



PPAP AUTOMOTIVE LIMITED
"PPAP Automotive Limited Q2FY19 & Half Year Results Conference Call"
Transcript
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MANAGEMENT: MR. ABHISHEK JAIN – CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR
MR. MANISH DHARIWAL – CHIEF FINANCIAL OFFICER



Moderator: Good afternoon, Ladies and Gentlemen. I am Ali, the moderator for this conference. Welcome to the Conference Call of PPAP Automotive Limited arranged by Concept Investor Relations to discuss the company's Q2FY19 Results. We have with us today on the call Mr. Abhishek Jain, Chief Executive Officer & Managing Director, and Mr. Manish Dhariwal, Chief Financial Officer. At this moment, all participants are in the listen-only mode. Later we will conduct a question and answer session. At that time, if you have a question, please press '*' and '1' on your telephone keypad. Please note that this conference is being recorded. I would now like to hand over the floor over to Ms. Priya Kansara. Thank you and over to you, ma'am.

Priya Kansara: Good afternoon everyone. Thank you for taking time out for Q2 FY19 Conference Call of PPAP Automotive Limited. We have with us Mr. Abhishek Jain, Chief Executive Officer & Managing Director and Mr. Manish Dhariwal, Chief Financial Officer. We will begin the call with 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 conference call to Mr. Jain.

Abhishek Jain: Thank you Priya and Ali. Ladies and gentlemen, a very good afternoon to all of you and thank you for joining us to discuss the operating and financial results for Q2 and first half of financial year ending March, 2019 of our Company PPAP Automotive Limited. I am pleased to share with you that we have continued to outperform the industry growth and we have been able to sustain the margins during the period under review. I will begin today with a brief about the company and then we will look forward to taking your questions and your suggestions. PPAP manufactures polymer extrusion based automotive sealing systems, interior and exterior automotive injection molded products in India. The company started its production by supplying parts to Maruti in the year 1985. With the state of art manufacturing facilities spread across India with plants located in Uttar Pradesh, Rajasthan, Tamil Nadu and Gujarat. PPAP has grown its geographical presence strategically over the years. Through our various facilities, today we manufacture over 500



different SKUs and ship over 150,000 parts every day to our customers who are located PAN India.

Our target is to achieve zero defect in quality and zero defect in delivery for all our customers. Our customers includes some of the largest OEMs in India like Maruti Suzuki, Honda cars, Toyota, Nissan, Tata Motors, Isuzu Motors, SML Isuzu, Honda Motor Cycles, Suzuki Motor Cycles and their Tier 1 suppliers. We are developing strong relationships with our recently added customer Hyundai and are in the process of developing parts for their models. For MG Motors, we have started the development of parts as well.

The company derives 96% of its revenue from the passenger car segment. 10% of what we produce is exported by our customers as part of their CKD Kits to countries like Japan, Europe, Mexico, Venezuela and others. 21% of our sales are from models that have been launched in the past one year.

We continue our efforts to add new customers as well as provide value added products and services to our customers across various segments. Now, I will take a brief moment to introduce our management. The company is led by Mr. Ajay Kumar Jain who is the Chairman and Managing Director. He is also the president of Toyota Supplier Association I am an industrial engineer and I have been a part of PPAP for the past 14 years and I sit on the executive committee of Honda supplier association as well as on ACMA.

In 2014, we established an equal equity joint venture with the company called PPAP Tokai India Rubber Private Limited or PTI in short with one of our Japanese technology partner Tokai Kogyo. With this in place, now PPAP and PTI together cater to the consolidated requirements of sealing systems for all the customers giving the company a strategic advantage of being a one-shop stop for all sealing systems. Our other technology collaboration is with Nissen Chemitec Corporation for interior and exterior injection molded products. We continue our focus on core competency built in quality to achieve high standards of product quality as well as cost optimization with a focus on R&D,



robust product portfolio and strong brand and technical partnership with international players.

The company is on track to establish its presence in all the major automotive clusters in India and improve the proximity to the customers. We are extensively exploring all strategies, which meet our objective of achieving profitable growth. In that direction, we are open to examine any organic as well as technical collaboration or joint venture opportunities that may exist in the product segment that we cater to. Apart from these products, we are also developing assembly components for our customers, these assemblies include instrument panels and complete center console assemblies. We continue our commitment to enhance the value of products that are supplied by us to our customers.

To give you a brief overview of the Indian Automotive industry, the domestic passenger vehicle segment as per the official data has seen a 3.7% year-on-year production growth in the quarter under review. A total of 1.08 million passenger vehicle were produced against 1.04 million in the same period last year. The commercial vehicle production saw a growth of 35.9% whereas the two-wheeler production was at 6.88 million, which an increase of 9.7% is compared with the same quarter of the previous year. Among all the segments, passenger vehicle segment witnessed most challenging time during the quarter ended 30th September. The growth in percentage terms was subdued largely on the impact of macroeconomics factors like rising fuel prices, reduction of disposable income, etc.

Now, I would like to take you through the financial performance for the quarter under review. The details slides have already been shared with you. I request you to kindly refer to them. For the Q2FY19, our company recorded a revenue from operations of Rs118.6 crore as compared to Rs. 97.5 crore in the corresponding quarter last year thereby registering a growth of 21.7%. Out of this Rs. 118.6 crore total revenue, part sales amounted Rs. 108.2 crore and the tool sales contributed Rs. 5.2 crore Rs. 5.3 crore in this revenue from



operation was accounted by the subsidy which we receive from the Rajasthan government for the period starting 1st July, 2017 to 30th September, 2018.

96% of the part sales in this quarter was derived from the passenger vehicle segment. Our automotive sealing products are used in the 70% of total passenger vehicles that are produced in the Indian market. Maruti Suzuki including Suzuki Motor Gujarat continue to remain PPAP's top customers accounting for 46% of part sales. The company's second biggest customer, Honda has contributed 34% to the company's topline in this quarter. Our sales have continued to grow at a higher rate than the industry growth rate. EBITDA was at Rs. 24.2 crore compared to Rs. 21 crore in the corresponding quarter last year which is up by 14.9%. The material cost has been impacted by the higher material ratios in tool sales, increase in FOREX rates and a product mix change.

Profit after tax recorded a jump of 25.5% year-on-year and stood at Rs. 11.6 crore in the quarter compared to Rs. 9.2 crore in the same quarter last year. We recorded a PAT margin of 9.8% in Q2FY19 compared to 9.5% in the previous year same quarter. EPS for this quarter stands at Rs. 8.3 which is an increase of 25.5% compared to the same period last year. I will briefly take you through the half year financial figures as well. The total revenue from operations for H1FY19 stood at Rs. 218.3 crore compared to Rs. 179.6 crore in the last year.

EBITDA for these six months stood at Rs. 44 crore compared to Rs. 36.7 crore in the previous year. The net profit was at Rs. 20.4 crore this year compared to 15.1 crore which is reflecting an increase of 34.9%. The EPS for the first half stands at Rs. 14.6 compared to Rs. 10.8 last year. The debt equity ratio of the company as on 30th September, 2018 stands at 0.14. We have already done a CAPEX of Rs. 26 crore towards the new facility and maintenance of existing facilities. The capacity utilization for the first half stood roughly between 80% to 85% on a company level. As committed earlier, all our CAPEX requirements are being met by internal accruals. During the period under review, the company continues to secure new business from all its customers. The



company is currently developing parts for 23 new models that are expected to start production within next two years.

I am happy to report to you that we have won the prestigious best quality award from Tata Motors bearing a testimony to the best practices being followed by us across all our customers and all our functions. This year, we were also awarded from Maruti Suzuki, Toyota and from other customers. This is the first time that the company has been awarded from Tata Motors. This brings me to the end of my opening commentary. Now I would like to leave the floor open for questions and suggestions that you may have. Mr. Manish Dhariwal and I will try our best to answer all of them. Over to you Ali.

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 your touchtone phone. If you wish to remove yourself from the question queue you may press * and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Arun Agarwal from Kotak Securities. Please go ahead.

Arun Agarwal:

Good afternoon sir, thank you for the opportunity. My first question is on the revenue, now the revenue for this quarter has grown significantly higher than the production growth that we saw for the passenger vehicle segment. Now could you just help us out how much Honda would have helped you out in this strong growth because we believe that we are supplying to Honda Amaze and that would have one of the key reason why the overall revenue would have grown and apart from that reason even the other 21% revenue coming from new launches, so could you just throw some more light into those couple of things.

Abhishek Jain:

Mr. Arun, like I explained in the opening commentary so if you look at the total revenue from operations that has increased by 21.7% which includes the subsidy which we received from the Rajasthan government also. So, if you look at only the part sales that have increased by 12.4%.



Arun Agarwal: But sir, even then I mean it is definitely more than 3% to 4% production growth we saw for the passenger vehicle segment, so I was just trying to understand here how much Honda would have grown on a year-on-year basis for us in this quarter? Revenue from Honda?

Abhishek Jain: See Honda basically launched this new Amaze in the previous quarter. So, that has a significant impact on the sales.

Arun Agarwal: So, if we were to take out the additional revenue that we would have from Amaze the other businesses would broadly have grown in line with the overall production growth. I mean, I was just trying to understand have we gained market share in some other business over the last one year or so?

Manish Dhariwal: Hi Arun, see Maruti has continued to remain our biggest customer. In-fact, we reported that Maruti along with Suzuki Motors Gujarat has contributed close to 47% to the revenue in this quarter and Honda has contributed 34%. Now, this percentage between Maruti and Honda is broadly around the same levels as it has been earlier and because of the product mix change, because of one model doing better than the other some variation does happen. Other than that our new businesses, our new customers have also contributed to this sales growth and for Tata I would like to mention with whom our relationship is now proceeding in a very strong manner and we are now working with them in all their coming passenger car models is a case in point and alongside even the two wheeler and even the trucks whatever we are doing in the commercial vehicle side is also performing.

Arun Agarwal: Another question on this thing, have you seen any change in the production schedule from any of the passenger vehicle makers in recent months given that there has been slow down in the sales, so have we seen any such trend there?

Abhishek Jain: See, as of now we have not received any official information for any production number cut from any of our customers. So, things are still looking I mean official communication that is still not there, but I think there are



indications that because of rising fuel prices and the stock market which has not been able to perform recently there is a severe liquidity crunch and sentiments are quite negative. So, the OEMs are finding it little bit difficult to sell their vehicles, but they are making their best efforts. So, I think it is still too early to say what the final impact on the industry is going to be

Arun Agarwal:

Right, Sir on the raw material cost we see that the gross margins in this quarter has come down both Y-o-Y and sequentially. Now, I believe that with the rise in input cost so we do have I believe that some part of our portion where we do not have pass-through contracts with the clients. So how do you see the raw material prices, the gross margin or the raw material cost impacting in coming quarter to you all?

Manish Dhariwal:

See Arun, the numbers clearly reflect the kind of operating environment that we are working in. You are aware that on the FOREX and on the other increase that we do get from the customers at times is the lag. So, that obviously plays its role because the raw material cost that I have paid includes the impact of the increased FOREX rate, but my selling price which has to compensate for this increasing foreign exchange, it comes with the lag. So, therefore to that extent there is that increase in the material cost. Now, alongside the FOREX side even otherwise the raw material prices have increased a little bit and the element of that component which is not pass-through with the customers is small and not very significant. So, that can still be managed. However, having said this the operating environment is clearly reflecting the increasing cost scenario. It is also reflected in the increasing prices of the diesel which has its impact on the electricity on the power cost and on the freight cost so all those factors are there.

Arun Agarwal:

Ok sir, thank you so much. That is all from my side.

Moderator:

Participants are requested to limit their questions to two per participant. You may come back in the queue for a follow up. The next question is from the line of Suvarna Joshi from Axis Securities. Please go ahead.



Suvarna Joshi:

Sir thank you for the opportunity and congrats for reporting good set of numbers; especially on the margins front despite seeing raw material cost going up, so my first question is like the earlier participant asked if you could just help us to understand within this 34% of Honda contribution, how much would that be from the new Amaze that it would have contributed or maybe if you could just breakup this 21% revenue contribution from new model that were launched in the last one year. If you could just highlight which models have contributed in percent term? So, that is my first question. My second question will be on if you could just highlight, in your opening remarks you mentioned that there has been some mix changes as well. So, if you could just throw some more light on what would that mean and the third question would be how has our content per vehicle panned out? Has it remained steady or it has increased for the existing customers and for the new customers like you mentioned for MG Motors and Hyundai how has that panned out, are we doing injection molded or are we doing sealing systems over there? So, those are my three questions for now.

Manish Dhariwal:

Hello madam? I will answer the question one by one. See your first question was Amaze component. Now, I do not have those figures off hand, but yes Amaze does contribute to the total kitty that we have earned from Honda in this quarter. The other models being your WRV, City, the other which is a BRV, etc. So, because this was launched around the launch time of Amaze that it basically gave us good volumes. In terms of the 21%, three models were the prime contributors to raise. One was the new Swift, and then the second was this Amaze and third was the Yaris from Toyota. Other than that there were other businesses like DMAX that was launched by Isuzu Motors so and so forth, but then their contribution was not that significant. So, the key these are the three that I have mentioned to you. In terms of the content per vehicle, that is certainly on the increase, but then you know to give you that per model may not be feasible at this point of time MG Motors is injection molding and Hyundai is all extrusion; that is automotive sealing components.

Suvarna Joshi:

Just a follow up on this content per vehicle. Now, in the opening remarks Abhishek sir also mentioned that we have been delivering value added



products and in the previous con-call also we highlighted that we have got some business on the injection molded side in Maruti. So, just wanted to understand over there how is that shaping up, are we getting new business in the existing customers besides the models that we are already doing or is that we are improvising in the existing product itself?

Abhishek Jain:

Basically, what we are trying to do is we are getting away from mold to sold components and we are trying to get into more assemblies. So, mold to sold basically is that you get the mold from the customers and then you just mold the part and put in the bin and send it to them. So, that is a very low value added and a low margin kind of business. What our focus is on value added assembly. So, once you mold the component there are maybe two or three or four or ten processes which have to be done you need to do some ultrasonic welding on the parts, you need to put some sort of cloth on the part or something tape or something has to be put and then that complete assembly goes into the car. So, when I was referring to the more value added products SML Isuzu we developed this complete instrument panel in this last year. So, instead of just molding the instrument panel we are going to assemble the whole panel and give it to them on a turnkey basis which is going to get fitted in their vehicle. So, similarly for Maruti also instead of focusing on mold to sold now we are getting lot of interest from Maruti for these complete assembly.. So, instrument panel is one assembly which we have developed for SML Isuzu. Now, we are promoting it across all the different customers, not only for LCV market but even for passenger vehicle market also. So, in continuous talks with Maruti, now if they can outsource some sort of instrument panel to us. Similarly, there is another interest from our customer for this center console. We are pitching for that kind of a business with them., this is the kind of business that we want to get into. We want to stick to our core competence of extrusion process and injection process, but at the same time getting into more value added components for the car.

Suvarna Joshi:

If I may just squeeze in one last final question. Have you also supplied anything to the new Hyundai Santro that was launched?



Abhishek Jain: No, not for the new Santro. We are supplying parts for Eon and within this quarter, we are going to start supplies for their other model also.

Suvarna Joshi: Thank you so much and wish you all the best

Moderator: The next question is from the line of Ankit Merchant from SMC Global. Please go ahead.

Ankit Merchant: Congratulations on the good set of numbers. My question is related to the demand from customers basically how is it panning out? I understand that most of the OEMs have not really given you the schedule, but any hint for indication which you can provide us with? So, that is the first question

Abhishek Jain: Ankitji, like I explained officially we do not have any information about production cut or anything, but certainly these macroeconomic factors are going to have effect not only on the automotive industry but on the complete Indian economy. So, we just have to wait and watch on how things are going to pan out. Specially, this is going to the festive season has now started. So, I think we will have to wait for the festive season to finish and then look at how things are going in the market.

Ankit Merchant: Sure, can you just also elaborate your relationship with OEMs and again within OEMs which particular OEM is more enthusiastic in working with you and on which particular models?

Abhishek Jain: We have a track record of superior performance with all our customers. So, we are a preferred supplier for all of them. We have been able to demonstrate our good performance or good capability in both the extrusion systems also and the injection systems to all our customers.

Ankit Merchant: Sure, the thing is I wanted to understand because this time around Honda Amaze and as you said the new Swift and also the Yaris had an impact to your particular growth coming in. So, any particular another new model where you see the demand is going up from any of the OEMs this is what I wanted to ask?



Abhishek Jain: So, there are couple of models which will be launched by our customers where we have business. So, I think Maruti will be launching another couple of models within this financial year. So, we have got business for all of them.

Ankit Merchant: Can you also define your relationship with Tata and which particular model you are doing with Tata and any chance you are also on with Tata Harrier?

Abhishek Jain: Yes. So, we started our relationship with Tata for the Nano project so that was the first time that we designed the parts for Nano for Tata. So, basically Nano was the first project that we did and in the last four years we are basically doing all the new projects that are being launched by Tata. So, recently Tiago was launched so the sealing system is by us

Manish Dhariwal: And, we are there in Nexon and before that we were in Tiago and before that Zest and Belt. So, in Tata now we are there in passenger car business in a very strong way.

Abhishek Jain: And, for your Tata this new model which is expected to come up yes we have developed parts for that model as well.

Ankit Merchant: That's great to know. Again, this could be little repeating but your relationship with Hyundai and more color on that related to, is it only limited to one particular model right now that is Eon?

Abhishek Jain: Currently, we are supplying for Eon, but for another model things are in pipeline and supply should start within this Q3 of this year.

Ankit Merchant: Ok, just one last question. What is the other component in this revenue can you elaborate? Because there is parts, there are tools and there is also one component which is others?

Abhishek Jain: Yeah, other revenue as we mentioned is the subsidy from the Rajasthan government.

Ankit Merchant: Ok, I missed out on that.



Moderator: The next question is from the line of Kalpesh Parekh from Prabhudas Lilladher.

Kalpesh Parekh: Good afternoon and very hearty congratulations for the good set of numbers. I have couple of questions. One, basically on this subsidy what you said from Rajasthan government, is this like a onetime type of thing or should we expect there is more to be coming in?

Manish Dhariwal: This is a continuing feature and every quarter we are going to be getting this subsidy. It is basically a part refund of the total GST that we are generating for the state. So it is going to be a continuing feature for the good number of years ahead.

Kalpesh Parekh: If you could get this Rs. 5 crore type of number or it can be big?

Manish Dhariwal: As we mentioned, this amount of Rs. 5 crore is for the period from the time GST regime started. It is to that extent it is a one off, but every quarter now we are going to be getting about crore plus of the subsidy.

Kalpesh Parekh: So, this is only restricted to Rajasthan or can we expect something from Gujarat or some other states as well or Tamil Nadu or something?

Manish Dhariwal: See, now even every state has its policy. So, at this point of time Rajasthan is happening, Gujarat certainly something will happen but then it will happen over a period of time and the state of Uttar Pradesh had the other policy, they used to give us the interest free seven years loan. The loans that we get from (PICUP) the Pradeshiya Industrial & Investment Corporation of Uttar Pradesh. So, every state has its different way. So, wherever what is possible we are securing it.

Kalpesh Parekh: I know previous participants have grilled you on this front on the car industry outlook and probably you have also said that we are keeping fingers crossed, but like frankly what is your reading for second half? We are presuming that we should be slightly cautious. Then should we say that probably normally we have seen that second half is always better for you than to first half, but in this type of year should we expect a second half to be broadly same and the



upcoming year we should also not expect this type of growth Is that the right presumption?

Manish Dhariwal: See, Mr. Jain has put a good amount of light on this. There are two things to it. One is what the customers has told us so far; that we have already shared with you. I think let see how this Diwali season finally pans out. So, once that is over then a better understanding of the way things will pan out will emerge, that will be known. Second is that see we have to realize that we are in a derived demand scenario. What is our focus is that we should be growing more than the industry by steps like taking more business, by getting more customers. So, that is what we are actually focusing on and we are also consistently delivering on. Now, how the passenger car industry kind of pans out is going to be the ultimate determinant as to what kind of percentage growth that comes in.

Kalpesh Parekh: I am keeping the finger crossed at this juncture probably because the ground level feed whatever we are getting is slightly very cautious outlook even from the OE side so that is the reason I think most of the analysts are more worried on the same. Good Sir, wish you all the best.

Moderator: The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Slightly longer term may be not, but in 1st April, 2020 when India moves to BS-VI, are you seeing significant change in the way cars are being designed and is there a positive rub off on your content post that?

Abhishek Jain: Our business does not get affected by the kind of fuel that goes into a vehicle. Even it is for BS-VI or there is a shift from IC engine to electric engine. So, whatever we do is basically it goes in all types of passenger vehicles.

Puneet Gulati: I understand that part, but what I also hear is that also lot of models are being redesigned. Are you seeing any increased content of plastic parts there on the redesigning or do you think that is pretty much business as usual?



Abhishek Jain: No, that is pretty much business as usual. There is a lot of work happening on the emission side and on the catalytic converter side. So, those kinds of businesses are experiencing a big technology change because of this fuel getting changed.

Puneet Gulati: Other than that what are the new products or business lines you are planning to add?

Abhishek Jain: See, as we have always been reaffirming that we do not want to shift our core competence out of extrusion and injection process. So, our core competence will always remain in these areas and then on top of these basic processes we are always looking for opportunities for building up more value added components and more parts which are being imported by the customer right now parts or which are not being manufactured by us, technologies which are not there existing in India. So, that is our primary focus.

Puneet Gulati: Is there a matrix to measure how you have added those parts over last few years and how you expect those parts to be added?

Abhishek Jain: What we follow is this four quadrant approach. So, we are focusing on how to enhance existing products for the existing customers and also develop new products for new customers. So, there is a matrix available which is how we evaluate what we are doing and which quadrant we are actually being able to achieve results and which has been the area are we lagging behind the targets. Apart from this Puneetji, what we are doing is we are also continuously realigning our development teams. So, engineering team or business development team is being continuously reviewed on the focus of these higher value added products so that we have a team in place and we have a process in place and this whatever efforts we are doing they do not just become a one off kind of phenomena.

Puneet Gulati: So, since you mentioned on the production side is there also an effort to introduce IOT more automation, industry 4.0 in your factories or is it some time off or you are already on your way?



Abhishek Jain:

See, Whatever machines we have today be it in the extrusion process or be it in the injection process; all the machines are data ready. So there is an output which is available in those machines and in some area we are already centralizing that output and analyzing it on a combined basis. So, some areas we have the data available, but now we are working on the interface. What we are also doing is we are giving lot of importance on these business intelligence tools. So BI tools is a very important tool for us so we have developed a BI interface for our human resource systems, our purchasing system, and our financial system. Now, we are introducing it in the production to measure productivity and quality and what is the trend coming about and then apart from this just last week we have started implementation of SAP as well. So, that should be in place by 1st April, 2019. So, this getting on the digital platform is one thing which we are seriously focused on in the last two years. So, lot of transformation is going on in the company to make it more digital savvy and to provide everything on a digital platform for all the employees for all the customers. So, like we have got CRM software also in place. We have got HRMS system upgraded now. For this development side, we have product lifecycle management done by the team center that has been implemented last year. So, a lot of activities are going on in this digitization of the company and making it modern and making it relevant in today's term not in history.

Moderator:

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

Nikhil Upadhyay:

Hi, this is Nikhil in place of Viraj, here. Congratulations on the good set of numbers. Few questions one is just one clarification Mr. Dhariwal you said the subsidy would be Rs. 1 crore on an ongoing basis each quarter?

Manish Dhariwal:

Yeah, on an approximate basis. Yeah, it is around a crore and crore plus on a quarterly basis.

Nikhil Upadhyay:

Secondly, sir I just want to understand our growth a bit better. So, based on what we gave in our presentation if I map it out over a quarterly basis. For Maruti, we have grown by 12% and for Honda we have grown by 9%. I just



want to understand that when this while the production for both Maruti and Honda has been almost flat or has de-grown, so is it growth more led by additional demand from the injection molding kind of product which is giving us higher growth or is it more led by both auto sealing and injection molding?

Manish Dhariwal: See, it is being generated by both the divisions, by both the businesses.

Nikhil Upadhyay: Because my understanding is that in auto sealing with Maruti we would be present in most of the brands which Maruti has. Similarly, in Honda, so if their de-growth in production has single digit or zero, our growth of 12% or 10% can only come if we have gained or added newer model or newer lines where we were not present?

Manish Dhariwal: See, it is a fairly sophisticated kind of situation wherein like for Maruti alone we are servicing more than 20 plus models. Now, every month we will know that one model is going up one model is going down, so the business in each model is not like exact uniform. So, there are differences; so, how a typical model performs also has a bearing on what the final number emerges and in terms of each model above. So, to say that the whole growth is only coming from injection alone is also not correct because the model that I am supplying I am also giving extrusion product.

Nikhil Upadhyay: But, a larger part would have come from the injection molding because auto sealing. I think, we were present almost with all the brands already and Maruti on the molding side we had just added a year on year and a half back. So, that is where I am trying to understand here?

Nikhil Upadhyay: In terms of Hyundai and Tata and some of the newer clients which we have added, so as of now when we enter a new customer do we generally start with the auto sealing and then we are getting the injection molding or the demand is coming from both the segment parallelly?

Manish Dhariwal: No, demand is coming for both the segments like to give you an example like Hyundai it is automotive sealing, but MG Motors it is injection.



Nikhil Upadhyay:

No, where I am coming from is that auto sealing we are already present as a strong supplier for many years now and when we say that in Hyundai as of now we are supplying auto sealing, but then there is a large scope that the injection part can also be sold to the same customer and that is a larger. So basically, we can increase our wallet share with Hyundai with that same model. So, that is where I am trying to understand that when we are going for a new customer or is it that we generally break in with an auto sealing and then we look at supplying additional products how does it work?

Abhishek Jain:

First of all, we are looking at all the opportunities with all the customers. So, we present the complete bouquet of parts to them. It is not that we approach only for single product or a single business segment or something. We basically showcase all the products that are there in the product range and then based on the customer interest then we start getting associated with them on whatever parts they want from us. So, MG Motors currently was not interested in sourcing of sealing system. They are more interested in sourcing of injection parts because they were having an issue of transportation if they were to import these parts from their existing source. So, there we got an opportunity for injection parts. For Hyundai, it was a different scenario, we presented them everything and they were more interested in developing sealing system from us. So, it is not that we go to a customer with a very limited kind of a scope. We present to the customer basically our complete capability that we can offer to you to the customer and solve their problem and then based on discussions then we decide on a mutual beneficial way of working together.

Moderator:

The next question is from the line of Supriya Madhye from East India Securities. Please go ahead.

Supriya Madhye:

Just I wanted to understand when we are in this business and now we are moving in the injection molding and having all the major OEMs in our client portfolio just wanted to understand what will be our market share in supplying and how the business is most of the companies outsource all these parts to the ancillaries companies like us or the couple of parts is also done



by themselves that is my first question. If that is the case, that if it is getting outsourced for most of the parts like what the business we are present in; who would be our immediate competitor?

Manish Dhariwal: See, now in terms of the competition, there are different players who are competing in the different segments like in the injection molded parts the competition comes from companies like Krishna Maruti, Machino Plastic, Motherson also does this work and so on and so forth and in the sealing side there is competition coming in from companies like Cooper Standard, Anand Nishikawa, TG and BSL Innovac, etc.

Supriya Madhye: Sir, over to market share part?

Manish Dhariwal: Our automotive sealing parts are actually being used in about 70% of the cars being made in the country. So, that I guess will give you some idea. On the injection molding side our market share would be lower because the injection molding business per se per car is also quite significant and the number of parts in the injection molding are quite significant. So, our major business by the number of parts is with Honda and with Maruti now it is on the rise. So, to that extent our market share in this particular segment is accordingly lower.

Supriya Madhye: Sir, one question I just wanted to understand we are in the EBITDA margin in a range of 19% to 20% continuously we are maintaining that range, just one question when we are the ancillaries how we are allowed to so much good margin which even the OEM do not have?

Manish Dhariwal: Basically, see our approach has been to basically create value for our customers and support the customers in achieving their objective and in the process also maintained good financial position for ourselves. So, we have been focusing very strongly in improving the internal efficiencies. So, if you do a comparative of PPAP with the competition you will find that we score above them on largely all the front and this is when the price has not been determined by PPAP or anyone. So, the price is market determined. So, the



way we have tried to kind of have a solution-centric approach and then integrated operation and continuous focus on bringing in efficiencies is helping us at one end keep the customer at the other end be also profitable.

Supriya Madhye: Are we in a position to pass on the rise in the prices the raw material prices for the rise of the cost to the customers or the contract when the company gave the contract for a particular product or for the monthly basis the prices are determinant without any.....

Manish Dhariwal: So, it is a mix of all of what you said. So, there is a fair amount of business where the price incorporates raw material price pass through is on a monthly basis and there are cases where that does not happen. So, where the price is not a direct pass-through or an automatic pass through we are able to make a submission to the customers at times when the things just go out of hand. In that case it happens on a case-to-case basis.

Moderator: The next question is from the line of Meet Jain from Prithvi Finmart. Please go ahead.

Meet Jain: First of all, I do not know what is the current capacity in the overall plant? As we are currently doing 80% to 85% of utilization capacity and revenue guidance of growth is around more than industry like 15% going forward. I just want to understand means if you are doing CAPEX means how much capacity additions we are targeting going forward and two to three years down the line and my second question is regarding the JV means the JV trying to understand which clients do we cater to in the JV and do we have any target of growth or margin that we are to maintain that JV?

Manish Dhariwal: Okay, to answer your first question regarding the capacity; basically, our nature of work that we are engaged is we have certain critical machines or lines which are fungible and which are able to move from one part to the other that is I can do a variety of parts on the lines and now depending upon the kind of customer request and the customer orders that we get we basically tweak our production planning and service the customer. So, in



terms of capacity like depending upon each line or each machine, the numbers will vary so, that is why we are giving you at a global level. So, the capacity utilization on the automotive sealing side there is good scope available on the injection side it would be little higher. On a case-to-case basis; if we have any bottleneck we are able to take corrective action, which could be at times ordering a specific machine. So, that is how we are able to meet our requirements in terms of the capacity.

In terms of the JV, we are working with all the marquee customers in the country that is Maruti, Honda, Toyota.

Meet Jain: On the capacity side, the current year we are doing capacity of say let 30,000 including the maintenance CAPEX, so on cost what regards is that CAPEX the sealing system or injection molding?

Manish Dhariwal: Can you repeat your question?

Meet Jain: On regarding that Rs. 30 crore capacity planned in FY19 for which segment it is automotive sealing or injection molding?

Manish Dhariwal: No, it has two components one was the project component which has gone towards the Gujarat plant that we are setting up that has got commissioned. So, mostly Rs. 12 odd crore has gone there and the balance has gone towards across the plants towards variety of additions and maintenance of CAPEX that has been done.

Moderator: The next question is from the line of Shashank Malan from Rockstud Capital. Please go ahead.

Shashank Malan: I just want clarifications on two things. One that you had mentioned that there is a subsidy that we have received due to that near about Rs. 5 crore and Rs. 1 crore is a normal one that we are going to receive, so if I come to that sum it would be near about Rs. 4 crore is one time so that would change the whole result that we have received and would not it be at a lower performance than compared to Y-O-Y basis or Q-O-Q basis?



Manish Dhariwal: Yeah absolutely you are totally correct. Rs. 4 crore if you could assume is on a one off side because the nature of the subsidy is the same. It is only that in this quarter the amount for the previous quarter has been booked because it was only receive now. And, going forward on a quarterly basis, the income will be received. So, the numbers when compared to the previous quarter will reflect the reality as it is today.

Shashank Malan: And, the other thing I need the update that you mentioned that we are working on 23 new models which will be coming in the next two years, so give some light on that so just I wanted to understand what is the percentage of the particular. Today if we supply to a particular vehicle what is the percentage of the product that we supply and going forward do we see there is an increase or something?

Abhishek Jain: I did not understand your question percentage of what?

Shashank Malan: For example, if today the vehicle cost is near about Rs. 6 lakh and we are supplying to near about Rs. 10,000 worth of product of that particular vehicle. Now, we are working on the new model that is going to come in the next two years do you think this Rs. 10,000 amount will increase to Rs. 12,000 or 13,000? Or how do you feel is planning out when you are working with OEMs? Did I put my point?

Manish Dhariwal: Yeah, see that is also happening see there is a new customer that is coming in so that's new business; then on the existing customer we are trying to get more parts. So, to give you an example like the new Swift we started working on the number of parts that we had in the previous model and the number of parts that we have in the newer model is different. So, to that extent our business per car has also increased. So, it includes all elements.

Shashank Malan: I just wanted to understand that how the growth will pan-out for next two to three years? I definitely understand like you do not have any commitment, but do you see further growth in the current so for example if the industry is growing at 10, but do you feel whatever increase in the percentage of per



customer share of a particular vehicle that revenue that you can recognize from a customer? Is that going to be substantial or is that going to be very less?

Abhishek Jain: Like we have been saying since the start of this call. We are continuously focusing on these value added products. So definitely, our target is to increase per car business for us... that is the one of the ways to increase our business with the existing customers. So, what we are doing is we are trying to increase per car value for our existing customers by offering them new value added products and at the same time scouting opportunities for new customers. So, this per car increase is an important strategy for our business growth.

Shashank Malan: But there is no quantum or a definite thing that you could put a number to something to that?

Abhishek Jain: No, unfortunately we cannot put a concrete number that this is the number which we want to achieve per car because that varies across different customers and different models, but our effort is in that direction.

Shashank Malan: Okay, but there is no borderline like broad number or so 5%, 10% that is the particular 2% of the revenue or 3% of the revenue will be from value-added incremental revenue?

Abhishek Jain: See, with the OEMs in the automotive industry it does not work like that. So, it is a combination of what you can offer as a complete solution to the customer. If you are able to offer him a value added cost competitive, a design oriented and engineering capability you can showcase to him then he can give you the business and to get all these new business it takes lot of effort and it takes lot of time because we have to develop lot of capability in-house before you approach a customer for new business. So, there is no target as such that we want to be 5% or 7%, but we will definitely focus on offering more products to the customer.

Manish Dhariwal: Input that we have shared with you is that when we analyze the revenue that has been created that we received in this quarter, 21% of this revenue is from



the model which have been launched in the last one year. So, I think it helps you in understanding.

Moderator: The next question is from the line of Vishal Jajoo from Tata Investments. Please go ahead.

Vishal Jajoo: In Q2, we saw a lot of volatility and especially impact on the raw material side exactly. With all our customers we have got 100% pass-through sir?

Manish Dhariwal: No Vishalji. See, we have FOREX pass through with all the customers. In terms of the raw materials cost, It is segment specific, product specific, model specific. So, there is partly pass through, partly it is not.

Vishal Jajoo: So, what I am trying to ask is that there is some amount of cost escalation on the raw material side that has happened and there is also a FOREX which has impacted. Now as you mentioned about the FOREX. So with regard to raw material have we approached the customer with regard to request for some price hikes?

Abhishek Jain: Yeah, FOREX increase automatic adjustment with a lag of about one quarter or sometimes it extends up to two quarters; but, it is an automatic adjustment which happens on the FOREX side.

Moderator: Thank you very much. Due to time constraints that was the last question. I now hand the conference over to the management for their closing comments.

Abhishek Jain: Thank you Ali and thank you Priya from Concept 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. We believe there are lot of questions that have been left unanswered and we would be more than happy if you can engage with Concept or you can engage with us. If in case you need any more clarification we would be very happy to welcome you to our facilities in the NCR or any other region. We are very interested in showing you the kind of efforts that are being done to achieve



these results. So, please engage with us in case you have any further query and thank you so much for today.

Moderator:

Thank you all for being a part of the conference call. If you need any further information or clarification, please email at priya@conceptpr.com. Ladies and gentlemen, this concludes your conference for today. Thank you for using Chorus Call Conferencing Services. You may now disconnect your lines. Thank you and have a pleasant day.