PPAP AUTOMOTIVE LIMITED

(Formerly Precision Pipes and Profiles Company Limited)

"PPAP Automotive Limited Q1 FY17 Results Conference Call"

Transcript

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MANAGEMENT : MR. ABHISHEK JAIN - EXECUTIVE DIRECTOR

MR. MANISH DHARIWAL – CHIEF FINANCIAL OFFICER

Moderator: Welcome to the Conference Call of PPAP Automotive Limited, arranged by Concept Investor Relations to discuss its Q1 FY17 Results. We have with us today, Mr. Abhishek Jain – Executive Director and 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 any questions please press '*' and '1' on your touchtone telephone. Please note that this conference is being recorded. I now hand the floor over to Mr. Abhishek Jain. Thank you and over to you, sir.

Abhishek Jain: Ladies and Gentlemen, A Very Good Morning to all of you and welcome to the Conference Call to discuss the Financial Performance of the Q1 of Financial Year 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. I apologize if some of you have to listen to this introduction again and again. Kindly refer to the presentation already shared with you.

The Company was originally incorporated in 1978 for the manufacture of Custom made Extrusion Products. The Company commenced the Automotive Part business in 1985 with the start of production of Maruti Cars in the Indian market. The firm was converted into a public limited company in 2008. In May2014, we changed the Company's name to PPAP Automotive Limited.

We are a leading manufacturer of Automotive Sealing Systems, Interior and Exterior Injection Molded products. Our Company's state-of-the-art manufacturing facilities are located in Noida, Greater Noida, Chennai and Pathredi in Rajasthan. All our plants are TS16949, ISO 14001and OHSAS 18001 certified. We are working with three Japanese companies for our technology requirements. Our relationships with these companies are up to25-years old. Apart from our main Company, we have established a joint-venture company with our technology partners as well. After the establishment of this Company, as a group, PPAP can cater to the requirements of the entire Automotive Sealing System 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, who is the Chairman and Managing Director. He is currently serving as 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 number one supplier. We strive to proactively meet the customers' expectations and are continuously evolving our products and services to meet their 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. As you can see in the presentation, the products that are manufactured by us for the Automotive Sealing System. The Injection products are also being shown in the presentation which is already shared with you.

The Company primarily services the Passenger Car segment and has started supplying to the LCV segment as well. All Japanese OEMs operating in India are our customers. A few European and local makers like Tata and Mahindra are also being catered by us. We are doing CKD (Complete Knock Down) exports of about 10% of our products through our customers to countries like Japan, Europe, Mexico, Venezuela and other countries. We are also capable of doing In-House Designing, Tool Manufacturing as well as Testing and Validation. This integrated capability gives us a very strong competitive edge over our competitors as we are able to give our customers an integrated cost-effective solution for their product requirement. We have a track record of superior performance with all our customers and we will continue to be amongst the preferred supplier for our customers.

Now, I will take you through the Financial Performance for the current Quarter. The detailed slides have already been shared with you; I would like to give you a brief summary of the same. For the first quarter ended June 30, 2016, PPAP recorded a total income of Rs. 80.99 crores as against Rs. 73.23 crores in the corresponding quarter last year. These figures include tool sales of Rs. 12.17 crores against nil in the corresponding quarter last year. This income is largely linked to the start of productions of new models by our customers. The other income reported for the current quarter is Rs 33.59 lakhs, which is the investment subsidy received from Rajasthan Government towards our Pathredi manufacturing facility. This is a seven-year subsidy receivable on a quarterly basis and will continue till financial year 2022.

The EBITDA grew by 2.8% in quarter one at Rs.12.62 crores as compared to Rs.12.28 crores in the quarter one of last year. The Company's EBITDA margin stood at 15.58%. Subsequently, profit after tax growing by 20% was at Rs. 3.57 crores in the current quarter, compared to Rs. 2.97 crores in the same quarter last year.

For the quarter under review, the part sales have been lower compared to the previous year, owing to shutdowns, inventory adjustments and unfortunate incidents at another Tier-I supplier for our common customer. Our unfettered focus towards improving the operational efficiency across each and every aspect of the Company still continues. We are exploring a number of growth avenues which coupled with the improvement in economic factors shall result in a healthy top-line going forward.

We are continuing our development of parts for many new models which will be launched by our customers in the next two to three years and are continuously discussing with them about the new models and new products thereafter.

As I said before, we are continuing our track record of superior performance with all our customers. Our parts are used in some of the latest models which are recently launched like Datsun Redi-GO, Toyota Innova Crysta, Honda BRV and Tata Tiago, and of course the blockbuster models Maruti Vitara Brezza, Baleno and Kwid.

The debt-equity ratio is also under control and we are in a comfortable position to effectively manage our exposures. If you look at the trend for the previous three years, we have been improving on all parameters. Minor aberrations are there but we are making our best efforts to sustain the improved performance.

Now, I would like to leave the floor open for any questions that you may have. Myself and Mr. Dhariwal will try our best to satisfy your queries with clear answers. Janis, over to you for managing the questions, please.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with a question-and-answer session. We have the first question from the line of Mr. Samarth Sanghavi from Phillip Capital. Please go ahead.

Samarth Sanghavi: Just some basic questions in order to understand the business a little better. Could you please tell me what would be the current, I mean, if you could explain in terms of capacity where we are in terms of utilization and our current capacity existing and any CAPEX plans?

Manish Dhariwal: The current capacity utilization would be in the region of about 70-odd%, in total.

Samarth Sanghavi: And I believe that we do not envisage any CAPEX plans currently?

Manish Dhariwal: See, The CAPEX plans, as we are already on record, we are setting up a plant in Chennai, that process will continue, because that is a customer specific requirement.

Samarth Sanghavi: So what would be your outlay for this? I am sorry, I am unaware of it.

Manish Dhariwal: This year we are looking at in total about Rs. 30 crores to Rs. 35-odd crores of capex which includes the CAPEX required for the Chennai plant.

Samarth Sanghavi: And your revenue visibility from the CAPEX plant, sir?

Manish Dhariwal: Our customers which are being serviced, from our rented facility, they will get facilitated from the new facilty. Over a period of time it is also a plan to improve our supply chain which will basically bring in more efficiency.

Samarth Sanghavi: So, your existing facility which is supplying would become free, would that be correct to assume?

Manish Dhariwal: Yes, the existing facility that we are working from which is rented premises, that facility will get transferred to the facility that is under construction right now.

Samarth Sanghavi: Sir, just looking at, I mean, just listening to what you were saying before, top-line has been Rs. 80.99 crores with tool sales of Rs. 12.17 crores which did not exist last year. So, would that be fair to say that on a like-to-like basis your sales have actually declined if we eliminate tool sales?

Manish Dhariwal: Correct.

Samarth Sanghavi: So, any reasons for that, sir?

Manish Dhariwal: Yes, some shut downs at the customers' end, some of which were not planned. And if you are tracking the passenger car industry, you would also be aware of an unfortunate incident that happened at one of the Tier-I suppliers with a common customer. So these are some of the reasons why our turnover took a dip.

Samarth Sanghavi: So normalcy returns which would revert back to the mean?

Manish Dhariwal: Yes, absolutely.

Abhishek Jain: That is why I said, these are all minor aberrations which have happened this quarter,

Samarth Sanghavi: Sir, just one final question, what would be our current debt levels?

Manish Dhariwal: Current debt level is in the region of Rs. 65 crores which includes the working capital debt as well.

Samarth Sanghavi: That would be how much, sir?

Manish Dhariwal: The working capital debt is in the region of Rs. 15 crores.

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

Puneet Gulati: First of all, would it be fair to assume that the lower EBITDA margins are also attributable to lower sales coming from this incident at another Tier-I supplier?

Abhishek Jain: It is just because the sales – part sales, have been reduced.

Puneet Gulati: So, will it be possible to quantify how much of an impact this incident has laid to in terms of sales and in terms of margins?

Abhishek Jain: You could say almost about, our targeted achievement was about 83-odd% versus actual.

Puneet Gulati: So 83% of your targeted sales was actually done, so 17% is attributable to just this single incident?

Abhishek Jain: This incident at another Tier-I supplier, and also like I said in the opening remarks, one was the extended shutdown, then second was the inventory adjustments also taking place at some of our customers' end. So basically in the end of last financial year they had some over inventory which got adjusted in these first three months, so they also planned for sudden shutdowns.

Puneet Gulati: I think in terms of customers mix, I think you added Isuzu Motors Ltd.a couple of years back, maybe?

Abhishek Jain: Just last year we added Isuzu Motors Ltd.

Puneet Gulati: So, any new customers that you are talking to or who is likely to get added this year?

Abhishek Jain: Well, we are in discussion with a lot of customers.

Puneet Gulati: Anything where there is a higher propensity?

Abhishek Jain: Actually, I cannot comment to you right now but there are a lot of customers who are in very serious discussion.

Puneet Gulati: And any of them in non-Japanese as well?

Abhishek Jain: Yes, non-Japanese specially.

Manish Dhariwal: Puneet, I would like to add here, all the Japanese players in the market are already customers, so basically now the focus is to expand our customer profile and we are working very aggressively towards that.

Moderator: Thank you. We have the next question from the line of Deep Shah from SBI Capital. Please go ahead.

Deep Shah: First, to start with on P&L statement, your net sales on year-on-year basis have grown by around 11% and sequentially it has grown by around 5%. Now if I adjust for Maruti's incidents that have happened, I would like to know how has been the other models doing, let's say for Kwid you were there as a sole supplier, so what has been the contribution for other models?

Manish Dhariwal: See, auto sector sales, specifically passenger cars is one area which on the first or the second day of the month, the details are out in the public. So, if you have been tracking that, you would know that there are some players in the country which are doing well as against some which have not really been able to keep up. Now, it so happens that we are supplying to entire gamut of customers, so the customers who have not been, kind of, doing as well, that also is having an impact on our turnover.

Deep Shah: So sir, if I may reframe my question, I just want to know what will be the contribution of Kwid in your total growth rates in this quarter.

Manish Dhariwal: Well, in total, the Renault-Nissan group contributes close to 9% to the turnover and Kwid is a significant part of that, alongside Nissan also services the export markets, so that is included in this.

Abhishek Jain: Mr. Shah, I will give you an overall breakup of our customer share. So, based on last year's sales, Maruti contributes about 45% of our top-line, Honda contributes about 39%, Nissan contributes about 9%, I mean Renault and Nissan both together including the CKD parts exports and Toyota contributes about 4% and Tata, General Motors and some other makers, they contribute about 1% each.

Deep Shah: So basically still Maruti's share in revenues is still higher at around 47%.

Abhishek Jain: I mean, it was initially, say about 10 years back, it was as high as 86% - 87%, now we have brought it down to 45% and our effort is still going on to de-risk this part of business.

Deep Shah: And sir, my second question would be, again, on the P&L front where sequentially your top-line growth was around 5% vis-à-vis if I look at some of the cost items, for example, other expenses which has grown by around 7% sequentially. So, how should we look at it?

Manish Dhariwal: The turnover this time is inclusive of tools, to the tune of Rs. 12.17 crores. Now this is not a running activity that happens on a quarterly basis or on a monthly basis or on a daily basis. So, our part sales, revenue was lower in this quarter vis-à-vis the corresponding quarter last year and also the sequential quarter, i.e. March 2016. Now as a result of this, the cost profile of the Company got allocated over a lower amount. So, as a result, the profitability margin got impacted. On the other expenditure side there were, see during the call we mentioned that there was this shutdown that took place, so we also used that opportunity to work on maintenance of our facility. So there was an increased expenditure that occurred on that and also there were some additional costs on account of the new business that was taken up recently.

Deep Shah: So what would be the quantum of these expenses, around Rs. 10 crores or something?

Manish Dhariwal: What?

Deep Shah: The maintenance expenses and line which you have added or whatever?

Manish Dhariwal: No, we have not added a line. What I am saying is that if you see the other expenditure, it has increased. So I am giving you from where all that increase took place.

Deep Shah: So, that is what I am asking sir, what would be the quantum of these expenses due to maintenance that you have taken out?

Manish Dhariwal: We can give you the details later.

Deep Shah: Okay, so I will get the clue on this. And third is like a little macro kind of a question where I would like to understand from your point that what are you hearing from OEMs, how are their production schedule have moved up, have you seen any uptick in the guidance like they have revised their guidance upwards in production or something like that over a period of three to four months?

Abhishek Jain: So, first quarter if you look at it historically also, first quarter is generally the weakest quarter of the entire year. So I mean, I can tell you like after June, the sales have been in the expected range almost meeting a target of about 93% to 95%. So, there has been an upside in the sales post this end of first quarter.

Deep Shah: No, so what I am asking is, do any OEMs have kind of communicated to you that okay we are like now increasing our production targets which has been given earlier, something like that?

Abhishek Jain: See, production targets were given to us almost by the end of last year. So, they have not revived those targets but those targets inherently have upside of about almost 10% built in them.

Moderator: Thank you. We have the next question from the line of Jaspreet Singh Arora from Systematix Shares. Please go ahead.

Jaspreet Singh Arora: I am new to this company, I am just logging for the first time. So it will be helpful if you can give the breakup for this revenue between the two businesses, Sealing Systems and Injection Molded products.

Abhishek Jain: It's broadly equal.

Jaspreet Singh Arora: So out of 300 crore plus it is 50% each you are saying?

Abhishek Jain: Yes.

Jaspreet Singh Arora: And I was looking at, sir this is more of a long-term trend that I am asking. So when I look at the history in early 2000, we were doing margins at operating level in excess of 20% which was resulting in our return metrics, i.e. return on capital and return on equity being anywhere between 20% to 40%, which dipped in between. And now, obviously compliments to you, getting it back on track. So, if you could just help me understand what lead to this decline and what is your target going forward and how would you go about achieving it?

Abhishek Jain: So, basic decline of the profitability was on account of the exchange rates going up. So that was the primary reason why we almost bottomed out and now we are coming back at a decent rate. This exchange rate increase had affected us really hard, so after that we leveraged ourselves into finding out alternate sources of raw material. So we localized a lot of materials, we got into alternative sourcing. At that time our 100% material was coming from Japan (all from one country). Then we localized it, some of it in Thailand, some of it in India as well. If you look at our cost profile, almost more than 50% is raw material cost, so that was one area which had hit us really hard.

Jaspreet Singh Arora: So, is there any exports that we do right now?

Abhishek Jain: Not direct exports, but we are doing CKD exports for our customers.

Jaspreet Singh Arora: Which is I think you mentioned 10%, if I am correct?

Abhishek Jain: Yes, about 10%.

Jaspreet Singh Arora: So you are saying this 50% raw material related import which we used to do earlier and the currency impact of that, that you are trying to mitigate by sourcing it locally as well as from other regions now?

Manish Dhariwal: See, Jaspreet, if you look at our FY13 numbers, you will notice that our raw material cost was close to 60%. And if you look at the numbers prior to that, you will find that our cost was nearing about 50-odd%. So basically, this steep rise in the raw material cost which took place in 2013 was one of the main reasons for our profitability margins dipping. So as Mr. Jain just shared with you, we looked at our raw material sourcing in a very comprehensive manner. We started using alternative sources, alternate materials, we changed geographies, and we worked with our raw material suppliers to give us local options within India. This was on the raw material side. On the customer side, at that point of time, we were bearing the brunt of foreign exchange fluctuations. Now that has also got changed. The foreign exchange fluctuation is not borne by PPAP 100%, it is borne by the customer. Alongside, we also worked very deeply on improving the efficiencies at all levels across the plants. And if you noticed, our other expenditure percentage also has come down over a period of time, barring this quarter, which basically was because of the sales, largely, and also some specific expenses that have happened. Going forward, about 17% to 18% should happen on a consistent basis.

Jaspreet Singh Arora: You are talking about the EBITDA margin?

Manish Dhariwal: EBITDA margin, that is correct.

Jaspreet Singh Arora: 17% to 18%?

Manish Dhariwal: Yes.

Jaspreet Singh Arora: And any sense on the fixed asset turnover ratio, because again, that is something where only that will improve your return on capital because it used to be 2 times plus, it has come down to 1.2 - 1.3 now. So what is your sense on the current assets, what kind of turnover you could do?

Manish Dhariwal: See, this is an area that we are focusing on and all efforts are towards that. So yes we are working on it, we understand this.

Jaspreet Singh Arora: Sorry I missed your CAPEX guideline on guidance, sir how much are we going to be putting on CAPEX for the next three years?

Manish Dhariwal: See, I do not have a next three years plan at this point of time, but this year as of date we are planning to invest close to Rs. 30 crores - Rs. 35 crores, a chunk of which will go towards the plant that is coming up at Chennai and the balance will be maintenance CAPEX.

Jaspreet Singh Arora: So Rs. 30 crores for this year?

Manish Dhariwal: Yes, Rs. 30 crores.

Jaspreet Singh Arora: And what kind of turnover you said you could do on this, whenever it comes online?

Manish Dhariwal: See, we do not give a guidance on the turnover, but I have mentioned in my call that we are right now at about 70-odd% of the capacity utilization. So you could make some idea of it.

Jaspreet Singh Arora: So sir, just broadly trying to understand, you have got to 10% kind of levels on the return on capital. Do you think we could be in a zone of 15% to 20% three years from now, below which it does not make sense for any business to be fruitful?

Abhishek Jain: See, we are basically into manufacturing business, I mean, if we are to adopt outsourcing model or something, then maybe we can have a very high return to show. But return ratios, I mean, we are trying to make our best efforts but you have to understand that we are into manufacturing industry and we have to focus on setting up the right facilities for our customers to give us business. If we do not do that then the business will not come to us, it will go to someone else.

Jaspreet Singh Arora: Actually I was looking at our history, so that was only suggesting me a very fantastic record, so I just want to understand, has that product profile changed in the last 10-odd years and has competition also caught up like significantly in those products?

Manish Dhariwal: If you will observe, the whole ecosystem on the auto sector or the passenger car side has changed. There are pressures all across, at one point of time the price was not an issue with the customer but then today it absolutely is. There was no competition earlier at all, today there is. We are successfully able to maintain the kind of market shares and the wallet share of customer. Then in the period that you were mentioning, we were only located at one location in the Noida area and today we have a national footprint. Having said so, we also analyze this thing and it is our endeavor to work towards that target. Yes, we are working towards improving, we are investing in IT, and we are investing in making our systems leaner and more value accretive. But then something like Chennai investment that we are doing, is it going to give me an incremental turnover in the same year? No, it will not, but then it is a requirement of the day, if my customer in Chennai is wanting a plant close to their location then I have to meet those requirements. Over a period of time, having this plant there, we are going to be using this as a platform for developing our business in the southern region very aggressively. There is one large customer, Hyundai which is present in the southern region and our conversation with them has been on. A physical presence of our own plant there which is completely running from start to the final stage will really make the difference in getting that business. So we are working towards all these areas, but reaching the ROI levels of the levels that we had earlier is looking to be a tall task.

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

Puneet Gulati: Just continuing on the same discussion on capital employed, so you basically believe that the peak EBITDA margin that you can do is just about 17-odd%, so there is no more room to grow that over next three years as well?

Abhishek Jain: It is going to be a very difficult challenge to make it further high.

Puneet Gulati: Then how are you working on improving the asset, if you can give more color on that. Obviously, capacity utilization is one way to look at it. But is there any more effort or anything else that you are doing to reduce the capital employed or increase the asset turnover?

Abhishek Jain: We are basically targeting very aggressively for new business now. So we have basically divided our whole business into four quadrants: Existing Products Existing Customers, Existing Products New Customers, New Product Existing Customers and New Products New Customers. And quite recently we reorganized and restructured our sales teams as well according to these four quadrants. And now each team is separated and each team is focusing on each of these quadrants. So our focus is to further enhance the growth of the company now by extending the customer base of our existing products and by exploring new opportunities in the Indian market. So that will further increase our asset utilization ratios.

Puneet Gulati: But, since you are in to manufacturing, what is the best or the most optimal asset turnover your business can achieve?

Abhishek Jain: If you look at fundamentally, we are making all the effort to be cost competitive in that field because of localized buying, we are not getting any imported technology, our extrusion business - most of it is localized. So lot of effort is going on. And regarding establishment of new plants, now we are very sensitive towards how much money we are investing in new plant, the size of it and what is required, what is not required, optimizing the specs, timing, everything.

Puneet Gulati: What be your market share in the current set of customers?

Manish Dhawiral: It is 100% with Honda, with Nissan, with Toyota and close to 90-odd% with Maruti on the products that we supply.

Puneet Gulati: So either you increase the number of products or you add new customers, that is the only way, right?

Manish Dhawiral: Yes. And see, we must remember the fact that the industry has also not grown in the last two, three years. So now we are also expecting that will also happen. So in that sense, I think the period going forward when all these things come together, things should look better.

Puneet Gulati: And are you adding new products also aggressively?

Abhishek Jain: Yes.

Puneet Gulati: So, how should we think about these new products?

Abhishek Jain: Our focus is there but since we are in the OEM space The development of new product is about two years long. So I cannot comment what this year we will be launching, that is a long drawn process. But what I can guarantee you is that we are aggressively following it.

Puneet Gulati: No, so in your extrusion product portfolio, how much more can you add. I presume you would be pretty much supplying everything, right?

Abhishek Jain: See, we are supplying currently everything, but there are a couple of products which are not called sealing systems but they come under our profile also. I mean, the process is common in other products as well. So now we are trying to develop those products for our customers - not part of the sealing system but we can leverage basically the process that is already there. So if we can develop those products then automatically the utilization levels of our existing facilities will go up and we will be having new products as well.

Puneet Gulati: And in the injection molding portfolio where is the room to increase the product?

Abhishek Jain: Injection portfolio, primarily our main customer is Honda right now. And with this Suzuki setting up our plant in Gujarat, so now this discussion is on with them about newer opportunities for that business by our Company. So we are being very careful in investing in the new facilities. So we are trying to get more value added business from Maruti for the Gujarat plant. Then we will take a call on the investments and everything.

Puneet Gulati: Are margins similar for Injection Molding products also?

Abhishek Jain: They are not the same but similar.

Puneet Gulati: And the new Chennai facility which you are setting up, so you will shut down the old facility and basically move the machinery there and give back the rented premises once we develop facility in Chennai. Is that fair to understand?

Abhishek Jain: Yes, basically we will be shutting down the rental facility and moving into the new plant.

Puneet Gulati: And that will entail an expenditure of Rs. 30 crores, so basically buying land is a Rs. 30 crores expense there?

Abhishek Jain: No, not the total expenditure. Rs. 30 crore is what Mr. Dhariwal has said is total. We have already bought the land and the construction has already started in that facility. That construction expenditure is to the tune of Rs. 10 crores to Rs. 12 crores.

Puneet Gulati: So Rs. 20 crores is the maintenance CAPEX?

Abhishek Jain: Maintenance CAPEX, yes.

Puneet Gulati: And you have already paid for the land I presume?

Abhishek Jain: Yes, a long ago, around three years back.

Puneet Gulati: So Rs. 10 crores is the cost of shifting material?

Abhishek Jain: We were waiting for the right time to come to start the facility.

Puneet Gulati: Yes, but why have it on rental premises when you already had land three years back?

Abhishek Jain: So we did not want to invest in a complete facility at that particular time. Because spending Rs. 10 crores to Rs. 12 crores three years back and the plant being empty would have further put stress on our returns ratio. So we waited, but now I think we are in a position to invest in that facility, because we see now things are developing very fast in that area.

Puneet Gulati: So this Rs. 10 crores expenditure is more infra related is it, because I presume you would have the machinery which you will just move on a truck to a new location?

Abhishek Jain: Yes, initially we had planned for new machinery, but then we did some calculations and projections in-house and now the plan is not to invest in new machinery but to transfer the old machinery from our existing pant. So primarily this money would be spent in the building site, the infrastructure side and the utility side. Mr. Gulati, initially when we were planning for this facility, our expenditure plan was almost two times as what we are doing now. So teams sat together, we did a lot of work on the machinery side, on the infrastructure side, on the building side. So we almost cut it into half. We are going in line with what is required and are building a flexible plant, so whenever things move north, that time we can expand the facility and accommodate for more capacity.

Moderator: Thank you. We have the next question from the line of Sunny Agarwal from Emkay Global. Please go ahead.

Sunny Agarwal: Sir, my question pertains to, again, Hyundai. Since we are on the verge of getting the client on board, so how fast we can expect the ramp up of business from Hyundai both on Sealing and Injection Molding part? And my second question pertains to our offering to LCV as a category. Overall contribution from LCV segment is very miniscule in our business and with Maruti also on the verge of launching its own LCV, so how do we see that part of business going for us? Thank you.

Abhishek Jain: First is regarding Hyundai, we have been discussing with them for over a year about how to do business with them. Earlier Hyundai was focusing on importing all the parts from Korea itself, but now they have had a policy change, so now even they feel the pressure of foreign exchange and now they want to localize their products in India, so that is where PPAP fits in. So we are discussing with them about existing business also and long-term future business as well. So now we are discussing with our Korean partner as well about what is the best way of tying hands with them and servicing Hyundai as a customer. So hopefully by the end of this year we should have some sort of structure ready on how do we support Hyundai as a customer.

And regarding your second question, you already know about Maruti's LCV small truck which is coming out. We are already present in that market segment. For other LCVs like we are there in for Daimler trucks, but as a Tier-II vendor. And now we have started discussing with Swaraj Tractor. So basically like what I was telling Mr. Gulati earlier, we are pursuing those four quadrants for our business growth. Now we are not focusing only on the passenger car segment, but wherever our products can be used, provided the customer has that quality mindset to improve the quality of its vehicles from the CV side. So that is what we are focusing on.

Sunny Agarwal: Sir, just a follow-up on the Hyundai part, so for Hyundai they will be doing both, Injection Molding and Sealing, right?

Abhishek Jain: No, primarily it will be Sealing Systems and certain Injection products as well.

Moderator: Thank you. We have the next question from the line of Aveek Mitra from Avek Equity. Please go ahead.

Aveek Mitra: My first question, I just want to understand what is the total size of the India market? Because I think you are primarily into India, 90% of your business, so what is the total size of this market of Sealant as well as market of the Injection Molding?

Manish Dhariwal: See, Injection Molding is a huge market and as we have mentioned that we supply primarily to Honda. So in Honda our market share is 100% on the products that we service, but otherwise the Injection Molded market for passenger cars is a huge market.

Aveek Mitra: And what about Sealant?

Manish Dhariwal: We are not there in the Sealant side of it, which is in the space of adhesive. We are in Sealing Systems. Coming to the Sealing Systems, you can split that into two parts, one is on the plastic side, and the second is on the EPDM or the rubber side. So, on the plastic side we are in a pole position and we have a very good market share there. Now, to service the rubber side, we have recently set up the JV with our technology partners, and we have started supplying parts to Maruti, Honda, Toyota and also exporting some from there to the technology partner's, companies in the international markets. So that side of the market is wide open, but then there the competition obviously is intense because there are already suppliers which are servicing that market. So I hope that it gives you a perspective on the market?

Aveek Mitra: Okay, so now from taking cue from your answer, I think you said you have the pole position in this market of plastic sealing system, you said that 50:50 is your market share between Sealing System and Injection Molding. So if I understood pole position, at least that means more than 50% of the market share. So can we assume that the total market size is only Rs. 300 crores for this, because your total turnover is Rs. 300 crores, 50% is sealing system, you are having a pole position. So is the market so small?

Manish Dhariwal: Yes, on the plastic side yes, that is what the market is sized like.

Aveek Mitra: You mean to say that the entire pie is quite small, it is just Rs. 300 crores kind of a market entirely in India?

Manish Dhariwal: On the sealing system side yes, the pie itself is of size that we mentioned, yes.

Aveek Mitra: And secondly sir, for Injection Molding if you go to another client I think you will need to setup another new setup for them right, because the thing is Injection Molding is very customized for the client.

Manish Dhariwal: See, you are correct. Customized plus also these are voluminous products. So therefore the logistics also plays a role there. So that is why when we are looking at new customers we have to consider that part in mind.

Aveek Mitra: So can we assume that every time you meet to get a new customer then you need to actually entail lot of fixed asset expenditure?

Manish Dhariwal: No, it all depends on the kind of product. Like to give an example, we are doing over 60 parts for Jazz model of Honda. Now there are some parts which are small in size. But then if you will look at our website and if you will see the presentation where we have given a picture of the parts that we do, so for example door lining, now that is a huge part. Then there is a Fender which is a very big part. But then there are other parts like which are like not that big. like the BSM, the Body Side Moldings. So, depending upon the nature of the parts that we are getting, the decision to make an investment close to the facility will be required.

Aveek Mitra: So I try to understand that suppose if Honda does not grow, let us assume, but this entire car market grows then you have something to do here, right?

Manish Dhariwal: Yes, absolutely. See, like even on the Injection side, from our plant in Pathredi we are servicing Maruti Manesar from there.

Aveek Mitra: But I think you need to de-risk your model from Honda. I do not know, but isn't it that risky for depending 100% on a single customer for 50% of the turnover on a particular product line? Any plan on that?

Abhishek Jain: Yes, we are working on that. I think the question is very valid Mr. Mitra and we appreciate your understanding on this. It is really a concern and that is a very big risk for us also. Depending on one customer for such a high volume. But we already are aware of that risk and we are taking counter measure to reduce this risk on our customer. So that is why from our Pathredi plant now we are targeting lot of new customers. Like originally that plant was setup primarily for Honda but now we are servicing Maruti as well from that plant. And there a lot of customers in this region which are also coming to us for discussions for their injection parts. So we are continuously evaluating those opportunities as well. And you are right that risk of focusing on Honda is too high, and we are working on that.

Aveek Mitra: And the last question is basically to understand about your JV. What is the kind of progress out there and what is the kind of revenue you are expecting, say in two years or three years down the line?

Manish Dhariwal: See, to give you a background. This is the third year of operations for the JV and, it takes a lot of time to bring on board a customer because it is a OEM related business. So if I discuss for the business today, then it will be for a new model and that is how we get the business. You will be happy to know that all the three top car makers in the country are our customers today. Maruti, Honda, Toyota are our customers. So on the customer acquisition side we are very aggressive. Obviously, this is the business which was already being serviced by other players in the market, so getting that business is a challenging task and we are up to it. Last year, while we made cash profit and we were positive at an operating level but at net level we incurred a loss. This year we are looking at the possibility of making a profit at the net level also. It all depends as to how the market kind of turns up, but the turnover is obviously on the increase and that business is looking good.

Aveek Mitra: So what kind of revenue you can expect in FY18?

Manish Dhariwal: The revenue that we can expect is to the tune of Rs. 55 crores to Rs. 60 crores over the next two to three years.

Aveek Mitra: But you have Rs. 37 crores of equity there for 50%, right?

Manish Dhariwal: Yes, that is correct.

Aveek Mitra: So the total equity would be at least Rs. 75 crores?

Manish Dhariwal: Yes.

Aveek Mitra: So Rs. 75 crores equity and it had a turnover of about Rs. 50 crores you mean to say, in two years down the line?

Manish Dhariwal: Yes, that is correct. See, Mr. Mitra, you have to understand that it is a completely new business and the fact that we have broken even in flat two years, I think is commendable. And as I mentioned to you that we are recent entrants into this business, the potential and the market size is significant. So, the growth is going to happen over a period of time because, again, I have to get the business for each new model that comes up. So the potential is significant in this business.

Aveek Mitra: What kind of margin you get out of this business, say for a Rs. 50 crores turnover?

Manish Dhariwal: See, at an operating level this would be close to our normal business, our Sealing systems business at PPAP. But then right now because our turnover is small, so that is why at a net level the profitability is not there.

Moderator: Thank you. Thank you sir, there are no further questions. Thank you all, for being a part of the conference call. If you need any further information or clarification, please mail at parin@conceptir.com.