PPAP AUTOMOTIVE LIMITED

"PPAP Automotive Limited Q3 & 9MFY19 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 morning, Ladies and Gentlemen. I am Janis, the moderator for this conference. Welcome to the Conference Call of PPAP Automotive Limited arranged by Concept Investor Relations to discuss Financial Results for the Q3 and 9 months ended December 31st, 2018. We have with us today Mr. Abhishek Jain, Chief Executive Officer & Managing Director, and Mr. Manish Dhariwal, Chief Financial Officer. At this moment, all participants are on listen-only mode. Later we will conduct a question and answer session. At that time, if you have a question, please press '*' and '1' on your touchtone telephone. Please note, that this conference is being recorded. I would now like to hand over the floor over to Mr. Gaurav Girdhar. Over to you sir.

Gaurav Girdhar: Good morning everyone. Thank you for taking time out for the conference call of PPAP Automotive Limited for the financial results of the Q3 and 9 months ended December 31st, 2018. We have with us Mr. Abhishek Jain, Chief Executive Officer & Managing Director, and Mr. Manish Dhariwal, Chief Financial Officer. We will begin the call by opening remarks by Mr. Jain and then we will have a question & answer session. I would just like to point out that certain statements in today's call may be forward looking and we have already put a disclaimer to that effect at the end of the presentation. So, I would like to hand over the floor to Abhishek sir. Over to you sir.

Abhishek Jain: Thank you Gaurav, thank you Janis. Ladies and Gentlemen, a very good morning to all of you and thank you for joining us to discuss the operating and financial results for Q3 and 9 months of the current financial year. To start with today's conference call I will give you a brief overview of the automotive industry during the quarter under review. During the quarter, industry witnessed an unprecedented drop of sales during the festive season, the passenger vehicle segment as per the official estimates has seen a production de-growth of 9% year-on-year in the quarter under review. A total of 0.89 million passenger vehicles were produced against 0.98 million in the same period last year. The commercial vehicle production saw a growth of 12.6% whereas the two wheeler production was at 5.76 million which is an increase of 9.7% compared to the same quarter of previous year. In the short term, the growth was impacted largely due to poor market sentiments, due to natural calamities, vehicle financing issues and hiked oil prices. In spite of the de-growth of the industry our company was able to sustain growth in sales, when the vehicle production de-grew by 9% our total income from operations grew by 3.7% compared to the same quarter last year. The company derived 98% of sales from the passenger vehicle segment of the Indian automotive industry.

Just a small recap of what PPAP is about. So, PPAP manufactures polymer extrusion based automotive sealing systems, interior and exterior automotive injection molded products in India. With its 7 facilities spread across the key automotive hubs in India, the company manufactures over 1,000 different SKUs and ships over 150,000 parts every day to its customers which include the Japanese OEMs, the local OEMs as well as other major OEMs in the passenger vehicle segment as well as the commercial and the two wheeler segment. The company continues to focus on enhancing it's per car contribution.

In 2014 we established an equal equity joined venture to increase our per car contribution in the rubber parts space. The company is able to attract new opportunities in both sealing system as well as injection products, post the establishment of its facilities which are much closer to the customer now. We continue our focus to build on our core competency and on achieving excellence throughout the gambit of our organization.

Now, let's take a look at our financial performance. For the Q3FY19 our company recorded a revenue from operations of Rs. 93.52 crore as compared to Rs. 90.22 crore in the corresponding quarter last year, out of this revenue part sales amounted to Rs. 90.69 crore registering a growth of 2.8%, tool sales contributed Rs. 2.17 crore and Rs. 66 lakhs was the other operating income which is the subsidy received from the Rajasthan government every quarter. The revenue from operations for the current year till date for the nine months stood at Rs. 311.85 crore compared to Rs. 270 crore during the same period last year registering an increase of 15.5%. Out of this Rs. 311.85 crore revenue part sales amounted to Rs. 294.88 crore registering a growth of 13.2%, tool sales contributed Rs. 11 crore and Rs. 5.98 crore was the other operating income. In the midterm, the company continues to exhibit strong sales performance and continues to grow at a higher rate than that of the industry. The company's automotive sealing products were used in 72% of the total passenger vehicles produced in India. Maruti Suzuki including Suzuki Motors Gujarat continue to remain PPAP's top customer accounting for 49% of part sales. The company's second biggest customer, Honda has contributed 28% to the company's top line for this quarter. During the quarter, 25% of the part sales were derived from new vehicle launches. The company has its presence in recently launched new models like Maruti Wagon R, Ertiga as well as the newly launched Tata Harrier.

The company continues to focus on developing strong relationships with its customers in the Indian industry, the company is currently developing parts for 24 new models that are expected to start production within the next two years. We continue to scout for value added opportunities across the various segments. The company reported an EBITDA of Rs. 15.96 crore in the quarter as against Rs. 19.26 crore in the corresponding quarter last year and a PAT of Rs. 5.94 crore in the current quarter compared to Rs. 8.18 crore in the same quarter last year. The quarter under review saw unprecedented drop of sales of passenger vehicles which impacted the profitability of the company in the short term. The adverse trend in the commodity prices and delay in foreign exchange compensations from the customer also impacted the bottom line. The company has foreign exchange compensation contracts with its key customers. This compensation has a lag of a quarter, due to the sudden and rapid disruption of foreign exchange the company's profitability was impacted in the short term. We are learning and changing the ways we do our business and are focusing on become more agile to these changing environments. We are also focusing on finding avenues which are helpful to further enhance our competitiveness. For the nine months the EBITDA stood at Rs. 59.99 crore against Rs. 56.2 crore in the last year which is still an increase of 6.7%. In spite of the adverse trends, the company continues to exhibit a robust EBITDA margin of 19.2%, the company's PAT for the first nine months increased by 13% to Rs. 26.36 crore compared with Rs. 23.32 crore in the previous year nine months. The company sustained the PAT margin at 8.5%. Earnings per share for the quarter stood at Rs. 4.24 and for the nine months the EPS is at Rs. 18.83. Our dependence on interest bearing debt continued to fall resulting in reduction of interest cost, the debt equity ratio of the company as on 31st December stands at 0.14. In the nine months we have invested a total of Rs. 39.7 crore towards capital expenditure we have spent Rs. 22.3 crore towards new facilities and Rs. 17.5 crore on the existing facilities. The capacity utilization for the nine months stands roughly between 75 to 80% on our company level. Due to the reduced sales, this utilization saw a dip of about 10% during the last quarter. As committed earlier, all our CAPEX requirements are being met by internal accruals.

I am happy to report to you that our superior performance has yet again been recognized by another customer which is Asahi India. We have also won the prestigious Economic Times Polymer award for the third time in a row. This year we have won a total of 11 awards from our prestigious customers. This brings me to the end of my opening commentary. Now, I would like to leave the floor open for question and suggestions that you may have Mr. Manish Dhariwal and I will try our best to answer all of them.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue you may press * and 2. Participants are requested to use handset while asking a question. Ladies and gentlemen we will wait for a moment while the question queue assembles. We take the first question from the line of Vaibhav Badjatya from HNI Investment. Please go ahead.

Vaibhav Badjatya: You earlier in your introductory remark have indicated that there is a decline in profit partly due to the delay in foreign exchange compensation that we get from customer, just wanted to understand this point better because of accrual accounting if we have the contract anyway in place but these compensation it should have been already accounted in the book, so how it can then impact our margin just wanted to understand that part of their comment?

Manish Dhariwal: Vaibhav, there are two aspects to the foreign exchange issue; one is the receipt of the compensation from the customer and second is the continuing increase in the FOREX rates. To give you an example in Q2 the average rate of dollar was in the range of Rs. 69 whereas it was Rs. 73 in Q3. Now, the money that we receive from the customer is on a lag basis. So, for this quarter also while the third quarter accrual of expenses or the raw material purchase has happened at Rs. 73 whereas the compensation even on accrual basis happens at the previous quarter rate of Rs. 69. I hope that explains the situation.

Vaibhav Badjatiya: Yes, I got your point. So, then in the fourth quarter because exchange rupee has appreciated we should see the good benefit on margin of this front?

Manish Dhariwal: Yes, that should happen.

Moderator: Thank you. Next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Thanks for the opportunity and congratulations on the good set of number in such a challenging environment. Just had couple of question. First, is if we look at our current as this kind of opening remarks and kind of volume sales we have reported vis-à-vis industry numbers specially the passenger number so just want to understand if we look at the demand going forward what kind of indications we getting from passenger vehicles and other customers are they further changes in the production schedules?

Abhishek Jain: Viraj, as far as the industry numbers are concerned so what happened was till December a lot of inventories have been cleared by the customers, so that is why if you see the sales number they are not as bad as the production numbers so all the dealer inventories which had gotten piled up to about 45 to 60 days so those were basically cleared off by the OEMs by giving all these heavy discounts. So, for this particular quarter we have not yet received any official information from any customer that there is a production cut specially because there is a dip in the market or something. Everybody is still continuing on their original plans and we are just hoping that things would be much better in this quarter compared to the previous quarter.

Viraj Kacharia: Just to understand our sales performance a bit better we said that 25% of sales is now from new products so if I look at nine months basis what kind of incremental growth would have come from new products and how would have the scale up of Hyundai been so far?

Abhishek Jain: Sorry, we did not understand your question could you repeat it please?

Viraj Kacharia: We said in the presentation that around 25% of sales is from new part just wanted to understand in terms of incremental growth if I look at nine months basis or even for Q3 what kind of incremental growth would have come from new products? And, when we say we are expecting scale up from Hyundai for sealing products so if you can just touch something on that how has the scale up been so far, how do we see that going forward?

Manish Dhariwal: Okay, now in terms of the scale up from the new products this particular quarter we continue to reflect the sales of the Maruti new models, Toyota Yaris and Honda new Amaze as the new models that have been released in the last one year. So that is continuing to show the trend of newer models driving total sales.

Viraj Kacharia: And, on Hyundai how is the scale been and what do we expect in terms of, we started with one model and there were some?

Abhishek Jain: In Hyundai basically Eon we had started our relationship with Hyundai and now we are on the final approval stage for the Creta production.

Viraj Kacharia: So in each of these two models would it be the 100% supply or how is the wallet share would be like?

Abhishek Jain: For Hyundai?

Viraj Kacharia: Yes.

Abhishek Jain: So once we have the final approvals in place for Creta then we will be the 100% suppliers for these particular products, but they are currently importing these products from Korea and as soon as the final approval is in place so they have a plan to phase out these imported products and start using our PPAP make products.

Viraj Kacharia: Got it, second question was you are leader in that you typically take a quarter or little bit more than that for us to get the cost pass through from the OEMs now, just to understand the kind of impact on FX on RM we would have had in Q3 so if you were to normalize scene on a normalize level what kind of impact we are talking about which we can compensate in coming quarters?

Abhishek Jain: Sorry Viraj can you explain that once again?

Viraj Kacharia: Basically, my question was if we look in a normal cycle we would have, there is a normal cost pass through which happens from FX or RM which you are leader to which we will get in Q4 or Q1 of FY20, so I just want to understand so what kind of impact we had because of FX or RM in Q3 which will eventually get reversed in coming quarters?

Manish Dhariwal: See, basically if I look at my raw material cost it has two components one is the price increase and second is the foreign exchange increase. Now that is on the raw material side then there is the other expenses also like freight cost, like power cost and other things. So restricting just to the raw material side of it, the prices have increased and also the FX has increased now partly the raw material cost a well as the FX comes to us partly it is something that we have to bear so to that extent the cost have increased.

Viraj Kacharia: No, what I was trying to understand sir, if I look at the order on normalized basis how much impact we would have in this particular quarter which will eventually we will get it from customers so just trying to understand that impact on margins because of partly FX & RM which we think we will get it back in coming quarters?

Manish Dhariwal: Very difficult to give you a very crisp kind of, but if you look at our raw material cost in the presentation we have given the movement of our material cost on a six quarterly basis so if you observe that the Q3 cost had come down a little at 51.3% as compared to 51.9% which was in the second quarter so because of receipt of some of the compensation. So, it is expected to further normalize as we get the Q4 compensation and the FOREX rates do not increase further so as I had explained in the previous question in a rising cost scenario the cost will continue to increase. And because the money comes with a lag, now if you look at the raw material cost on a normalized scenario I think 50% is something that we can go by.

Viraj Kacharia: Got it. Just one more question was on the CAPEX and the utilization level so the kind of demand environment which we are going into and if we look at the commentary of key OEMs across segment they do not expect any significant improvement in demand at least for next couple of quarters in a very near term so is there a change in our CAPEX spend which we are expecting say for FY20, if you can just touch upon that.

Abhishek Jain: As far as PPAP is concerned we are very sensitive in spending our money on capital expenditure. So, any amount of money which is spent on CAPEX is being reviewed at a lot of levels differently and so we are making sure that every money which we spend adds value to the organization. As far as the CAPEX plans for FY19 or the next year go we are not changing our plan, there is not going to be any change in plan just because the market has gone down on a short term basis, because all these capital expenditures everything these are basically you have a long term strategy for it and unless and until we show our readiness to the customer none of the customers are going to give us orders and they are not going to trust us with new business. So, next year like SMG is going to expand its volume from 500,000 to 750,000 in the next two years so our capital expenditure will be along on those lines whatever business we get for the new models for SMG and for these volume increase. So we are valuing every money which we spend in the company but we are not going to stop our capital expenditure just because of the short term dip in the market.

Viraj Kacharia: Okay. How much we are looking to spend in FY20?

Abhishek Jain: We are just calculating on those numbers and we will be declaring them probably in the next conference call.

Viraj Kacharia: Okay. This one more question was on the JV if you can just share how is the performance been for a nine months on the balance sheet side is that how much net cash on that for JV**?**

Manish Dhariwal: JV again the overall impact of the reduced sales has been there but the JVs continuing to grow at a good pace. There is no further equity increase in from any of the partners in fact the cash balance continues to remain fairly robust, so no change in that as well.

Moderator: Thank you very much. Next question is from Mitul Shah from Reliance Securities. Please go ahead.

Mitul Shah: Sir, I have question on your production schedule from the OEMs how indication comes in terms of whether quarterly or yearly basis what kind of indication they give for the next production schedules?

Abhishek Jain: So our sales are primarily to the OEM customers and all the Japanese OEMs and others are our customer in India, so they basically work on just in time basis and we get daily production order from them of what has to be supplied to them. Apart from this they give us some sort of confirmed schedule which is valid for 15 days a few customers do that not all the customers and generally they give us a ball park figure for 3 months and for the complete year. With that one year and three months number is just basically for planning purpose but the confirm schedules are basically 15 days and everyday basis.

Mitul Shah: So, in case of 15 days schedule or anything if they reduce the production so is there any close of compensation or anything in the situation like current situation where the inventory of the OEMs are much higher so they would be cutting the production so any compensation do you get for schedules given to you?

Abhishek Jain: No, we do not get any compensation for any schedule cut but the contracts which we have with the customer like foreign exchange compensation and in case there is amortization and the volumes are not being met by the customer in that case we get compensated but we do not get any price of our products they do not change just because the customer has cut down the volume by 5000 or 2000 or something.

Mitul Shah: Sir, in terms of molds and tooling's who pays for that, you have to take the entire burden or they pays the development charges to you?

Manish Dhariwal: It works both way but largely now the molds and tooling are owned by the customer and then there is an element of sale of the tools that are getting developed by the vendor at the time of the start of production.

Mitul Shah: Sir, next question is on the BS-VI related, in case of BS-VI coming in and most of the vehicles are in a race to reduce the weight, so light weighting so in that situation do you have indication for how the increase in content per vehicle for your products? Or are you going to get the production for any new components which will be totally different than the existing product line for BS-VI PV's particularly?

Abhishek Jain: First of all, the product range that PPAP caters to is neutral to the engine technology so we are insulated from any changes which happens on the technology side from movement from BS-IV to BS-VI or from the IC engine to the electric engine. Apart from the changes that will happen on the demand side so our company's products are basically insulated from these regulatory changes and the engine changes.

Mitul Shah: Sir, my question is not related to technology, I mean because of the BS-VI people are in a race to reduce the weight of the vehicle so there is a possibility of further few of the metal parts getting converted to the plastic so have you witnessed any such changes or any of the new products are you targeting which can be made from plastic or polymer rather than metal?

Abhishek Jain: We are not replacing any metal product we do not have any project for replacement of metal product with the customers but whatever products are being made by us we are focusing on reducing the wall thickness of those products, and of course eliminating the waste from those products we call it VAVE exercises so those exercises are continuously done with the customer at the design stage also and in the mass production stage also. So, light weighting our products when we start the designing of these products light weighting is a very important aspect which we have to look at which not only effects the weight of the car but also the cost the product.

Mitul Shah: Alright, last question is on the mix in terms of the extrusion versus injection molding if you can share approximate number?

Manish Dhariwal: Yes, see Mitul mix obviously on a quarter-on-quarter basis has some plus, minus happening but broadly it is in the region of 50% both the injection molding contributes 50% and the extrusion contributes 50%.

Mitul Shah: So how is this going to pan out in future maybe in two-three years down the line as extrusion would be having roughly lower margin compared to injection?

Abhishek Jain: The mix of extrusion and injection it might change in the future but not at a very significant level there might be a plus minus of 5% in both because we are getting more opportunities in the injection space but at the same time we are looking for opportunities in the extrusion space also. So, there might be a plus minus 5% change in the contribution that these two product segments do in the company.

Mitul Shah: Sir, can you share roughly difference between the margins between these two approximately?

Abhishek Jain: So, margins are pretty much similar apart from the dynamics of each of the business, so somewhere the raw material cost is lower but there are lot of manual processes so the man power cost goes high, somewhere the raw material cost is high but the man power cost is low but on a company level they are pretty much similarly contributing to the bottom line.

Mitul Shah: So both, extrusion as well as injection has similar margins for you?

Manish Dhariwal: Yes, basically we look at the margins at a consolidated basis.

Moderator: Thank you. We would take the next question from the line of Ankit Merchant from SMC Global. Please go ahead.

Ankit Merchant: Sorry, I joined the call little late, can you just brief me on the material cost I believe that has been rising since last couple of quarters now and going forward what do you see the trend line?

Manish Dhariwal: Yes, the material cost has been rising on account of one the basic cost of the material increasing and two on the foreign exchange part of it. Now, the trend is rising, the foreign exchange part of it is compensated by the customer with a lag so once that normalizes then there will be just the element of the raw material cost increase. So, going forward at a normalized scenario we think it will be about 50%.

Ankit Merchant: Sure, so 1.3% is safe to assume could be the foreign exchange part or it could be less?

Manish Dhariwal: Broadly yes.

Ankit Merchant: What happened to the employee cost, I believe it has gone up by 18.5% in this particular quarter?

Manish Dhariwal: See, the employee cost if you look at it on a Y-o-Y basis, sorry if you look at it on the total cost basis because significant component of that is fixed so then there is no significant trend emerging it is you have this base cost, cost of increment there is some attrition, there is some addition of new man power, so new plants coming in for some time, there is an incremental on percentage basis because of the employee cost not getting fully apportioned or recovered from the increased production, so I think if you look at it on a quarter-on-quarter basis it is on a similar trend.

Ankit Merchant: Sure, also I wanted to understand related to your new product the product pipeline going ahead so for Maruti we would be doing the new Wagon R we are also doing the new Ertiga and for Tata we are doing the Harrier, but what could be our share of business one and what is the contribution or should I say what would be the total components from our company which could be going to this particular models the total in the value terms?

Manish Dhariwal: Specific figures will be difficult to give right now but for the Harrier which is Tata we are mainly giving the automotive sealing parts and for the Ertiga and Wagon R sealing parts obviously are there but then we are continuingly also building our portfolio of injection products there because both these models are coming at Manesar so the injection component would not be very significant as it is for the models that are being made in Gujarat.

Ankit Merchant: Sure, but can you just define it what would be in value terms like for Wagon R we could be doing a value of 3000 or 5000 or something if it's possible for you?

Manish Dhariwal: Offhand, I do not have the figure right now I can give them to you separately.

Ankit Merchant: Sure. And can I also get the details related to your production of this particular quarter and what has been the utilization rate for both injection molding as well as the extrusion?

Manish Dhariwal: Yes, the production obviously was as per the customer demand so it was in the lower level and accordingly the capacity utilizations have come down by close to 10%.

Ankit Merchant: Working capital, are you been facing any issues related to payment not coming from your customers on time or so, is this thing happening?

Manish Dhariwal: No, nothing like that. However obviously you know when such things happen then obviously you have like this quarters lag that gets delayed at times. See, one is the price of the part that you have to get on the normal scenario that you will continue to get but then this compensation is a separate calculation is a separate working that happens for that, so they have delays in.

Moderator: Thank you. Next question is from the line of Dhiral Shah from ACM Investment. Please go ahead.

Dhiral Shah: Sir, my question is again regarding to the EBITDA margin, so you just said that 1.3% impact is because of the foreign exchange right?

Manish Dhariwal: Yes, broadly on a normalized scenario the material cost will be about 50%.

Dhiral Shah: Okay. So what could be the EBITDA guidance because we have been in the range of let say 20% plus or minus 1% here or there, so do you expect again the EBITDA margin to again bounce back to your 20% level in coming quarters?

Manish Dhariwal: We have always been mentioning that between the region of about 18 to 20% is something that we have been saying and given the fact that lot of new plants have come up and all these factors, I think 18% still should be manageable.

Dhiral Shah: 18% right?

Manish Dhariwal: Yes, that should be manageable.

Dhiral Shah: Okay. Sir secondly what is your growth expectation for passenger vehicle let say for FY20?

Manish Dhariwal: See there are so many uncertainties at this point of time, in the first half you have elections, in the second half you have the BS-VI so this is a fair amount of uncertainty that exists at this moment.

Dhiral Shah: But sir, do you expect let say not double digit but high single digit kind of a growth?

Abhishek Jain: I think it's too early to say that but what we can confirm to you is we should be growing at a rate higher than the industry.

Moderator: Thank you. Next question is from the line of Sunil Shah from Turtle Star Portfolio. Please go ahead.

Sunil Shah: I joined the call a bit late so not too sure if you have shared this information but my question is on the new model launches, so historically we have always seen that Maruti has done well Maruti I believe is about 50% of our customer and maybe Honda is about 30%. So, amongst this two companies whenever new models have been launched there have been great sales number from those companies like Ciaz, and Brezza and all of those. Now, they are just re-launching the existing models whether it's a new variant of Ertiga or new variant of Wagon R but is there any ones which we are doing in terms of new model launches which could be at work in progress kind of and by the latter half of the year they would be launching so is there any work happening on completely new models coming from Maruti or Honda stable?

Abhishek Jain: Well Mr. Shah first of all I would like to correct you that Wagon R which is launched now is a completely full model change that is not a cosmetic change. So there are two concepts in the industry one is called MMC which is the Minor Model Change and one is called FMC - Full Model Change, so minor model change generally happens in two years after a vehicle is introduced in the market and a full model change earlier it used to be 8 to 9 years but now it has come down to about 4 to 5 years. So, what you see on the road today the new Wagon R this is a completely new design by the customer and they have spent a lot of money in redesigning the whole Wagon R. Same thing for Ertiga also the new Ertiga which is launched it is not a minor modification it is a completely full model change.

Sunil Shah: Okay. So, for Maruti these two are the ones which they are working for calendar 2019?

Abhishek Jain: They have already done these two launches and there are couple of other products which are scheduled to be launched but we are not at liberty to disclose those models for confidentiality purpose but like we mentioned in the opening script that we are working for almost 24 new models that are expected to start production within the next two years and these 24 new models are spread across various customers like Maruti, Toyota, Honda, Nissan, Volkswagen everyone included.

Sunil Shah: Thank you. That's the number I wanted. Sorry, I missed the opening remarks. Thanks for clearing that for me.

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

Viraj Kacharia: I just had one or two more questions. One was from the JV if you can share the numbers for nine months how much we would have done into the sales EBITDA or profitability?

Abhishek Jain: We basically give the details in the annual report so at this juncture we are not in a position to give you the details.

Viraj Kacharia: Okay, but would it be PAT positive in the nine months just trying to understand?

Abhishek Jain: Yes, absolutely. We are EBITDA positive also and PAT positive also in that company.

Manish Dhariwal: And there is good growth.

Abhishek Jain: And, because that company base is small so this year we are having a good growth in that company also.

Viraj Kacharia: Because, last year I think there was some expenses which we had to incur, there is some operation challenges so we were trying to work on that hence I was trying to get a flavor of how things have went on a nine months basis in this year?

Manish Dhariwal: Absolutely in fact for one particular model last year that part we had to incur significant cost on the development and on the trials etc. so which had an impact but nothing so far this time. Obviously, see you must realize the fact that the cost pressures have been there so those obviously will have a bearing but nothing on an untoward basis.

Viraj Kacharia: Got it. Second question was on the CAPEX what kind of CAPEX we are looking to spend for FY20 and how much we would have spent in FY19 so far?

Manish Dhariwal: See, in FY19 so far the spend is close to Rs. 40 crore and the number for the next year we are basically working out as to what the total number is going to be so we are working on a detailed exercise on that. So, that number should basically be ready in a month's time or so.

Abhishek Jain: So we have our board meeting to discuss this budgets and everything which is scheduled to happen in the first half of March so post that once the board approves off the compete budget then we will be able to give you a better idea of what is going to happen in 2020.

Viraj Kacharia: Okay, just last question if I may. Sir, we seems to have a very healthy pipeline of some new products we have worked on and we expect them to commercialize in next one to two years in last couple of calls you have mentioned that we are also looking for new products, new areas so if you can develop it further if I look at next three to four years from business point of view the focus would largely be on these or has there been any further development in terms of new product areas or new segments which we expect apart from OEM as a growth driver?

Abhishek Jain: No, we are primarily focusing on the OEMs only and we are sticking to our core competence of extrusion process and of injection molding process but as we have always maintained our stand that we are looking at opportunities to enhance our product portfolio keeping these two competencies at hand so like last year we introduced this instrument panel for SML Isuzu trucks so now we are scouting for more opportunities, we have had couple of discussions with Maruti as well but unfortunately that project did not work out with them but with Maruti also we are scouting for new opportunities like today if you look at the face- lift of Baleno which is launched so that the front grill completely is being done by us from our Gujarat operations so that is a new complete product for us which we have introduced this year. So there are couple of other things which are in pipeline and which should be getting rolled out this year.

Moderator: Thank you very much. Next question is from the line of Vaibhav Badjatya from HNI Investment. Please go ahead.

Vaibhav Badjatya: Just wanted to understand the broad nature of our contracts with the customers. So, is it product wise pricing that we have with the customer and what the nature of that is pricing is it fixed for a particular number of years and how the escalation works on those price points that are fixed?

Manish Dhariwal: The pricing is basically determined at the project level so whenever a new project is conceived the parts are discussed and alongside that at the LOI stage the prices are also fixed. Then, there is this trajectory of changes that can happen over the period of time on that. So, like foreign exchange change that you get or you give then there is this element of the efficiency sharing that happens and so and so forth. So, the price gets determined at the project stage and that remains till the culmination of the project.

Vaibhav Badjatya: Okay. So basically the base price that is fixed at the time of new product launch or that new project, that does not see any change during the lifetime of the product that is what you are trying to say?

Manish Dhariwal: Basically, it is all BOM driven so if the prices change on that significantly then we can have a representation but otherwise the base will obviously remain that only.

Vaibhav Badjatya: And, what you are saying there is no fixed tenure of these contracts like three years or five years it is just runs till perpetuity?

Manish Dhariwal: Yes, till the project remains in OEM category.

Vaibhav Badjatya: So, is this the industrial practice or it's our contracts are little different than our competitors or other OEM?

Manish Dhariwal: No, it is as per the industry practice.

Moderator: Thank you. Well ladies and gentlemen as there are no further questions I would now like to hand the floor back to the management for their closing comments. Over to you.

Abhishek Jain: Thank you Janis and thank you Gaurav for organizing 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 schedule to listen to us today. In case you need any more clarification we would be very happy to welcome you to our facilities in any region. We are very interested in showing you the kind of efforts that are being done to achieve the financial results which were discussed today. So, please engage with us in case you have any further query and thank you so much for today.

Moderator: Thank you sir. Ladies and gentlemen, thank you for being a part of this conference call. If you need any further information or clarification, please mail at gaurav.g@conceptpr.com. Ladies & gentleman this conference call for today thank you for using Chorus Call Conferencing Services you may disconnect your lines now. Thank you all have a pleasant day.