at least on the Extrusion side, one line has already been shifted to Chennai and the second line also will get shifted. So basically barring a few balancing equipments here and there, there would not be any significant investment on the machinery side.

Nikhil Upadhyay: As you mentioned like currently in Extrusion we are around 65% utilization and on Injection around 70%. What is the peak utilization rate we can achieve because I think in order to change the mould and all the things, there would be some downtime for the machine – so is 100% possible or what would be the peak utilization you generally work with?

Abhishek Jain: Generally, the targeted OEE of about 85% which includes all availability, quality and productivity also.

Nikhil Upadhyay: Sir, this is a question to Abhishek. If I look at our cash generation, our CAPEX, I think we have phenomenally improved our cash generation, the debt has been reduced, probably by next year we would be completely debt-free. So how are you looking at future scale up of the business because like in next two-three years we would have established ourselves as a strong…we are already a very strong Extrusion player, probably by the time even the Injection Molding part will grow up to a scale, so with the cash which we would be generating, are you looking at any small acquisition in a similar line or where we can increase our provisions to the OEM, so how are you working around with the utilization of cash and what line you probably are thinking of entering?

Abhishek Jain: One thing which we have decided is that we are not going to very aggressively run after top line and compromise on our bottom line. So, we firmly believe that whatever business we get from the customers, that has to add value to the bottom line, only then we are accepting that business and doing it. On the other hand, we are scouting for new opportunities in the market. We do not want to shift our focus out of the Plastics, because that is the primary line of business that is known throughout the organization. Plastics is something which we will be sticking to, but we are scouting for new products, new customers and new product lines altogether also.

Nikhil Upadhyay: Sir, where I am coming from is because if I look at the overall scale of business in Extrusion, I think in some of the previous calls you had mentioned that the overall size of the industry is close to Rs.750-800 crores and on the Injection Molding part although we have a larger way to go. So in Rs.750 crores or Rs.800 crores of an industry, once we reach a scale, then we probably become the industry itself. So do you look at …

Abhishek Jain: But there is always an opportunity, right. Right now like we have told someone on the conference call also that apart from the Indian market, we are looking at CKD export also in a very strong way and we are developing that business. Earlier we started off with one model for Nissan which was exported to UK, then we started exporting to Mexico those same parts, and ultimately we started exporting to Japan market, then we developed Honda as our customer, so we export lot of products to Honda facilities in Thailand, then Toyota started exporting our products to Venezuela and Argentina and now Renault has started exporting our products to Brazil. So this CKD export market is also quite big. So once we have exhausted the opportunities in the Indian market in a Sealing system, then we have this another vertical ready in front of us to export and we are already engaging with all the customers for this business. It is not that after India market we achieve all the customers, then that is the end of road for us.

Nikhil Upadhyay: As I was going through your annual report, the JV has actually scaled up very well in last one year and congratulations to you for that. Do you see that the

JV probably can grow at a much faster rate than what we as a standalone company can grow in terms of opportunities which are available with the JV or probably JV will grow at a rate at which we are growing?

Abhishek Jain: JV side also we are using a similar strategy. We are not aggressively growing the top line of that company, all the opportunities are there, so we are growing it slowly but whatever we are doing, we are doing it at a sustainable level in which there is profitability in whatever we do.

Nikhil Upadhyay: But the reason why I was asking more on or focusing on the growth of JV is because in some of the previous calls you had mentioned that the rubber part of it is actually a larger market than the current market which we are catering to, which means that the JV has a much larger market or much larger area to grow because as of now we are still small as compared to the market size, so that is why I was thinking that can the JV grow at a much faster rate than what we are growing as of now?

Manish Dhariwal: Nikhil, you are very correct and you must also appreciate that the base of the JV is very small. So the growth rate obviously will be higher. Secondly, you must also appreciate that it is a mature market where there are already suppliers who are there in the market supplying these products. So the competitive space is different in the Rubber Sealing side as compared to the Plastic Sealing side. That is the ground level situation which basically needs to be kind of kept in mind and as Abhishek san mentioned that the profitability of the business is a critical parameter for us to proceed on some business. We would not get into a cut-throat kind of situation just for the sake of grabbing business, it would spoil the operational strength of the business.

Nikhil Upadhyay: How many competitor would be there on the Rubber side of it?

Manish Dhariwal: Players like Anand Nishikawa, there are players like TG, then there is Cooper Standard, these are the three players who are there in this game.

Moderator: Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Managers. Please go ahead.

Viraj Kacharia: Just had a couple of clarifications one is on the CAPEX you said for next two years FY'18 and FY'19, you will be looking to spend around Rs.35-40 crores. Am I right?

Manish Dhariwal: The CAPEX for FY'18 is close to Rs.40 crores.

Viraj Kacharia: On the export side, as you were answering the previous participant that you are also looking for a dialogue for the CKD export as another growth area in the medium-term, on a broader medium-term basis, are we also looking at direct exports to OEs in different locations, is that also growth opportunity which you are exploring because you already supply to Honda Japan, so if you can provide some color or you are looking at that direction?

Manish Dhariwal: Yes, we did kind of share a thought on that earlier in the call. We are looking at opportunities. Depending upon where the particular proposal meets our specifications, yes, we will take it up. It is not that if it is a direct export, we will say no and it is not that we are not looking at such opportunities, earlier in the call we talked about IPO.

Abhishek Jain: There are a lot of IPOs mean basically international purchasing officers, lot of OEMs and Tier-1 players who have multinationals, they have opened up their IPOs in India outsourcing for competitive sourcing of parts. So now we are developing our relationship with these companies and trying to explore all opportunities.

Viraj Kacharia: So typically what is the market opportunity when you talk about from these basically?

Abhishek Jain: I cannot put a number to it.

Viraj Kacharia: Again on the raw materials side, as you talk about, we are doing a lot of internal efficiencies and we try to move up the overall gross margin structure from what we were three years back. Broadly, in terms of overall pricing, raw material cost and product pricing philosophy, you talked about Honda, but when it comes to Maruti and other customers, usually what is your broader philosophy in terms of cost variations and various raw materials, usually how we go about with passing on the key raw material cost and usually are they benchmarked or is there any particular reference, so if you can just provide some color on how this process usually flow with Maruti or other OEM.

Manish Dhariwal: In the OE business, the business is achieved at a project level. Whenever a new car model is being launched or proposed by a customer we participate at that stage and there is a structured process which we meet and follow and accordingly when we are found competitive, we get the business.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to the management for their closing comments.

Abhishek Jain: Thank you, Stanford, and a team of Concept to organize this conference call. I would like to pay my sincere gratitude to all my analysts and investors friends who took 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 happen to be in the NCR region, do give us an opportunity to show you around our world-class operations. Thank you very much.

Moderator: Thank you very much, sir. Ladies and gentlemen, this does conclude today's conference call. Thank you for joining us and you may now disconnect your lines.