PPAP Automotive Limited

"PPAP Automotive Limited Q2 FY18 & Half Year Results Conference Call"

Transcript

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

Moderator: Good evening, ladies and gentlemen. I am Melissa, the moderator for this conference. Welcome to the conference call of PPAP Automotive Limited arranged by Concept Investor Relations to discuss its Q2 FY18 results. We have with us today Mr. Abhishek Jain, CEO and MD and Mr. Manish Dhariwal, CFO. At this moment, all participants are in the listen-only mode. Later, we will conduct a question-and-answer session. At that time, if you would like to ask a question, please enter * and 1 on your telephone keypad. 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, Mr. Jain.

Abhishek Jain: Thank you, Melissa. Ladies and gentlemen, very good evening to all of you and welcome to the conference call to discuss the financial performance of the second quarter and first half of the financial year 17-18 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 the company. Kindly refer to the presentation already shared with you. Our company was originally incorporated in 1978 for the manufacture of custom made exhibition products. We commenced the automotive parts business in 1985 with the start of Maruti cars production in the Indian market. We are a leading manufacturer of automotive sealing systems, interior and injection molded products. Our company's state-of-the-art manufacturing facilities are located in Noida, Greater Noida, Chennai and Pathredi in Rajasthan. Our Green field projects in Chennai and Gujarat are also under progress. We will be starting supplies from our newly setup Chennai plant during the third quarter of this financial year. In Gujarat, we have already established our facility on rental premises and have approvals from Suzuki Motors, Gujarat to start the supplies to their plant from the next quarter.

Apart from this, our brownfield expansion in Pathredi is also nearing completion. 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 in short form. This company is in fourth year of operations. The result of this company is consolidated with PPAP on a yearly basis. In the last year itself, the company 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 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 Suppliers' Association and this year he has been appointed as Director of ACMA and myself, an industrial engineer and have been a part of PPAP for past 14 years. I am also on the executive committee of Honda Suppliers' Association. Our company's target is always to be our customers' 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. Today, we manufacture over 500 different SKUs and ship over 125,000 parts daily to our customers who are located Pan India with a target of achieving zero defect in quality and delivery.

Our core competence is in automotive sealing systems and injection products. We primarily service the passenger car segment and recently, we have started supplying to the LCV and two-wheeler segment as well. After achieving a 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 we will be starting with Hyundai for Eon model within the third quarter of the current financial year. In the LCV segment, we have SML Isuzu and BharatBenz as our customers. In two-wheeler segment, 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.

The competitive advantage offered by our company is that we have an integrated operation that offers Print to build solution to its customers. We get involved with our customers at the design stage and support each other during the entire development process. We have our own design center, tool manufacturing facility as well as an exhaustive testing and validation facility. This integrated capability gives us a very strong comparative advantage over our competitors and we are able to give our customers an integrated and cost-effective solution for their product requirements. This capability coupled with a track record of superior performance enables us to retain our market leadership position. I am delighted to share that our efforts towards design and development have also been recognized by the Government of India Department of Scientific and Industrial Research. Who have recognized our in house R&D center this year.

To give you an overview of the industry, the domestic passenger vehicle segment has seen a 9.2% year-on-year sales growth in the first half of the financial year. A total of 1.6 million passenger vehicles were sold in the domestic market and 0.36 million were exported. The industry produced 1.96 million cars which is an increase of 5.2% year-on-year according to the ACMA figures. The commercial vehicles production saw reduction of 5% whereas the two-wheeler production was at 11.9 million which is an increase of 10.83% year-on-year. Again, this is all public data which is issued by ACMA. India is poised to become the fifth largest passenger vehicle market in the short-term and achieve a status of being the third largest market in the long-term. There is a huge potential of increasing the numbers during the vast population of our country. 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%-9% according to SIAM estimates.

Now, let me take you through the financial performance for the quarter ended 30th September, 2017. The numbers are according to the Indian Accounting Standards or IndAS. For the second quarter ended 30th September, 2017, PPAP recorded a total income of 97.46 crores, as compared to 89.5 crores in the corresponding quarter of last financial year. Consequent to the introduction of the GST at with effect from 1st July, Central Excise, VAT etc. have been subsumed into GST. In accordance with IndAS 18 on Revenue and Schedule III of Companies Act, 2013, unlike excise duties levied by GST, VAT etc. are not part of the revenue. Consequently, the revenue figures of June 2017 quarter and September 2016 quarter include the excise duty whereas September 2017 figures is net of GST.

For the second quarter ended 30th September, 2017, PPAP recorded a total income of 97.46 crores against 81.7 crores in the same period last year and 82.09 crores in the quarter one of the current financial year registering a growth of 19% and 18% respectively. As we have been promising, we continue to grow faster than the industry by increasing a customer base and products. 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. We could achieve an EBITDA of 21.01 crores which is a margin of 21.5%. The EBITDA grew by 36% compared with the same quarter of previous financial year and grew by 33% compared with the previous quarter. The margins saw an increase of 2.65% and 2.43% respectively. The increase in EBITDA was primarily driven by a dip in raw material cost as well as higher operating leverage. The profit after tax recorded for the quarter under review stood at 9.21 crores registering a growth of 65% and 55%, as compared to previous year same quarter and previous quarter respectively.

The PAT margin also increased by 2.64% and 2.23%, compared to the previous year same quarter and the previous quarter respectively and stood at robust 9.45%. Due to continuous repayment of long-term loans, the interest burden is getting reduced on the company. The EPS for the quarter stood at Rs. 6.58 per share compared to Rs. 3.97 per share in the same quarter last year which registers an increase of 66%. The trailing 12-month EPS stands at Rs. 21.58 per share compared to Rs. 11.83 registering a growth of 82%. The above results were discussed in the Audit Committee meeting and approved by the Board of Directors in a meeting held today. After reviewing the sustainability of the results, the Board declared an interim dividend of 20% that is Rs. 2 per share.

I will also briefly take you through the half yearly financial figures. The total income net of excise duty stood at 179.55 crores compared to 162.36 crores in the same period last year. EBITDA stood at 36.71 crores in the first 6 months compared to 27.73 crores last year. The net profit was at 15.14 crores this year compared to 9.1 crores last year which is an increase of 66%. The EPS for the first half stands at Rs. 10.81 which is an increase of 66% compared to Rs. 6.5 last year. The debt equity ratio of the company as on 30th September, 2017 stands at 0.14. We have already done a CAPEX of Rs. 30 crores towards the new facility and maintenance of existing facilities. The capacity utilization for the first half 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. I and Mr. Dhariwal will try our best to answer your queries. Over to you Melissa.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Jitendra Golani from Spark Capital. Please go ahead.

Jitendra Golani: When Gujarat unit starts production?

Manish Dhariwal: See, the Gujarat facility will start production from the fourth quarter of this year.

Moderator: Thank you. Our next question is from the line of Vaibhav Badjatya from HNI Investment. Please go ahead.

Vaibhav Badjatya: Slightly longer term question. In terms of our product pricing, I just want to have more insight as to how our product pricing works? Whether it is for a long-term basis or how it is working? Is it like on car by car basis we set up price which is fixed for 3-4 years or it is every year we negotiate with our customers and decide on our product pricing?

Manish Dhariwal: Vaibhav, the pricing is mainly worked out at project level. So for every new project that comes up, the pricing is determined.

Vaibhav Badjatya: When you say project, what it means? It means the new product from client's end or what it means?

Manish Dhariwal: See, when an OEM plans a new car, then all the products, all the parts have to be finalized and at that point of time, the vendors are finalized and at that stage, the pricing is formalized with the vendors.

Vaibhav Badjatya: And sir that price is fixed for how many years? Suppose if we supply part to Alto for example, then for how many years the pricing is decided that at the time of product launch?

Manish Dhariwal: Typically, there is an arrangement wherein annual discussion takes place and if there are certain big changes, then the price can also get altered in the middle. Where there is a Forex risk with the customer, then as per the system the price also reflects the same on the periodical basis.

Vaibhav Badjatya: Okay, got it. So you are saying Forex risk is with the customer?

Manish Dhariwal: Yes.

Vaibhav Badjatya: And in terms of raw material prices and the way we kind of procure our raw material, so it is in which currency primarily, is it in yen?

Manish Dhariwal: It is in INR, it is in yen and it is in USD.

Vaibhav Badjatya: But large portion of the raw material would be from in which currency?

Manish Dhariwal: Now, if you look at it at a company level, then the large portion of the currency will be INR.

Vaibhav Badjatya: So just one last question from my end. I think it has been a very good run for the company from 2013-2014 onwards and it is quite encouraging to see that company has been able to maintain pricing gain on margins. Just want to know that what has changed from 2013-2014 which has made us more capable in terms of retaining our pricing and gaining our margins?

Manish Dhariwal: Basically if you look at, 2013, there were lot of issues. One was that the Forex risk was completely on PPAP and in 2013 there was a huge spike up in the yen and as a result of which, the company's profitability was affected in a very significant way. That was one. And secondly, we were only importing in yen that is from Japan. So after that, we made lot of changes. But the biggest change or the biggest differentiator has been our program of bringing in continuous operating efficiencies. Today the mantra of the company is daily improvement. Every day the work should be better than what you did the previous day and that is the mantra that guides all operations in the company across all facilities. So these efficiencies at all levels have basically brought in the improvement and the results.

Vaibhav Badjatya: But what has been the factor which has allowed us to retain the benefits of this operating improvement. I am sure competitors must also be doing operational improvement every day or every month. So what has allowed us to retain the benefit with ourselves?

Manish Dhariwal: See, our whole DNA is towards driving the customer. That is our mission vision and operating guideline. We basically work for the satisfaction and the delight of the customer. All of our activities are driven towards achievement of this objective.

Moderator: Thank you. We have the next question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Just had a couple of questions. First is on the CAPEX, you said we have done a CAPEX of 30 crores in the first half and we would be commissioning the Gujarat facility in Q4 and we have already commissioned the Chennai facility, am I right?

Manish Dhariwal: No, we have not yet capitalized Chennai facility also.

Viraj Kacharia: So what kind of CAPEX as a whole we are now looking at, you are operating at almost close to 80% utilization. So what kind of CAPEX we are looking at 18 and also for FY19?

Manish Dhariwal: See, FY18, we already mentioned that the CAPEX will be in the region of about 40-45 crores. It might go up by a couple of crores and all of it will be met by internal resources. See, once these two projects are completed, then we do not envisage any big capital expenditure program for the next 1 or 2 years. There could be an addition of one machine here or there, but that is a continuous process, otherwise there will be no large capital expenditure program once these two projects are completed.

Viraj Kacharia: So what kind of capacity increase are we looking from post commissioning of both Chennai and Gujarat?

Manish Dhariwal: See, obviously there will be some capacity increase because there will be a few new machines coming up in Gujarat, although in Chennai we are not envisaging any increase in capacity.

Abhishek Jain: Chennai, basically we are transferring existing capacities from Noida to Chennai plant. There will not be any capacity addition, but in Gujarat we are adding new machines especially for this Suzuki project.

Viraj Kacharia: So basically what kind of maintenance CAPEX we will be looking at in say FY19 or 20?

Manish Dhariwal: The numbers have not been frozen yet; however, you could say that will be in the region of about 20 odd crores. The CAPEX will be in the region of about 20 odd crores per annum.

Viraj Kacharia: Second question is on the gross margin side. You said that we have seen some gain from low raw material flowing into the gross margin. If we look at a trajectory of crude and we basically use a quite of derivatives of crude as a key raw material. If you look at a trajectory of crude in last couple of quarters, it is not moving up. But that pressure has still not seen yet. So if you can just provide some color on which raw material we seeing a softening and what is the view in terms of those raw materials over next couple of quarters?

Manish Dhariwal: See, Viraj, we have addressed this question in one way or the other earlier as well. See while the raw material that we use derives out of crude, but then with the addition of so many more materials into it, the pricing is then not determined by the crude in a linear manner. The material that we use are of specialized nature. They are all specialty polymers. So therefore yes, to some extent they will be guided, but not to a very large extent. So as you have noted that the crude has started moving up from as low as $30-35 if I remember correctly and now it is at about $ 48-50. So our raw material consumption has not been impacted one because as I mentioned, the raw material prices not moved in a similar fashion and two, the process of continuous efficiencies that we are working on, we are working on how to reduce rejection. We are seeing how we can reduce process loss, how we can improve productivity, how we can improve efficiency. We are also improving the way we are sourcing. So you know all these are bringing results. As a result, the raw material cost has been in control.

Viraj Kacharia: And was there any element of GST holding your way where you are not getting any offsets or now we are getting those offsets. So was there any element of that in the current margin profile in Q2?

Manish Dhariwal: Obviously, like since the first of July, GST has now been applicable at both levels at the sales as well as purchases. So whatever has been the change, then it has been given to the customer. So likewise we have also got some advantages from our suppliers.

Viraj Kacharia: And last question was we started supply of this bumper to Maruti. So what is the typical realization in say for these kind of products to the OE and which model will this be for?

Manish Dhariwal: See, I do not have the exact, prices of material with me right now. May be I can provide you more detail at a later point of time.

Viraj Kacharia: What I was trying to understand is it materially different from average of Rs. 1500 to Rs. 2000. I am assuming obviously there is an extrusion. So average ASP in say Maruti was somewhere around Rs. 1500 to Rs. 2000 per piece. So since now supplying a bumper, would that be materially different?

Manish Dhariwal: Bumper is an injection product, it is not an extrusion product. So obviously the prices impact. The strategy that we are following which we have shared with you all is basically expansion of our customer base and in specific de-risking of our injection moulding business which was primarily driven by Honda. So all these activities are towards that and we are continuously adding customers and in that process obviously the business per car is going to increase.

Viraj Kacharia: Last question for Maruti, what all models currently we supply to, if you can just provide the key models whom we supplied for?

Manish Dhariwal: You name it any supplier, I think we supply to all. Hardly, there would be any. I think we supply to all.

Viraj Kacharia: So also like Baleno has crossed Ignis or new Dzire or new Swift?

Manish Dhariwal: Absolutely.

Moderator: Thank you. We have the next question from the line of Ashutosh Garud from Reliance Wealth. Please go ahead.

Ashutosh Garud: What is your current capacity?

Manish Dhariwal: As we mentioned that it was in the region of about 80%.

Ashutosh Garud: That is the utilization levels?

Manish Dhariwal: Yes.

Ashutosh Garud: In the tonnage terms or whatever, what would be the total capacity we have?

Manish Dhariwal: Ashutosh, unlike a cement or unlike a steel plant where the installed capacities are very clearly defined, it is not possible in our system.

Ashutosh Garud: So how do you calculate this 80%?

Manish Dhariwal: That is a good question. So basically how we do it is that in our injection molding, we have more than 35 machines ranging from 60 tonnes to 2,500 tonnes. We produce than 500 parts and we supply close to 150,000 parts every day. So there is a lot of planning that goes, which part is going to be run in where, in what machine, which plant and from there, we get some utilization details. And from there, we can broadly say that okay this is what our capacity utilization is.

Ashutosh Garud: So what is the maximum utilization level we can go?

Manish Dhariwal: It is about 90%-95%.

Ashutosh Garud: And what was the utilization levels previous quarter?

Manish Dhariwal: These were about 75% only.

Ashutosh Garud: 75% in Q1 and same quarter last year?

Manish Dhariwal: Yeah. I do not have the figures like offhand, but obviously it will be lower.

Abhishek Jain: Ranging between 65%-70%.

Ashutosh Garud: So this basically means we are putting to use the kind of utilization, predominantly the utilization level increases, the reason why we are seeing this topline growth happening in our company?

Manish Dhariwal: Yeah, absolutely.

Ashutosh Garud: And this capacity, so maybe if you do not have the total capacity, at 90-95% kind of utilization levels, we would be in position to do a topline, what kind of topline we can do?

Manish Dhariwal: I think it will be about 450 odd crores if there shouldn't be a problem.

Ashutosh Garud: At the current capacity, we can do a topline of around 450 odd crores?

Manish Dhariwal: Yeah.

Ashutosh Garud: And you mentioned that this shifting to Chennai facility will not add anything to the capacity?

Manish Dhariwal: That is correct.

Ashutosh Garud: Capacity will remain same.

Manish Dhariwal: Yes, because we are shifting an existing line from our existing facility in Noida to the new facility in Chennai.

Ashutosh Garud: And why is this happening?

Manish Dhariwal: Basically, we are going closer to the customer as per the requirements of the customer. So the parts at present are being supplied from Noida and they were getting finished, the finishing operation was being done in the rented facility in Chennai.

Ashutosh Garud: So you already have a plant in Noida and Chennai basically?

Manish Dhariwal: We have 2 plants in Noida and we also have a facility in Chennai, but that is on rented premises and that basically does the last mile operation or the finishing operation or the assembly operation as we call it. But the facilities are the greenfield facilities that we are putting up on our own land is a complete plant right from the raw material to the finished good stage. So that the initial part of the operation which is currently being done out of Noida for the products that are being sold in Chennai and so once this facility is started, will be done in Chennai itself.

Ashutosh Garud: So how much have you spent for this?

Manish Dhariwal: The expenditure is in the region of about 15 odd crores which is towards the setting of a plant, utility and balancing equipment etc. because the production is being shifted from Noida.

Ashutosh Garud: And when is this shift completely taking place?

Manish Dhariwal: Shift has already happened. Now, customer approvals are required and once they are received, that facility will start working.

Ashutosh Garud: So when is that expected to be?

Manish Dhariwal: This quarter that is third quarter of the current financial year.

Ashutosh Garud: But you mean to say even if this happens, you would not see any upward shift in your revenues. Is that so?

Manish Dhariwal: That is correct. Initially, yes.

Abhishek Jain: Initially. Strategically, this plant will be very important to attract all the players, all the automotive manufacturers which are there in the Southern region.

Ashutosh Garud: So that would be in future. I am just saying from Q3, margin at you are operating, so there would not be any upward shift trajectory in the quarterly topline which we see or there would not be, right?

Manish Dhariwal: Yes.

Ashutosh Garud: That is one. So in case of your Gujarat facility, what is the capacity you are adding. Maybe if you cannot quantify in the tonnage or something, then on the revenue terms what is it if it is let say operating at 90%-95%, what is the revenue potential of that capacity?

Manish Dhariwal: We are adding 4 machines. We bought new 4 machines for the facility in Gujarat and the revenue visibility does not take time because the business also is increasing, at this point of time it is very difficult to kind of give you an approximation.

Ashutosh Garud: No, I am not saying like you do that, I am saying if you are adding 4 machines, what kind of revenue do these 4 machines if operating at the highest utilization level, generally deliver. I am not saying that you will do that in next 4 quarters or 8 quarters, I am just saying that what is the potential?

Abhishek Jain: It would be about 10-15 crores.

Ashutosh Garud: Per year?

Abhishek Jain: Yeah, to start with. Because we are developing parts for only one model right now for SMG (Suzuki Motors Gujarat) and that volume is 2.5 lakhs per year. So initially, it will be around this and then of course the way we are building a plant, we can add future machines and increase revenues from that plant. But one thing to know is that after establishment of this plant, we got good relationship with Suzuki Motors Gujarat and even the Maruti people are very happy with the kind of setup that we have done for them. In fact today only the Vice President of Purchasing and Operating Head from Maruti was in our plant and he was very satisfied with the way things are there. So we see lot of potential in that location especially from SMG going through.

Ashutosh Garud: How much have you spend on this Gujarat facility?

Manish Dhariwal: It will be about 12-15 crores, then it will increase a little by the time this facility reaches the commission stage.

Ashutosh Garud: Out of this 12-15 crores something will be spent in the next financial year also?

Manish Dhariwal: Hopefully, not. We are expecting that the project will get commissioned before the end of this financial year.

Ashutosh Garud: So you spent 15 crores on Chennai facility this year and let us say this 15 crores on Gujarat facility, then where have we spent the balance 15 crores you mentioned about 45 crores total CAPEX?

Manish Dhariwal: There is other balancing equipment, then maintenance CAPEX. That is a continuous process.

Ashutosh Garud: So basically our capacity is not increasing, if I understand

Manish Dhariwal: Capacity is increasing because 4 machines that have come up.

Ashutosh Garud: No, so your revenues can go up only because of your utilization levels if they go up. Apart from that, incrementally you are saying the Chennai facility is not going to add anything on the revenues and in case of Gujarat facility, it is going to add only 10-15 crores of revenues as per this 4 machines which you have setup right? So predominantly if we see, we would be at max going to around 400 odd crores kind of a revenue and then maybe incrementally if there is any other CAPEX to increase the capacity, only then we will see the next leg of growth on the topline, right?

Manish Dhariwal: Yeah, maybe you could say that.

Ashutosh Garud: So we are not thinking in terms of how to take this revenue to let say 500 or 600 crores kind of, that CAPEX you will announce as and when you think it is appropriate time not now or how is it?

Abhishek Jain: We review you all the CAPEX requirements on a monthly basis. So we are very frugal in our investments. So we do not want to invest ahead of time also and get late with the investment also and when we have any project coming up with the customer, which is adding to our bottomline which we have agreed, so based on that then we plan for any additional capital expenditure. So maybe this year by the next 6 months if we have some more better opportunities with the customers, we may increase the CAPEX and add more machines in our existing plants. So it is a very frugal kind of situation and very volatile. So today we might commit to you that we will invest just about 10 or 15 odd crores more, but in case there is an opportunity and we have everything in place and it is feasible, then we might increase that to 20 or 25 odd crores.

Ashutosh Garud: How much time would you take to let us say go ahead and do the CAPEX and set up the facility and that facility starts generating revenues for you. Is it 6 months, is it 18 months, is it 12 months? How much is it?

Abhishek Jain: See, our manufacturing facilities are already setup. So, we do not have to wait for the building to come up now. That is already setup this year in all the strategic locations. When we are buying a machine, that machine lead time varies from 3 months minimum to about an year depending upon the size of machine which we order. So we have enough time anyways to plan for all these things because if an OEM decides to give us business, then the lead time for development is anyways at least between 1 to 2 years. So it is not that we will be constrained by not having capacities. And second, in case there is a capacity concern from our own facility, so we have short listed couple of suppliers who are there around our facility to whom we can outsource the noncritical parts thereby creating capacities in-house for more critical parts. So capacity not being available is not going to be a deterrent for our growth going forward. So we will either invest in capacity or we will outsource the parts to a capable supplier who can deliver us a zero defect product.

Ashutosh Garud: Sir at 80% utilization level, your ROEs are at around 11%-12%. So any comments on what kind of internal ROEs are you trying to target?

Manish Dhariwal: This quarter ROCE we calculated was upwards of 20%. So I would like to understand from you how you calculate the same.

Ashutosh Garud: On the FY17.

Manish Dhariwal: We can have an offline discussion because now ROCE and RONW are something that we are very focused to and in fact as MD san also shared that we are very frugal towards future investment.

Moderator: Thank you. We have the next question from the line of Dhiral Shah from Asit C. Mehta. Please go ahead.

Dhiral Shah: Sir, earlier you have guided for a margin value between 17% to 18%. Now you have delivered a 21% margin. So now you know crude trading almost at above $60. So is this a one off kind of a margin you have posted or this kind of a margin are sustainable in future?

Abhishek Jain: See, we have always said that we are comfortable with a margin of around 18% to 20%. So in our last conference call also we said that we are quite comfortable with it and it will generally be around this range.

Dhiral Shah: So you think this 21% margins are not sustainable, it will again come back to 18% to 20% margins.

Manish Dhariwal: See, I must add here. Few things we have always said that 18% plus minus a percent here or there is something that we are very confident about. However, as turnover moves up operating leverage comes into play and that basically causes the expansion in the EBITDA levels.

Dhiral Shah: Okay. So what is the current inventory days?

Manish Dhariwal: See, 23 crores is the inventory. So it will be 23 odd days, 23-25 days. Total, I am talking about which includes everything like from raw material to finished goods, plus the tooling that we are working on right now.

Dhiral Shah: So now we have crude even trades about $60 you are comfortable that you are going to maintain this kind of a margin, right?

Manish Dhariwal: Yeah. You could say that. Although we are not kind of committing this kind of margins.

Dhiral Shah: Okay. And sir your revenue growth was almost 19% and in your starting comment, you said 4-wheeler volume growth was around 9%. So is this contain some kind of a tool revenue?

Manish Dhariwal: Yeah, tooling revenue is there in this. But it is only of about 1.2 crores.

Dhiral Shah: Okay, 1.2 crores only.

Manish Dhariwal: Yeah.

Dhiral Shah: Okay. So now you have started also now adding two wheelers. So is this high volume low margin kind of a business or you guys also has a same kind of a margin business?

Manish Dhariwal: The margins are not as lucrative as the 4-wheeler business. But we are being very cautious and choosing the kind of business that we are taking on. Only we are looking at the opportunities of value addition and we are trying to take those parts.

Dhiral Shah: So what are you going to supply to this Honda Scooter sir?

Manish Dhariwal: The seat base.

Dhiral Shah: Okay and sir have you started supplying to Hyundai?

Manish Dhariwal: Yeah, Hyundai we will begin like, it will begin in this quarter itself.

Dhiral Shah: Okay. And sir any new tie up which are on the way?

Manish Dhariwal: Yeah. We are working on lot of initiatives and as you have noted that the results are also coming in. So I don't know whether you were there in the earlier call or not, but then you know we completely reorganized our marketing setup and we are now putting in very focused efforts towards all the directions and the results are coming in. So hopefully yes, conversions will take place in future as well.

Dhiral Shah: So currently your 95% to 100% revenue let us say comes from four wheelers. So do you have any 2020 targets where in you can diversify your business to two wheelers or let us say LCV and passenger vehicles?

Manish Dhariwal: Well, I say the point is that instead of putting a target of 25% from here or 20% from there, we are focusing on the activity. The share in non-four wheeler business will increase, as new business comes.

Dhiral Shah: And sir, lastly sir do you also supply to Suzuki Motor Cycle?

Manish Dhariwal: Yes. We would be very happy to note that the business in Suzuki Motor Cycles is actually increasing. We started with one model and now we are already working on their second model. For the second model, toolings are being made.

Dhiral Shah: And sir what kind of margin is expected in two wheeler? Because you just said that it is a low margin business. So what is the sustainable kind of a margin?

Manish Dhariwal: The business is not as lucrative as it is in the passenger car business. We are being very choosy in the kind of business that we are taking on. We are trying to ensure that we are able to protect our margins.

Moderator: Thank you. We have the next question from the line of Milind Muchhala from Julius Baer. Please go ahead.

Milind Muchhala: I just had a few questions. So first of all sir, what would be the contribution of our top 3 customers?

Manish Dhariwal: See, the top 3 customers of the company are Maruti, then Honda and then Nissan and between the three of them, they contribute close to about 80% to 85% odd revenue.

Milind Muchhala: And sir in this particular quarter we saw a very sharp jump in the revenues, almost 20 odd percent. So what led to this particular growth. So was it introduction of new products that we saw in this quarter?

Manish Dhariwal: That did play a role and also I would like to add that Honda also did brisk business this quarter and Maruti anyways is continuing on a very healthy trajectory.

Milind Muchhala: Right. But then what would be the contribution of new products, so let us say the 98 crores topline that we have done. So the new products would have contributed what around 10% of the revenue or what would it be?

Manish Dhariwal: See, I don't have this figure at the moment.

Milind Muchhala: Okay. So because the thing is, looking at the run rate that we have right now and what you spoke about is at the peak utilization we could generate revenues of somewhere around 450 odd crores. At the same time you are also maintaining that there are no significant CAPEX requirements. So probably we might get into a scenario where a year or year and a half down the line, we could be hitting that peak utilization levels. So in that case ideally we should have started working on the next level of growth. So just wanted to know

Manish Dhariwal: See, we understand your question and we are very aware of this. Our plant unlike cement or a steel furnace, where a furnace has a defined capacity and once that capacity is achieved then you need to set up second furnace. We have a plant, we have individual machines there and at all the facilities that we have the locations that we are present in, there is a scope for adding new machines. So we will not be required to further invest in setting up the plant or setting up the utilities etc. and we will be required to add a couple of machines and balancing equipment, that should not be very difficult. So we have scope for expansion at all the locations that we are present in.

Milind Muchhala: And sir typically what would be our sales to CAPEX ratio?

Manish Dhariwal: So we would be talking about asset turnover. See, we are trying to really stretch it to beyond 1-1.2, but it is around that level only.

Milind Muchhala: So right now, it is just the four wheelers which has the contribution right now. Two-wheeler does not have any contribution to revenues?

Manish Dhariwal: Not significant contribution.

Milind Muchhala: And so where do you see the share of non-four wheelers maybe 2 or 3 years down the line?

Manish Dhariwal: It will certainly improve and the de-risking activity that we are working on, will certainly bring results. But if you ask me would it be 15% or 10%, it is premature to say. And we would not like to kind of hazard a guess at this stage. The turnovers does not shoot up on the day one. These businesses, grow gradually. So like you know we started in Suzuki Motor Cycles. You know we started with just two parts and now they are very happy with our performance, with our supplies and deliveries and we have already got the contract for their next model.

Milind Muchhala: And sir, in case of our existing relationship that is especially the likes of say Maruti or Honda and all and this is for the existing parts that we are supplying. So a year, what is the level of penetration that we have with these customers in the sense how many competitors would be there and would our growth be linked to their incremental growth or still there is pretty much room available to kind of grab share from the competitors?

Abhishek Jain: On the injection side, we have a huge opportunity to grab business from our competitors. But on extrusion side, we are basically the leaders right now. Especially for the plastic sealing systems, with Japanese customers we already have a leadership position. We are trying to grab business from people who are importing this products from outside, like Hyundai. Hyundai is currently importing everything from Korea. Then we are also trying to get business from Volkswagen and Tata we have already got business from our competitors. So injection moulding would be the primary area where we have a lot of competition and we are trying to grab business from the competition.

Abhishek Jain: Rubber Sealing systems, the product that we make in our joint venture company, there we have a lot of competition. So there we are trying to grab business from them.

Milind Muchhala: So any particular products that you are targeting so say we have spoken about bumpers, so apart from bumpers are we looking at something like the dashboards and all as well or anything that specifically excite you?

Abhishek Jain: So we are developing dash board for a customer in the commercial vehicle space, and bumpers we have already started for Maruti. So basically what we have looked at is how we can effectively use the spare capacities that were available to us and then we have gone ahead and spoken to customers and got the businesses from them.

Milind Muchhala: Alright. But sir in these products, so you already have a very strong competition in the form of say Motherson. So how would we able to kind of differentiate ourselves or make inroads?

Abhishek Jain: See, first of all, if you have time I would invite you to come visit our facilities. Our current focus is on achieving manufacturing excellence across all the operations. So all our facilities, they are actually quite well ranked and well reputed with all the customers. So when a customer comes to us, they almost rate us at international standards and we have a track record of performance with them when it comes to quality or delivery and now especially like in the recent past fire and safety has become a very big issue with all the customers. So everything, safety, quality, cost, delivery everything in all parameters we are able to not only meet the customer expectations and we are able to exceed them also. Like whatever audits these guys do they rate us almost one of the best in the industry. So that is what makes us very attractive for the customer because then he has confidence that once I give these guys the parts, then I don't have to worry about everyday issues of quality or delivery and I know that the tooling will be taken well care of. The development of the part will be smooth. The delivery of the parts will be smooth and my line which will not stop. So, all these things cumulatively make us attractive for the customers to come to us.

Moderator: Thank you. We have the next question from the line of Deepak Sawhney from Elara Capital. Please go ahead.

Deepak Sawhney: I have 2-3 observations and couple of questions. So why is that while I was looking at your numbers, you have delivered a great set of number for this quarter. So actually it is similar number what you have given in the March of 2017 whereas you know because the topline is similar in the profitability and margin that time it should be close to 21%. I think so June numbers where you saw actually a sequential decline of 15% in topline and merely 22% in EBITDA, I think is it in this quarter we are making up for the last quarter's fall?

Manish Dhariwal: Sorry I missed out the last bit of the point. What was that?

Deepak Sawhney: So I said, is it somewhat we missed out in the previous quarter in terms of delivery and we have made up in this quarter a shortfall of some sort of the previous quarter.

Manish Dhariwal: See, number one. The industry works on a just in time concept. So there is issue of missing out on the previous quarter and doing it in this quarter doesn't exist.

Deepak Sawhney: No, because if you add 6 months, this year versus the 6 months of the previous 2 quarters, you were actually the same even in the topline and even in the margins and even on the EBITDA.

Manish Dhariwal: If you total, what?

Deepak Sawhney: If you total September numbers and the June numbers

Manish Dhariwal: I will elucidate on this. See, our business has two components. See, one is the sale of parts and the second is the sale of tools. So in the December 2016 and the March 17 quarter, we did a total sale of tools of over 17 crores. And in the two quarters that is the June and the September quarter, the total tool sales is in the region of about 6.5 crores only.

Deepak Sawhney: Okay. So that bifurcation was not coming into number. That is the reason I asked you this question.

Manish Dhariwal: We give that data now.

Deepak Sawhney: Secondly, as you say that the return on equity and ROIC which is pretax, you are delivering close to 14. Your numbers are suggesting, in 3 years you have moved from virtually 8% to 14.5%.

Manish Dhariwal: ROCE is upwards of 20% in this quarter.

Deepak Sawhney: No, I agree for this quarter. But actually your return on operating asset is actually 9%. Despite your ROIC is 14%-15% for 2017 March ending numbers and something like 20% for this quarter. But your return on operating assets is actually half of it, 9.4% or something like that.

Manish Dhariwal: If you could help me with the formula?

Deepak Sawhney: I mean, it is a very long formula. It is adjusted operating profit of 2017 divided by operating assets of 2016. And in operating assets, you will have to take all sorts of operating assets towards the provision and impairments and minus the other income, interest income and extra ordinary items etc. which I can share with you.

Manish Dhariwal: Would like to understand this from you.

Deepak Sawhney: So that is the big gashing difference whereas in other companies like Motherson and all, their return on operating assets is very close to their pretax ROICs. So this is pretty baffling, although you have reduced your tax from 83 crores to 58 crores. Your gross block has moved up from 306 to 375 crores. But I believe your CFO, which is cash flow from operations which is 70 crores for the year had a component of something like 15 crores of payables increased basically which means you are so efficient in terms of all your operations I think to **(Inaudible)** which bumped up your CFOs drastically. So today it looks like I will ask you a straight question, is there a dilution on cards or placement of large equity to somebody, because numbers suggest that?

Manish Dhariwal: We do not have any plans for dilution because our existing debt equity is at 0.14% and as we mentioned during the call also that we are actually repaying all the debt and all our capital expenditure program is all going to be met by internal resources.

Deepak Sawhney: No, dilution in the sense that it is ready to some large investor or strategic because numbers are looking pretty good undoubtedly.

Abhishek Jain: No, let me assure you, we don't have any such plans at all.

Deepak Sawhney: No. I agree, but I think we should use this as an opportunity

Abhishek Jain: We will discuss this offline Deepakji because we don't understand the concept that you are saying. It is slightly new for us, so understand it offline with you and then we can understand what is the concern. We are not able to understand.

Manish Dhariwal: We will be most happy. In fact I would like to understand from your formula of return on operating assets. Because my understanding was that for computing return on operating assets we reduce the investment amount that has gone into PTI and which does not give any return to PPAP standalone at present. Once we do that, then return ratio will be even more attractive. But what you are saying is that would be half. So actually I am confused at the moment, but then since we are on a call where there are so many people on it, so I would be very happy to understand this concept from you and take any learning because we take this feedback in a very positive way to improve our working.

Deepak Sawhney: No, I will send you an email and with all these calculations will suggest you

Manish Dhariwal: But then let me again reiterate that it is very good that you asked in a very transparent manner. There is number one, no plan for any dilution of any sort and two, there is no effort made to stretch the CFO or to improve the cash flow. So it is basically what it is.

Moderator: Thank you. We have the next question from the line of Harish Siyad, an Individual Investor. Please go ahead.

Harish Siyad: I am attending this call for the first time because recently I invested in your company. I have a few questions on, one is on the JV, can you tell us how the JV is working in current year as such?

Manish Dhariwal: See, the JV is on its own growth trajectory and in fact as we mentioned earlier that right in the third year of its starting operation, we became PAT positive and you will be happy to know that all the three top customers of the country, top 3 OEMS in the country are already customers which is Maruti, Honda and Toyota and the business is growing at a fair pace, It is a tough environment there because there is a huge competition in that area but yes we are striving and results are coming.

Harish Siyad: Okay. A small request to publish the consolidated quarterly number so that we get update on your JV also.

Manish Dhariwal: We consolidate the numbers on an annual basis and I think now with the IndAS again some changes are going to be taking place. So we have noted your point and we will see what we can do.

Harish Siyad: Okay. One question is on the Chennai plant, was there any loss of sale or any one-time cost incurred for the shifting from Noida to Chennai.

Manish Dhariwal: See, number one that no loss of sale has happened yet and number two, see that is not possible because the customers operations are running on a regular basis and there can be no disruption in that.

Harish Siyad: Okay. Any one-time cost incurred for shifting the machines and everything?

Manish Dhariwal: Yes.

Harish Siyad: If it is a one-time then it will not get repeated next time, right, so then profit margin will be improved to that extent next year, right? That is what I am trying to understand.

Manish Dhariwal: Yeah. Possibly yes.

Abhishek Jain: But you know we have kind of reduced that also because anyways our trucks were going from here to there taking our parts. Whatever extra space was there, we continue to send machines over a period of time.

Harish Siyad: Okay. In the current year so far how many new models you have started catering now?

Manish Dhariwal: We are supplying to the new Dzire, then before that we started supplies to the WRV, then the hatchback.

Harish Siyad: The last question now. You said that in Gujarat we are putting up the four machines. So like that how many total machines we have as of now?

Abhishek Jain: 35 we have right now and four is getting added. So total will be 39.

Harish Siyad: So Maruti, the Suzuki, Gujarat as of now we are catering only one model as you said right now?

Abhishek Jain: We are making only two models right now one is the Baleno which has already sourced earlier. Which will be transferred basically from their Manesar plant to Gujarat plant. It is not a new model and this new Swift hatchback is launched now.

Harish Siyad: That will be hatchback?

Manish Dhariwal: We are there in both the models, just for clarity.

Moderator: Thank you. We have the next question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Just one clarification. This utilization which you talked about 80%, is that 80% both in sealing and injection moulding or if you can just clarify on that?

Abhishek Jain: This is on a company level 80%.

Viraj Kacharia: So if you talk about sealing and injection moulding separately, then how much would that be?

Abhishek Jain: Sealing would be about 60 odd percent, 60%-65%.

Manish Dhariwal: 70 odd percent yeah and that would be 85 odd percent on the injection side.

Viraj Kacharia: Got it. And you talked about us probably utilizing some of other probably players capacity in the market place. So is it for sealing or it is more in the injection moulding side?

Abhishek Jain: Only for injection. Sealing we don't have any players making these parts.

Moderator: Thank you. We have the next question from the line of Bhasker Chakraborty from Smart Karma. Please go ahead.

Bhaskar Chakraborty: The Hyundai Eon contract, is that a test contract, is that the test phase or that is the real contract after the testing phase is over.

Manish Dhariwal: So it is a real contract.

Abhishek Jain: Testing already we have cleared now.

Manish Dhariwal: All that is done. It is the beginning of big possibility with Hyundai.

Bhaskar Chakraborty: And that is starting only with one model right now sir.

Manish Dhariwal: So right now it is staring with Eon and then next activity will basically be driven from this one.

Bhaskar Chakraborty: Okay and this tool sales of 1.2 crores this quarter, what is the corresponding number for last year sir?

Manish Dhariwal: The last year, same quarter again was about 1.2 crores only.

Abhishek Jain: It is 1.23 crores.

Bhaskar Chakraborty: And is there an element of inventory gain in the EBITDA that we are seeing in this quarter sir?

Manish Dhariwal: Inventory gain as in?

Bhaskar Chakraborty: of Inventory at lower cost that you had at the end of the first quarter, that you are able to sell at higher price in the second quarter.

Manish Dhariwal: It is not by design, it is a process.

Bhaskar Chakraborty: But since you are saying that with margins are going to be more like 18%-19%, are we going to see a reversal of this in the quarters ahead?

Manish Dhariwal: See, it depends upon what kind of turnover happens. So see the variable cost is going to be remaining at the level that we mentioned. But then the fixed cost, obviously has the play.

Bhaskar Chakraborty: But what is your fixed cost go up a little bit with these new plants coming in over the second half?

Manish Dhariwal: The fixed cost has its own trajectory, the inflation, the increments, the annual growth that happens. If the business growth is higher than that, then there is operating leverage that comes into play. So hopefully the next two quarters are as good.

Moderator: Thank you. We have the next question from the line of Vaibhav Badjatya from HNI Investment. Please go ahead.

Vaibhav Badjatya: Just a follow up question. So do we have any other competitor within 100 km range of the Maruti's Manesar plant?

Manish Dhariwal: Yes, definitely.

Vaibhav Badjatya: And what will be the situation for our new plant Gujarat, we have competitors near Maruti's Gujarat plant?

Abhishek Jain: Currently there are only 4 companies from NCR which have gone to Gujarat for injection parts who were existing suppliers to Maruti. But apart from that, there is a local industry there for injection moulding. We don't know if Suzuki will buy parts from them and what is their current level of quality and delivery. As far as existing supplies are concerned, there are only four players which have gone to Gujarat.

Vaibhav Badjatya: But is this closest to customer is really important from transportation cost perspective or from any other perspective, is it really important or it is not a very big factor?

Manish Dhariwal: It is important, at least in the injection moulding side, see, for Honda we do big parts like the door linings or the fender. So proximity to the customer is a very critical factor. It does make a difference.

Vaibhav Badjatya: So is it from cost management perspective.

Manish Dhariwal: Cost management, quality, transportation, logistics, yes it makes a difference.

Moderator: Thank you. We have the next question from the line of Manik Jagtiani, an Individual Investor. Please go ahead.

Manik Jagtiani: Just wanted to know whether in any way PPAP is going to be reinventing itself or be prepared for the electrical vehicle revolution that is going to happen. Are you going to be in a position to face the challenges or overcome them or ride over them? If you can tell us something that electric vehicles will do to transform PPAP or affect PPAP in any way.

Abhishek Jain: See, first of all I think this whole electric vehicle thing is becoming, is blowing out of proportion because technology is still not very well established. I think if you read the newspaper today, so Mr. Ayukawa who is the Managing Director of Maruti, he has also commented that today the technology is not very well established. There are issues ranging from safety of this Lithium ion batteries to disposal, to recycling and especially the infrastructure for charging and everything. So electric vehicles still remains a distant reality. It will happen but, it is not going to happen very soon. And when it comes to the products that are manufactured by us, so every car needs a sealing system. So from that and every car needs these interior door panels and other parts which are made by us. So the only challenge that we see in this electric vehicles is that we will have to develop some new designs for the customer which are primarily lighter in weight and smaller in size. So that capability we have already developing in-house, so we have a design team of about 25 engineers in-house who are continuously engaging even today with the customer to reduce the weight of the product from design point of view and injection side also our engineers are getting trained in overseas centers in Thailand which are from our technology partner. So electric vehicles, as far as PPAP is concerned, from our existing product range, yes, there will be a challenge on the design side of the product, but from an existence point of view I don't think electric vehicle or any other ICE engines will be of, is very different for us.

Moderator: Thank you. As there are no further questions, I would like to hand the floor over to the management for their closing comments. Please go ahead, sir.

Abhishek Jain: Thank you, Melissa 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 on us in case you have any further questions. Also if you happened to be in NCR region, do give us an opportunity to show you around our world class operations. Thank you.

Moderator: Thank you all for being a part of the conference call. If you need any further information or clarification, please mail us as parin@conceptir.com . Ladies and gentlemen this concludes your conference for today.