



PPAP AUTOMOTIVE LIMITED

(Formerly Precision Pipes and Profiles Company Limited)

“PPAP Automotive Limited Q2 FY16 Results Conference Call”

Transcript

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MANAGEMENT : MR. ABHISHEK JAIN - EXECUTIVE DIRECTOR

MR. MANISH DHARIWAL – CHIEF FINANCIAL OFFICER



Moderator: Ladies and gentlemen, Good Day. This is Melissa, the moderator for your conference. Welcome to the Conference Call of PPAP Automotive Limited arranged by Concept Investor Relations to discuss its Q2 FY16 results. We have with us today Mr. Abhishek Jain - Whole Time Director and Mr. Manish Dhariwal - CFO, Chief Finance Officer. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask question after the presentation concludes. To ask a question, you may enter '*' and '1'. Should you need assistance during the conference please signal an operator by entering '*then '0' on your touchtone telephone. I now hand the conference over to Mr. Abhishek Jain. Thank you and over to you, sir.

Abhishek Jain: Thank you, Melissa. Ladies and gentlemen, a very good afternoon and warm welcome to our conference call to discuss the financial performance of the second quarter of financial year 2016 of our company PPAP Automotive Limited. The company's Chief Finance Officer Mr. Manish Dhariwal is also joining us in this call. To begin with I will provide you a brief background about our company, I apologies if some of you have to listen to the introduction again.

The company was originally incorporated in 1978 for the manufacture of Custom based Extrusion products. The company commenced the Automotive Parts business in 1985 with the start of production of Maruti Suzuki Cars in the Indian market. The firm was converted into a public limited company in 2008, in May 2014 we changed the company's name to PPAP Automotive Limited. The promoters hold equity of about 63% in the company while our technology partner Tokai Kogyo holds 1.6% stake. The balance shares are held by the public shareholders. PPAP is today a leading manufacturer of Automotive Sealing Systems, Interior and Exterior Injection Molded Automotive Products. Our Company's state of the art manufacturing facilities are located in Noida, in Greater Noida, in Uttar Pradesh, Chennai in Tamil Nadu and Pathredi in Rajasthan. All the plants are RTS 16949 ISO 14001 and OSAS 18001 certified. The company is working with three Japanese companies for our technology requirements. The



relationships with these companies are up to 25 years old. The most recent being the start of relationship with Tokai Seiki Company which has begun last month.

Apart from PPAP Automotive Limited, we have established a joint venture company along with our technology partner; after the establishment of this company as a group PPAP can cater to the requirements of entire Automotive Sealing System for our customers. Today the company manufactures over 500 different products for its customers and continuously targets to achieve zero PPM in quality and delivery performance for all the customers. We have a strong human resource system which is managed by People's Excellence Department. This department continuously focuses on development of each individual so that the true potential is reflected in the output provided by him or her. Our company is led by Mr. Ajay Kumar Jain who is the Chairman & Managing Director. He is also serving as President of Toyota Kirloskar Suppliers Association. Our company 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 products that we cater to. The company's core competence is in Automotive Sealing System and Injection Molded Products. These are the products; we have a leadership position in all the products that are made by us with the respective customers. The company primarily services the Passenger Car segment and has started supplying to the LCV segment as well. All Japanese OEMs present in India are our customers, few European and local makers are also being catered by us. We are indirectly exporting about 10% of our products through our customers to countries like Europe, Mexico and even Japan. We are also capable of doing in house designing, tool manufacturing, as well as testing and validation, this integrated capability gives us a strong competitive advantage over our competitors as



we are able to give an integrated cost effective solution to them. We have a track record of superior performance with all our customers, we have and we will continue to be amongst the preferred suppliers for all our customers.

Now I will take you through the financial performance for the second quarter of financial year 2016, for the second quarter ended September 30th 2015. PPAP recorded a total income of Rs. 80.67 crores as against Rs. 75.17 crores in the corresponding quarter of previous year. The other income reported for the current quarter is Rs.48 lakhs, it is the investment subsidy received from Rajasthan Government towards our new manufacturing facility in Pathredi, Rajasthan. This Subsidy will continue over the next seven years and will be accounted for on quarterly bases.

EBITDA grew by 35% in quarter two of financial year 2016, it stands at Rs. 14.66 crores compared to Rs. 10.86 crores in the same period last year. The Company's EBITDA margin stood at 18.17% in the current quarter under review recording gain of 372 basis points as compared to 14.45% in quarter two of last year. Consequently profit after tax was at Rs.4.55 crores in the current quarter under review which is up by almost 80% as compared to Rs. 2.52 crores last year. The improvement in operating margins is a reflection of the companies continued focus on improving operational efficiencies across each and every aspect of the company. This aspect was further supported by strong production number of our customers and the improvement of overall macroeconomic factors.

Based on this current quarter performance the company's Board of Directors have decided to declare an interim dividend of 10% on the face value of the share. We are currently developing parts for twelve new models which will be launched by our customers in the next two years and we are continuously discussing with them about their new model requirements thereafter.

As we have already informed you in the previous conferences we are continuing with our track record of superior performances with all our



customers. Our parts are used in the latest block buster models Baleno and Kwid which were recently launched by Maruti Suzuki and Renault Nissan respectively. I will also briefly take you to the half-yearly numbers for financial year 2016. In the first half of this financial year total income stood at Rs. 153.91 crores as compared to Rs. 149.27 crores in the same period last year. EBITDA grew by 28.59% and it stood at Rs. 26.94 crores compared to Rs. 20.95 crores last year. The companies EBITDA margin for the first six months of the current year is at 17.50%.recording again of 347 basis points as compared to 14.03% in the same period last year.

The net profit was at Rs.7.53 crores which is up by 52.74% compared to last year which was Rs. 4.93 crores. As a result of the above the EPS has increased to Rs.3.25 per share in the current quarter from Rs.1.81 per share in the same quarter last year. The debt to equity ratio is also under control and we are in a comfortable situation to effectively manage our exposures. As stated earlier we are not planning to take any addition exposures in the current year and are planning to fund the capital expenditure from our internal recourses.

Overall if you look at the trend for the previous three years we have been improving on all parameters and 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. Manish Dhariwal will try our best to satisfy you with your queries and give you a clear answers, but before we open the floor for questions I would like to request you to kindly visit our facilities and experience the hard work that is been done on the ground to achieve the superior performance. Melissa, over to you for managing questions. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Ashish Poddar from IDBI Capital. Please go ahead.

Ashish Poddar: I have questions regarding your revenue breakup so if you can throw some light on key customers what kind of revenue they are contributing to your



top-line and also from the margin perspective I believe you are catering only to the passenger car segment. So if you can also throw some light on OEMs after market is it is there at all?

Abhishek Jain: First of all we are completely OEMs suppliers so whatever we do goes directly to OEMs, either for their production lines or for their spare parts requirement. And as far as the breakup goes Maruti contributes about 43% of the revenue, Honda contribute 39%, followed by Nissan which is about 10% and Toyota is about 5%. So all these four Japanese companies put together they form the major chunk of our business.

Ashish Poddar: Okay. And the Maruti are you supplying for all the models or it is selective?

Abhishek Jain: We are supplying to most of the models.

Ashish Poddar: And who are the other players who are supplying to Maruti for similar products?

Abhishek Jain: There are other unlisted companies called Anand Nishikawa, Mayur Ingress, TG Minda and Metzeler Automotive Profiles.

Ashish Poddar: Okay. So if I may ask questions for Maruti's requirement, I mean how much Maruti's requirement you are supplying and similar for other players? I am just trying to understand this...

Abhishek Jain: Almost 90% of these parts are made by us for Maruti. 90% models are covered by us. Our share with other customers Honda, Toyota and Nissan is almost 100%.

Ashish Poddar: Okay, so your growths will largely depend on these customers volume growth?

Abhishek Jain: These customer's growth and also we have continuously evaluating new customers like Hyundai is not our customer, and with all these customers we are present in two categories the Automotive Sealing System and Interior and Exterior Injection products. So it is not that, that all the products are



being catered in each model, there is still a scope of getting new business with our customers.

Ashish Poddar: If you can give a break up of these two major segments, what kind of share is there?

Abhishek Jain: It is almost 50-50.

Ashish Poddar: Okay. Is there any meaningful margin difference in these segments?

Abhishek Jain: Not really.

Ashish Poddar: Okay. You mentioned about the CAPEX plan which will be funded through internal approval, so what is the CAPEX figure for this year and next year. Just trying to understand your future growth plans?

Manish Dhariwal: Hi, Ashish, this is Manish Dhariwal this side. Ashish, to guide your question regarding the CAPEX we break it up into 2 parts one is maintenance and the regular CAPEX and the other is the new plant and expansion CAPEX. So the plan for this year was to set up a plant in Chennai which would have cost us around 11 crores to 12 crores, okay now the construction of the plant is yet to begin we are waiting for certain approvals. Second part of our CAPEX is the maintenance and regular CAPEX in the various plants. So that is typically in the region of about 10 crores to 15 crores will be on maintenance side and then there will be couple of machines that we add. So this year we expect to spend close to about 30 odd crores. This will be very well met by our internal accruals.

Ashish Poddar: So this 30 crores include you CAPEX on the Chennai plant?

Manish Dhariwal: So that is open so how much we will spend on Chennai that will influence this total figure what I am giving as to you. We are also in the process of acquiring the land assets in Gujarat which you would be also aware is emerging as the next global auto hub, so some money will also go towards that.



- Ashish Poddar:** So is it anything related to the Maruti's new plant coming there?
- Manish Dhariwal:** Obviously Maruti is clearly a focus, we are hearing other OEMs also will be expanding in that area. So I think going forward if what we are hearing and going by what we are seeing. Gujarat seems to be emerging as next real big hub for automotive mobile sector.
- Ashish Poddar:** Okay. Second question is on the new product development side so whatever products you are developing currently is limited only to the passenger cars, so is there any scope to enter in to CVs or two wheelers or any other segment?
- Abhishek Jain:** No, our product generally go in the passenger vehicle market only. This is well including in passenger vehicles and light commercial vehicles but we do not do any parts for the heavy commercial vehicle or the two wheeler industry.
- Ashish Poddar:** Because I believe the Sealing system would also require in other may the market or requirement will be smaller compare to passenger car so no plan to cater to those segment.
- Abhishek Jain:** No, not right now because the requirements are very different to what we do in PPAP.
- Ashish Poddar:** Okay. So what kind of a growth you are expecting for this year and next year and what kind of is there is a scope for margin expansion which you foresee as of now?
- Abhishek Jain:** We are still continuing to have a very strong relationship with all our customers and we are continuously getting new parts orders from them so, as the industry grows we should be in favorable position of growth.
- Ashish Poddar:** But any number which you are targeting or which you are working with?
- Abhishek Jain:** No not really. I mean we do not make cars.....



Ashish Poddar: No, I mean I am talking about so with OEM what kind of arrangements you have so may be you will be getting orders may be three months-six months in advance and then so how it's actually is the arrangement with OEMs?

Abhishek Jain: Now a days it is very, just in time system so every day delivery goes to one of our customers. It is very dynamic situation these days.

Ashish Poddar: But looking at the current situation you are hopeful about the good growth in coming quarters...

Abhishek Jain: Yeah, but everybody has seen Maruti's production numbers for the October month so, they are very encouraging. So we hope that this year which should be much better than previous year.

Ashish Poddar: So you are saying that I mean there is no lead or no meaning full lead or lag with OEMs volumes. So what every passenger volume we see that will immediately reflect in your volume also right?

Abhishek Jain: Yes, to the extent of what business we have with them.

Ashish Poddar: Okay. Perfect. And any scope for margin expansion which you see going forward?

Abhishek Jain: We are continuously focusing on improvement of our internal efficiencies. You have already seen the numbers getting better in the previous quarters. Our focus is always on improving the efficiency every day.

Ashish Poddar: But what kind of margin number you will be comfortable so, I am just trying to understand like we are in continuously increasing our margin so is there any number you are targeting that 20% or 25% any kind of number which you are targeting?

Abhishek Jain: What we are doing is there is a Japanese word called Muda which is called waste in the system. So what we are targeting is we want to eliminate all this Muda whether it is there in system of the company or in the operations or anywhere. This is what is yielding us good results. Effort wise we are not



stopping or reducing our efforts in finding out that Muda and eliminating it. So as long as our effort is there on the root causes of the problems I think we should be in a comfortable situation in future as well.

Moderator: Thank you. We have the next question is from the line of Kunal Sabnis from V.E.C Investments. Please go ahead.

Kunal Sabnis: My question is on this flow through was there any impact of the festive season or the OEMs getting geared up for the festive season so the numbers were better also in top-line and bottom-line or this is more or less steady state that you feel the business will grow at?

Manish Dhariwal: See it is a good question but September quarter it is not really driving the sales expectations that is gone happen in the festive season. See Diwali is in November mid-November, right so I can safely say that the September numbers do not cater to the seasonal growth that typically appears in the third quarter.

Kunal Sabnis: Okay, which means that Q3 also will be better than last year?

Manish Dhariwal: Yeah, hopefully yes, however we all know that typically in December all these OEMs have shut downs but that is every year so, if you compare on Y-o-Y basis there should be a growth.

Kunal Sabnis: Yeah, but the impact of festive season should be also in Q3, that is great. If you could give me a sense of passenger number have been pretty slag, passenger car numbers I mean but Maruti numbers have been good and which is you largest client. But in terms of say next six months - eight months any indication that you have got from your large customers as to how they see the business and in terms of models being launched and as well as the volume?

Abhishek Jain: Kunal, we have this conversation with our customers quite regularly and I will be very honest with you everybody is saying that it will be quite challenging to sell cars specially the old models going forward at least this year but on the other hand these new models which are getting launched by



all the OEMs these are actually driving in the big numbers. So primarily the extra growth will come due to launch of all these new models like you already know Hyundai Creta almost has a six months waiting period, then Baleno which is launched recently by Maruti so there is one very aggressive on their pricing which should create a good demand, Kwid also which has been recently launched that has record number of booking so all these new models coming up so they will drive the volume trajectory. It is going to be a challenging year, it is not going to be a piece of cake to get growth by selling the old models in this industry.

Kunal Sabnis: Right. Yeah, so that should be I think like you said made good by new model so as new models get launched I think we also might end up getting a higher number of components in those models, right. I mean that should lead to the business growth.

Abhishek Jain: Yes.

Kunal Sabnis: And in Baleno and Kwid approximately how many parts do we supply?

Abhishek Jain: Baleno we are supplying almost 12 parts to 14 parts and Kwid, I think we are supplying about 8 parts.

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

Sunny Agrawal: Sir, as you indicated that as we all know Hyundai is the second largest CV player in India, so what is our status of negotiation over there and when we can get them on board?

Abhishek Jain: Well we are still in nascent stages of discussion with them, so we have received their RFQs and we are developing the proto type parts. So I think within this by this quarter end or early next quarter we should be getting some good news from them as well.



Sunny Agrawal: Okay, that is great to hear. And sir, just want to understand on a per car basis what is the value of product usually we supply and what is the scope of that increasing over two years to three years?

Abhishek Jain: Our average comes to about Rs. 1,200 to Rs. 1,300 per car and with few customers it goes up to almost Rs. 6,000. Actually varies from each model and each customer.

Sunny Agrawal: And I mean do you foresee any scope of this going up due to increase in volume I mean in terms of numbers parts and that will drive these per car contribution on a higher side?

Abhishek Jain: We are focusing on that we are focusing on both aspects, adding new customers and increasing our product base to the existing customers.

Moderator: Thank you. We have the next question is from the line of Bhavesh Jain from Envision Capital. Please go ahead.

Bhavesh Jain: Sir, how has JV has performed in this H1 half-yearly for that EPDM?

Manish Dhariwal: Bhavesh, it is a good question. See JV as you are aware is in a new segment for us. So getting business obviously is challenging especially given the environment that we are in. So we are performing little lower than the target but the direction is clearly visible and there is going to be an improvement.

Bhavesh Jain: Okay, Sir any target for next year, I am not asking for this year any target for FY 2017?

Manish Dhariwal: At this point of time we will not be able to share those details with you.

Bhavesh Jain: And sir largely our improvement in EBITDA margins have come from the raw material and other expenditure, so what has been the scenario on the raw material front? Because I have seen it is approximately 200 basis improvement on the raw material end as we discussed last time you say that there were some supply issues which we have sorted it out from last two



quarters. So whether any further improvement is possible in this raw material percentage of sales so, that our gross margins can improve further?

Abhishek Jain: Bhavesh, like we were discussing earlier we are focusing on internal efficiency improvement so material consumption major factor is our internal rejections and everything. So we are focusing on improving our internal rejections which will lead to improvement in the material cost as well. So more or less the sourcing issues have been resolved now but internal consumption is now the primary area where we are focusing on improvements.

Bhavesh Jain: How much we have pass on this raw material benefit to the OEMs? Because the top line growth for H1 is only 3%?

Manish Dhariwal: See Bhavesh, this exercise of pass on to the customer is an integrated kind of exercise. The kind of material that we use is of highly specialized grade so therefore you cannot clearly say that crude price has come down by X percent and this is what is going to be passed on. So there cannot be a very direct co-relation of the cost passing on the raw material front. And the improvement what you have seen here which we are very happy to share with you is primarily on account of the efficiencies that we have got internally.

Bhavesh Jain: And sir any tooling income include in the total income this quarter?

Manish Dhariwal: Less than 1%.

Bhavesh Jain: For H1 also?

Manish Dhariwal: Yes.

Bhavesh Jain: And sir, what are the royalty terms or what payment we make to our technology partner in terms of percentage of sales?

Abhishek Jain: It is different for different partner.

Bhavesh Jain: Okay. Broad range, would you like to specify?



- Abhishek Jain:** Broad range is about between 1% and 3%
- Bhavesh Jain:** Okay. And sir, any export we do currently?
- Abhishek Jain:** Not directly but indirectly through our customers.
- Bhavesh Jain:** So any plans for direct exports?
- Abhishek Jain:** No, not as of now. We are evaluating this customer route quite seriously.
- Bhavesh Jain:** Okay. And any plans for domestic aftermarket?
- Abhishek Jain:** No, we cannot do because OEMs does not allow it.
- Bhavesh Jain:** Okay. But sir many auto ancillary companies are doing it?
- Abhishek Jain:** Yes, but I think legally you are not supposed to. We have a contract with all our customers and I think it is very important for us to honor that agreement.
- Moderator:** Thank you. We have the next question is from the line of Manoj Dua from Geometric Securities. Please go ahead.
- Manoj Dua:** Just want to understand you said that new model drives the growth and how much you have to customize your project for the new models is it good R&D expenses or changes in the material supply or something?
- Abhishek Jain:** Basically every car model that is launched has a different part being developed by us so it is not that one standard part developed by us goes in to a particular set of new cars or something. Every model is a different set of development and generally all these development costs which are incurred by us are totally reimbursed by the OEMs. It is not additional expenditure of launching these models it is just a matter of additional efforts by the company to launch these models.
- Manoj Dua:** Okay, so if you develop a new product you are able to charge at premium for the cost of development of the new product? Can I assume that?



- Abhishek Jain:** Before starting of the development of a particular project we have agreements with the customer about the development cost and charges and how they are supposed to pay everything.
- Manoj Dua:** Okay. As now we are seeing growth in volume in Maruti for example Maruti show 10% volume growth in one quarter, so your profit follows in the top line following the same proportion or there will be lag of one quarter or something like that or it is before one quarter?
- Abhishek Jain:** See if the production numbers are growing up, first of all we do not look at sale numbers. If the production numbers are going up in a particular quarter then automatically that will reflect on our top line as well.
- Manoj Dua:** Generally I am just trying to understand if the Maruti shows a good quarter, then your preceding quarter comes good or does the quarter after the Maruti has shown good results come good? You must be taking material before supplying to the customer, so how does your billing go?
- Abhishek Jain:** See top line will be impacted directly in that quarter.
- Manoj Dua:** That quarter only.
- Abhishek Jain:** But material cost, since we have an almost a three month period, I think that will be reflected in the next quarter only.
- Moderator:** Thank you. We have the next question is from the line of Kunal Nopany from AUM Fund Advisors Please go ahead.
- Kunal Nopany:** I think sorry I missed this what is the mix between auto sealing and injection molding for you guys?
- Abhishek Jain:** It is almost 50% each.
- Kunal Nopany:** Okay. And do you have the same set of competitor for both these products?
- Abhishek Jain:** Same set of competitor meaning?



Kunal Nopany: For example, you said Anand Nishikawa is a competitor so does it supply both...

Abhishek Jain: Basically for the sealing system. And for the Injection there are lot of companies who we compete with.

Kunal Nopany: Okay. So are you the sole suppliers say to Maruti and the other customers or there are other suppliers as well?

Abhishek Jain: For Sealing Systems with Honda, Toyota, Nissan we are the primary suppliers so we have the leadership position there. Maruti almost 90% of these parts are made by us. Injection side the whatever special parts we make like Door Lining we have 100% market share with Honda and other customers we do lot of different products. It is very difficult to give you a standard reply on the market share. But our primary focus is whatever we do we have to be the best and the biggest in that. Our products in both these categories where we have achieved leadership positions.

Kunal Nopany: And if my understanding is correct you would be using engineering plastics for these products, right for your Injection Molding products?

Abhishek Jain: Yes.

Kunal Nopany: Can you throw some color on the raw material price movement for those things?

Manish Dhariwal: Okay, hi, Kunal. See Kunal as you rightly understood that the material that we use are very specialized grades of material which is not commodity PVC or commodity PP et cetera. So there are whole a lot of additives go into it and our raw material cost per say is similarly higher than the commodity price so while the crude price has a bearing on raw material cost but not significantly.

Kunal Nopany: And are these imported like is this raw material imported?

Manish Dhariwal: Yeah, of part it is imported.



- Kunal Nopany:** How are you heads for currency then?
- Manish Dhariwal:** Yeah, I was waiting for that question. See the thing is that now there are two ways in which we manage the currency risk see one is that the arrangement that we have with our customers are pass through. And secondly we also do hedging at RM.
- Moderator:** Thank you. We have the next question is from the line of Deepan Sankar from TrustLine Portfolio Management Services. Please go ahead.
- Deepan Sankar:** And question is basically just want to understand with the current capacity what we have what kind of turnover we could generate without adding much of CAPEX other than this Chennai plant?
- Manish Dhariwal:** Okay, see our capacity utilization is in region of about 65% to 70%. So you know you can kind if estimate the kind of turnover that we can get from our existing available capacity.
- Deepan Sankar:** Okay. Sir, do we have any ideal target after turnover time in our mind?
- Manish Dhariwal:** Okay, see at the asset turnover level obviously the target is to improve but we must recognize the fact that we are fairly asset intensive business. So therefore the improvement we will get will be in account of the increase capacity utilization.
- Deepan Sankar:** Okay. So more or less 1.5 to 2 would be ideal?
- Manish Dhariwal:** I do not think so, it should be little lower than that.
- Moderator:** Thank you. As we have no further questions, I would like to hand the floor back to the Management for closing comments, please go ahead. Mr. Dhariwal and Mr. Jain, Please go ahead. We have no further questions in queue. Would you like to make and closing comments?
- Abhishek Jain:** Thank you, Melissa for organizing this conference call today and I would like to thank the team of concept as well. I would like to pay my gratitude to all my analyst and investors friends who took time out of their busy schedules



to listen to us today. Please feel free to contact concept or any of us in case you have any further questions. Also if you happen to be in the NCR region do give us an opportunity to show you our operations. The presentation for these results has already been shared with you. Thank you.

Moderator:

Thank you. Ladies and gentleman, thank you all for being part of this conference call if you need any further information or clarification please send an e-mail to Parin that is parin@conceptir.com