PPAP AUTOMOTIVE LIMITED

(Formerly Precision Pipes and Profiles Company Limited)

"PPAP Automotive Limited Q1 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 afternoon. I am Lizzane, the moderator for this conference. Welcome to the conference call of PPAP Automotive Limited arranged by Concept Investors Relations to discuss its Q1 FY16 Results. We have with us today Mr. Abhishek Jain – Executive Director and Mr. Manish Dhariwal – CFO. At this moment all participants' lines are in the listen-only modelater we will conduct a question and answer session. At that time if you have question please press '*' and '1' on your telephone key pad. Please note that this conference is being recorded. I would now like to hand the conference over to the management, thank you and over to you, sir.

Abhishek Jain: Thank you Ms. Lizzane. Ladies and gentlemen, a very good afternoon to all of you and welcome to the conference call to discuss the financial performance of the Q1 of financial year 2016 of our company PPAP Automotive Limited. The Company's Chief Financial Officer Mr. Manish Dhariwal is also joining us on this call. To begin with I will provide you a brief background about our company. Kindly refer to the presentation shared by Concept with you.

The company was originally incorporated in the year 1978 to manufacture custom made extrusion products. We commenced the automotive parts business in the year 1985 with the start of production of the first Maruti cars in the Indian market. The firm was converted into a public limited company in 2008 and in May 2014 we changed the name of the Company to PPAP Automotive Limited so that it reflects the true business that is actually being done by the Company.

The promoters hold an equity of 63% in the Company while our technology partner holds 1.6% stake, the balance shares are held by the public shareholders. We are a leading manufacturer of automotive sealing systems, interior and exterior automotive parts. We have five manufacturing facilities which are located in Noida, Greater Noida, both of this in Uttar Pradesh state, one facility in Chennai, Tamil Nadu and the latest one in Pathredi which is Rajasthan state. All our plants are quality, environment and safety related certified. We are currently working with three Japanese companies for our technology requirements. The relationship with these companies are up to 25 years old, the most recent being the start of relationship with Tokai Seiki company which has begun this month.

Apart from PPAP Automotive Limited, we have established a joint venture company with our technology partner in 2012. Post the establishment of this Company, as a Group PPAP can cater to the requirements of the entire integrated automotive sealing system for our customers.

Today we manufacture over 500 different products for our customers and continuously target to achieve zero PPM in quality and delivery performance for all our customers. Our Company is led by Mr. Ajay Kumar Jain who is the Chairman and Managing Director. He is currently serving as the President of Toyota Kirloskar Suppliers Association. In 2012 he was the President of the Honda Supplier Association as well. Our Company's target is always to be our customers' number one supplier. We strive to proactively meet the customers' expectations and are continuously evolving our products and services to meet their requirements. All our policies and decisions are in line with what the customer desires from us. It is this strategy that has resulted in our leadership position in the respective product segments that we cater to. Our core competence is in automotive sealing system and injection molded products. These are the products. The products that are manufactured for the automotive sealing system are products like outer belt, inner belt, molding windshields, roof moldings; film door openings and air spoil off. We also manufacture products like back door seals, door opening sealings and glass run channels. The latter products are manufactured in the joint venture company.

For the injection products range we manufacture parts like interior pillar garnishes, rear tray assemblies, quarter seal partitions, trunk side panels, fender inners and one of the main component that we make are the interior door linings. We also do a few in cabin products like steering cover or arm rest and we also make under the hood products like cover engine and box battery cover, etc.

The Company serves the passenger car segment and has recently started supplying to the LCV segment as well. All the major Japanese OEMs are our customers. We are also developing a few parts for the non-Japanese makers like General Motors, Tata, Mahindra, etc. We are exporting about 10% of our products through our customers to countries like Europe, Mexico, Japan, and Thailand. We have a strong team of 40 people in the company who are working on development of new products, tools, and special purpose machinery for our customers. We are also capable of doing in-house designing, tool manufacturing as well as testing and validation. This integrated capability gives us a very strong competitive advantage over our competitors as we are able to give our customers an integrated cost effective solution for their requirements. 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 Quarter 1 of financial year 2016. For the first quarter ended June 30, 2015 PPAP recorded a total income of Rs. 73.23 crores as against 74.10 crores in the corresponding quarter of last year. As you may notice there has been a minor drop in sales. The first quarter is generally the weakest quarter of the entire year and contributes about 20% of the yearly sales. The drop in sales was due to the production volume adjustment by one of our customers. This is only a temporary volume adjustment and we are confident that on a full year basis this adjustment will be well compensated. We are currently developing parts for 12 new models which will be launched by our customers in the next two years and we are also continuously discussing about new models which will be launched thereafter. Our parts are used in two of the block buster models launched recently which are the S Cross by Maruti Suzuki and the Jazz by Honda. As you may notice from our financial results there is an operating income also. This operating income is the investment subsidy received from Rajasthan government towards our new manufacturing facility located in Pathredi area of Rajasthan. We will continue to receive this subsidy for the next seven years on a quarterly basis. As you may notice from our results that in spite of a minor drop in sales we have been able to improve our EBITDA margins by 24%. The EBITDA margin for the current quarter under review was 17.25%. This has primarily been possible due to the reduction in raw material cost by 4.39% as well as the reduction in cost of factory expenses by 11.35%. We are continuously focusing on reduction of power and fuel costs, freight and cartage and consumption of spare parts. We are also continuously focusing on reduction of excessive wastes in all our systems and we are continuously striving to make our Company leaner. As a result of all the improvements done on the ground the Profit After Tax was at Rs. 2.97 crores in this quarter compared to 2.41 crores in the quarter last year. Consequently, the earning per share for the first quarter of this year is Rs. 2.12 compared to Rs. 1.72 for the corresponding quarter last year. The debt equity ratio is also under control and we are in a comfortable situation to effectively manage our exposures. This year we are not planning to take additional exposures and are planning to fund the capital expenditure from our internal resources. 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 have. Myself and Mr. Dhariwal would try our best to answer your queries 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 being done on the ground to achieve this performance. Ms. Lizzane, over to you for managing the questions.

Moderator: Thank you. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Deepan Sankar from Trust Line PMS. Please go ahead.

Deepan Sankar: We have seen last couple of quarters we have been in this 75 crores kind of top-line and then last quarter we have reached 90-100 crores kind of top-line so again we are back in the 75 crores top-line or is it possible to move up higher also?

Manish Dhariwal: Hello Deepan. I recall the previous discussion that we had on the 5th of June. See, our turnover till about last year was averaging about 60 odd crores and in 2014-2015 that rose and it was in the region of about (+)70 crores. This year last quarter 97 crores, as I shared with you, was also supported by the sale of tools to one of our big customers as a result of which the turnover went up to close to 100 crores. As we shared with you, this quarter's turnover which is at 73 odd crores is because of this blip that took place at one of the customers end. This blip as we also share again, will basically be taken care of and by end of the year we are looking at a stable growth as we have been achieving over the last 2-3 years.

Deepan Sankar: Do you see any kind of inventory not picking up at your customers levels and when do you foresee the actual growth in the ground happening.

Abhishek Jain: Mr. Deepan actually all the customers are very live on their production planning front. We don't see any sort of inventory happening at our customers end and our entire production plan is again very live and it is totally dependent on what the customer wants from us. Even in-house we don't see any excess inventory piling up.

Deepan Sankar: This quarter we have seen a good amount of increase in margins mainly driven from the cost of materials, so will it be sustainable or we will have to pass it on to our customers upfront?

Abhishek Jain: This is a sustainable improvement which we have done and over the next few quarters we should be able to achieve a similar percentage and may be make it a little better also. Primarily we have done a lot of work in reducing the wastages that have been happening in the Company. So this improvement of material cost is a direct reflection of all those counter measures which we have taken. Once the system is set then we don't expect any more changes to that.

Moderator: The next question is from the line of Ashok Shah from LFC Securities. Please go ahead.

Ashok Shah: My question is regarding oil price decrease which has taken place over last six months; whether it has been passed on to customer or it is converted into increase in the margin?

Manish Dhariwal: You have rightly understood that a key raw material is to an extent based on oil. However, I must share with you that the materials that we use are of special grades. Lot of technology and exclusivity goes into them. So while on a broad basis the oil prices do affect the raw material cost, but not to that significant level. However, having said that, yes there will be an improvement in the raw material consumption in case the oil prices remain at the levels they are.

Ashok Shah: Can I expect 1 or 2% increase in the margin again due to the low oil prices say over the next six months?

Manish Dhariwal: We are working towards that but if you are telling me that my raw material cost is going to go down to say about 52% levels, I think we are targeting about 53-54.

Moderator: The next question is from the line of Nikhil Deshpande from Share Khan. Please go ahead.

Nikhil Deshpande: Could you divide your revenues between the sealing business and the injection business. What percentage would be from both these businesses?

Manish Dhariwal: Thank you for this question. See, for the business that we get from both these segments are close to equal.

Nikhil Deshpande: You are present with Maruti and Honda for both the business lines or how is it?

Manish Dhariwal: The injection business being a voluminous part is dependent on the proximity of the plant to the customers facility so that business is largely driven with Honda. However, there are a few parts that we do supply to Maruti. On the extrusion side we supply to all our customers. And I would like to add here that all Japanese OEMs in the country are our customers.

Nikhil Deshpande: For your sealing business your major raw material would be rubber, how is the negotiations with your customers? Is it a pass through or you get some benefit over there?

Abhishek Jain: Mr. Nikhil, actually we use a lot of raw materials in the sealing business. The first and foremost raw material is the PVC. Then we use polypropylene as well, then we use all the special grades called as thermo plastics as well. So these three primary raw materials are used in PPAP. Then for the rubber side of it we use EPDM rubber and thermo plastic but vulcanized type. These two are used in our joint venture company.

Nikhil Deshpande: PVC is a pass through on both sides with customer?

Abhishek Jain: Not exactly because as Mr. Dhariwal explained, none of our materials are commodity materials.

Nikhil Deshpande: Not commodity, but even if it is a speciality grade but then there will be some linkage with the customer or how is it?

Abhishek Jain: Primary linkage is only for the exchange rate variation but not for the crude oil movement.

Nikhil Deshpande: So what would be your imports?

Manish Dhariwal: Was your question pertaining to imports?

Nikhil Deshpande: Imports of raw material.

Manish Dhariwal: Close to 40%.

Nikhil Deshpande: Primarily in what denomination?

Manish Dhariwal: Yen and USD.

Nikhil Deshpande: So something like with Maruti we will have the Yen benefit, either way Yen movement will be compensated?

Manish Dhariwal: Yes.

Nikhil Deshpande: Just now to the previous question you said that you are targeting raw material at 53-54 so you are almost near your target, its 54.76 this quarter, so you are nearing your target or how is it?

Manish Dhariwal: It is better to give you a positive surprise than to give you something which we cannot achieve. Hope we continue to surprise you.

Nikhil Deshpande: Could you give a color on the raw material cost we have seen almost a sharp decline. So where you are getting the benefit, internal your efficiencies how much you would you attribute to this and how much would you attribute to external factors?

Abhishek Jain: See, for the material cost we are attacking on both fronts, the price and the consumption both. For price we are continuously evaluating new suppliers, so our basic strategy is to move from a high cost country to a low cost country and for keeping in mind if any localization can be done, that is the first priority for us. So whatever benefit you are looking at has a very important part of this supply chain change which we have done. Then for the internal consumption improvement we are working on this cost management system which we have learnt from Toyota about managing our direct cost especially material cost online. So this new system coming in place in the past six months, we have induced quite a sensitivity towards consumption of raw materials right down to the supervisor level on the line. So those people are now monitoring the standard versus actual consumption in a particular part. So these activities have actually resulted in the improvement of the material cost.

Nikhil Deshpande: If I may ask what would be imported raw material three years back and where do you see it going forward? Now we are at 40 where was it three years back and what it could be two years forward?

Manish Dhariwal: It’s a continuing exercise and if you notice our figures it was significantly higher earlier and as part of our localization program we expect that this ratio to come down. However, I must add here that it’s a very long process because the material as I mentioned to you is highly specialized and it has to meet all the technical parameters so therefore it's a continuing and a long duration exercise.

Nikhil Deshpande: In extrusion who would be our major competitors and what would be our wallet share with Maruti kind of?

Abhishek Jain: Again if you look at the plastic side of sealing systems we have almost 100% market share with all our customers except for Maruti. Maruti we have almost 90% market share and the rubber sealing system since we have just started venturing into it, we have established the plant in 2012 only, in the product segment we have two customers mainly, Maruti and Honda and this year we will be starting supplies to Toyota as well but for a few products we have a 100% market share with Honda as well in that company.

Nikhil Deshpande: Are we looking at Hyundai or how is it?

Abhishek Jain: Yes we are continuously evaluating Hyundai as a customer. If you permit me I will just tell you, like even last week we had an audit from the purchasing team from Hyundai and things are shaping up but we don't want to commit about Hyundai right now. That is one area where we are very seriously working on and hopefully we will be adding them as our customer either this year or next year.

Nikhil Deshpande: So just if I may ask, who is the competition at Hyundai? Is it imported or domestic?

Abhishek Jain: Competition in Hyundai is a company called Hua Sing Chemicals India Limited. This is a local company which is based in Chennai. It's basically a Korean transplant. Those are the major competitors in India.

Moderator: The next question is from the line of Kunal Sabnis from VEC Investments. Please go ahead.

Kunal Sabnis: Sir, considering your product book portfolio as well as customers, what is your sense on your own estimate about your sales growth in fiscal 16 and fiscal 17 and what is your sense also on the auto industry, there are conflicting signs of growth going forward so just would like to know your sense on that.

Abhishek Jain: As I told you in my introductory comments we are continuously working with all our customers on their new models requirement. So currently we are working on 12 new models which will be launched in the next two years. So from the sales point of view we should be in a much better situation than today and we should be able to increase our sales in a sustainable way. We have a very good relationship with all our customers so going forward we should be able to sustain the previous growth trends as well.

For the automotive industry point of view, what we believe in today is that, owning a car has become an aspirational product which is desired by everyone. As long as this aspiration is there and the limiting factors like cost of finance and infrastructure all these things as you are well aware the government is already working on it. So once these things are getting improved there will be a very strong demand coming through for the automotive sector. And I think we believe that by 2020 we might be able to touch about 5 million production of passenger cars quite easily.

Kunal Sabnis: Is the 20% growth compounded for next 2 to 3 years is sustainable, which was closer to what you grew in fiscal 15?

Abhishek Jain: Yes.

Kunal Sabnis: 20-22% is kind of sustainable where with the work that you are doing on new models and your relationships that can deliver that growth?

Abhishek Jain: Well, we are working very hard with all our customers so we are continuously improving our capability and I think we should be able to achieve a similar growth pattern going forward as well.

Kunal Sabnis: Second question was on capacity utilization, what is it currently and when will you have to start to plan the new capacity?

Abhishek Jain: 2014 we started a new plant in Pathredi which is in Rajasthan area, so that plant was primarily set up for the injection parts because of Honda starting their new plant in that same region. So as Mr. Dhariwal explained to you before, that new plant for injection parts because it is bulky is required. For the automotive sealing system it is not a very bulky part for shipment so we try not to put up any new capacities unless and until there is a very big compelling reason behind it. For injection side we are almost nearing about 80% capacity utilization and we see that in case Honda or Maruti they invest in new plant there should not be any reason, for the sealing system we are currently running our plant on about 50% capacity so we have a lot of scope for improving our utilization from our existing capacities which we have.

Kunal Sabnis: Sir I must have missed it at the start. What would be the split between injection molding and sealing systems?

Abhishek Jain: About 50:50.

Kunal Sabnis: I wanted to understand that your ROE is extremely low, with the asset turnover you could go to about three times your gross block, is it possible considering you are at 50% sealing systems, how will you drive efficiencies and improve ROE?

Manish Dhariwal: As we just shared with you that we have some capacities is available and given the capacities that we have we can achieve about 200 odd crores of sales going forward without significant capacity addition. So that I guess answers your question.

Kunal Sabnis: So 200 crores is possible and is there any internal target for ROE going forward?

Abhishek Jain: Improvement. If you noticed from our results we are already improving all the efficiencies of each and every operation. So ROE I am sure definitely will improve in the coming years and last year if you notice this Pathredi plant was set up. So there was a huge capital expenditure because of that so this year because of the improvement in utilization of that plant we expect a better ROE to come through.

Manish Dhariwal: To add to this, basically you have to look at the concept of ROE from two angles, the existing business and the new capacity. The new capacity is going to give the results in coming months so when that happens our ROE will significantly improve and the improvement that you've already seen if you analyse the last three years numbers that is any way coming is from the existing business.

Moderator: The next question is from the line of Vaibhav Watkar from High wealth Management. Please go ahead.

Vaibhav: I was just talking about Chennai facility which we are running on rented basis, are you planning to make your own new facility there and what about CAPEX planning ahead?

Abhishek Jain: This year we are planning to set up our own Chennai facility, because currently we are running on a rented facility and there is though space for further expansion from that facility. This year we are planning to invest about 10 to 12 crores in that plant itself.

Vaibhav: So you won't be setting up any new facility there and you may just expanding there in Chennai rented facility?

Abhishek Jain: Primarily yes.

Vaibhav: You were talking about 50% capacity utilization in sealing system, for that to go ahead supposed to 80% and 90%, how much clients you'd like to need to be added or how much volume gain should be trying to gain ahead from that?

Abhishek Jain: Actually this capacity which we have we make a lot of different products so each line has its own specification in terms of construction of the line and the raw material which is used and the process which is required to make the part. So it is very difficult for us to quantify a particular number that if we achieve this number then we will have 80% utilization. But, as we told you before that we're working very closely with all our customers, we are developing this 12 new models which will be launched in the next two years with them. We have developed parts for this S Cross as well, which has been launched recently and for the Honda Jazz also. So every year we are adding new products to these lines and our endeavor is to not investing in expanding capacities in the sealing system line unless and until there is a technical requirement behind it.

Vaibhav: When Sir you have 50% utilization right now so it does not make any sense to increase capacity also but is not this into 12 new models that you're talking about and the current S Cross, are they sufficient enough to atleast say lets the utilization go to 60%-65%.

Abhishek Jain: Yes 60-65% is achievable target for these lines.

Vaibhav: So in FY16, 65% we can expect capacity utilization in sealing system?

Abhishek Jain: FY16 may be little early, starting up FY16 may be early but towards the end of financial year 2016 we should be able to see those numbers.

Vaibhav: In injection side you are at 80% capacity utilization, and I think they are mostly used for rubber JV customer side?

Abhishek Jain: No. Injection we are making these plastic parts.

Vaibhav: Ok. We are at 80% are you looking to increase this capacity also?

Abhishek Jain: Again all our investments are tied up to the customers' requirements, currently whatever orders we have our capacity is enough to handle them but in case there's a customer requirement in future it will be surely adding new capacities.

Vaibhav: About royalty, is it still at part level or under revenue level because you have JV with Nissen and Tokai?

Manish Dhariwal: Royalty is at turnover level.

Vaibhav: So how much is it at?

Manish Dhariwal: Basically different models with the different technology partners and being a little confidential matter, but broadly I can say it is in the region of about 1.5% to 2%.

Moderator: The next question is from the line of Ayush Mittal from Mittal & Co. Please go ahead.

Ayush Mittal: I have some basic questions about the business model. I have gone through the presentation, annual report and I see the mention of lot of about technology exclusivity, how important is you see your technological tie-ups or what sort of entry barrier is created, what kind of value propositions does it create for your customer?

Abhishek Jain: If you look at the technology partners we have got three technology partners first is Tokai Kogyo, second is Nissen Chemitech. With Tokai Kogyo we've been working for more than 25 years now and our focus is on automotive sealing systems. With Nissen Chemitech we are working on the injection molded interior and exterior parts and we have been working with them for over eight years. With Tokai Seiki Company we have just started our relationships this month and that will be primarily for the tooling part of the automotive sealing system. In 2012 we also established a joint venture company with Tokai Kogyo, I think with all these activities you can get a sense of the importance of us working with our technology partners. From the customer's point of view if you notice most of our customers are Japanese OEMs and along with Tokai Kogyo, Nissen we get involved with them right from the stage when these models are conceptualized in Japan and then we are an integral part of the development journey till those models are manufactured in the Indian market. So it is of very integrated type of relationship with all these technology partners and since the model is conceptualized till it comes on the production line there are thousands of issues which needs to be discussed and decided between the customer and us. So they do it on the Japanese front side we do it on the Indian side and then we collaborate with each other and that is how a successful part is made by us in India.

Ayush Mittal: Like you mentioned in one of the earlier response that there are other competitors also who are catering to players like Hyundai, how many there would be such competitors what kind of tieups would they be having or how different are we from them?

Abhishek Jain: Most of our competitors have a Japanese partner but one thing that differentiates us from our competitors is the capability of designing our own products by us in India as well as manufacturing of the tools in-house by us and the strong testing and validation facility that we have in-house. So we have a complete integrated, we provide a completely integrated solution to our customer from where we associated with him right from the drawing stage till the complete validation, homologation and till the model is being produced by him on the shop floor. So that is our key competence. If you have time we would like to invite you to our facilities, we are actually a showcase supplier to all our customers. So Toyota, Honda, Maruti we are regarded as Benchmark Company for what actually an Indian company can achieve in terms of operational excellence. So we continue to provide them with the cost competitive part and a sustainable quality part. So that is one of the biggest advantages that we have today with all our customers.

Ayush Mittal: Sure I would like to visit sometime**.** If I go through the numbers of the Company in the past financial numbers you use to have very healthy operating margins till three years back or so, they used to be above 24-25% in fact now they've gone quite low. What have been the reasons for this change in profitability and especially when we are so important to our customers and we are so closely associated with them?

Manish Dhariwal: I would like to answer this question from two angles. One from the customer's perspective and second from the internal perspective. From the customer's perspective in the last three years the market has completely changed from a growth market it has become a trying to sustain market if you see the growth rate in the automobile sector. So the whole focus has changed from expecting deliveries to reducing costs. So there has been pressure on the pricing front. Secondly on the internal side what has happened is the whole foreign currency the exchange rate environment that has completely changed. The Japanese Yen used to cost 35 paise which went up to so much as 72 paise in the year 2013. Now that basically affected our raw material cost significantly which you can look at, if you look at our 12-13 numbers. Now having faced the kind of situation that we did we started the process of de-risking ourselves from these external risks.

Ayush Mittal: Is it that you seem import majority of your raw materials earlier?

Manish Dhariwal: We still continue to import significant component of our raw materials however, what was changed is that we worked on geographies. For being dependent on just one geography and by one currency we have diversified our raw material sources and to add to that we have also worked on the localization program wherein the costs are so much in control. Alongside we have also worked on building internal efficiencies as we mentioned some time earlier in the call that a cost management system has been put in place which all these efforts have again brought our raw material costs down from way high they had come to in the year 2012-13. I hope this answers your question.

Ayush Mittal: If we are such an exclusive supplier where we do not have major competition in India and lot about technology shouldn't the cost be passed through, it is quite a major change like 25% margin to 12-13% margins is quite a significant change?

Abhishek Jain: That is actually the strong point of our company, once we have our system in place with our customer we do not like to change the system frequently that is where our competitive advantage is actually. So whatever agreements we have with our customers we honor that and we do not run to a customer for anything which is happening because of the macroeconomic factor or something which is not agreed for earlier.

Ayush Mittal: You have a fixed price contract or revision quarterly, annual revision?

Abhishek Jain: Now we have revision kind of a contract for exchange rate variation, but at that time because we did not have contract for this exchange rate variation we could not have passed on these excessive costs to the customer.

Ayush Mittal: There is quite a high depreciation being charged in the accounts as compared to other companies in the similar space. Can you explain about that part?

Manish Dhariwal: If you would look at our product profile we do need a high asset base and also as you can see our asset turn is rather low. So as a result of that our asset base being high the depreciation is high.

Ayush Mittal: Is it also due to the molds and dyes which are consumables or they wear off very quickly is that the reason?

Manish Dhariwal: Not really because molds and dyes are largely owned by the customers so that is not the reason for high asset base.

Ayush Mittal: They are owned by the customer?

Manish Dhariwal: Yeah.

Ayush Mittal: But in your fixed asset I see molds and dyes worth 55 odd crores.

Manish Dhariwal: There was a time when the number of models that used to come were very few, at that point of time the model that the customer used was to amortize the cost of the model on the parts. In that situation the model is to be the ownership of PPAP, however in the recent times molds are sold to the customer at the time of start of production (SOP) as a result of which the ownership of molds gets transferred to the customer which as I shared with you earlier in the call was also the reason for the turnover spiking in the Q4 FY15.

Moderator: The next question is from the line of Bhavesh Jain from Envision Capital. Please go ahead.

Bhavesh Jain: What will be our maintenance CAPEX?

Abhishek Jain: This year we are looking at spending about 10 odd crores on the maintenance part.

Bhavesh Jain: What will be your gross debt as on 30thJune 2015?

Manish Dhariwal: It will be in the range of 84 crores.

Bhavesh Jain: What will be our cost of interest because the cost of interest have gone up in this particular quarter?

Manish Dhariwal: That is primarily because of the fund raising that we had to set up a new plants which is in Pathredi and also to invest in our joint-venture now the cost of money is the region of about 11-11.25%.

Bhavesh Jain: How we see our export shaping up over the next 2 to 3 years?

Abhishek Jain: We are not doing any direct exports from our company about 10% of our products are exported by our customers. I think that should continue in the future as well.

Bhavesh Jain: What about net working capital cycle?

Manish Dhariwal: If you analyzed my FY15 numbers you will see that the working capital turn has improved significantly. Our inventory has come down drastically and our debtors in the region of about 35 to 40 days sales. So that will remain more or less constant but our inventory will come down even further we're working on that very strongly and that will basically bring our working capital cycle on the lower side.

Bhavesh Jain: It will improve further going ahead?

Manish Dhariwal: Yes.

Bhavesh Jain: Our performance from FY 13 to FY 15 have improved a lot in terms of margin also whether that is only because of the operating leverage or there is some product mix change also?

Manish Dhariwal: It is basically a sum of both, but I would largely give the reason of internal efficiencies for this improvement in the performance.

Bhavesh Jain: And that 14-15% EBITDA margins are sustainable?

Manish Dhariwal: We are looking at higher EBITDA margins, we're targeting 17%-odd going forward with improvements to that as well.

Bhavesh Jain: How our JV have performed during this quarter?

Manish Dhariwal: JV has recently been set up has in fact we mentioned this is in fact started in 2014, now that is taking some time to stabilize and right now we have not reached breakeven levels there which we hope to achieve at the end of the year which can actually extend to the first half FY 17. So that is what our targets look like at this point of time.

Bhavesh Jain: How much we have invested in that JV our equity contribution?

Manish Dhariwal: Our equity contribution is 37.5 crores as of date.

Bhavesh Jain: How big that market will be that rubber sealing system market in India market opportunity or potential?

Manish Dhariwal: Market is pretty significant that is why we looked at this opportunity, however based on the infrastructure that we have already set up we look at a turnover of about 100+ crores and as again we mentioned this is a new segment for us so it's a process getting market share in the business.

Bhavesh Jain: Our total investment will be how much in the JV?

Manish Dhariwal: Total investment by both the partners is to the tune of 75 crores 50% by us and 50 % by the technology partner.

Bhavesh Jain: No debt, total equity?

Manish Dhariwal: No debt.

Moderator: The next question is from the line of Senthil Kamraj from New Berry Advisors. Please go ahead.

Senthil Kamraj: How is our commercial vehicle segment performing because last call you mentioned like we have put a new customer from SML Isuzu so how is the CV segment performing?

Abhishek Jain: Actually we have just started the sale of products to the LCV segment and this we are supplying to the joint-venture company between Ashok Leyland and Nissan. So that was our first customer and now we're developing few products for our other customers as well but unfortunately due to confidentiality I cannot tell you who we are developing those parts for.

Senthil Kamraj: Is it like the same lines you produce the CV segment products also or you have separate lines…

Abhishek Jain: No same lines.

Senthil Kamraj: How is the market going forward or market share?

Abhishek Jain: It is not going to be a very significant portion it is just that we are present in that segment as well.

Manish Dhariwal: If I could add to what you just said, LCV segment so far is at the lower end of the curve, now the parts that we make are for the passenger cars and the quality differential is absolutely visible. Having said that the quality of LCVs is also improving and we are absolutely well-positioned to capture that segment of the market.

Moderator: The next question is from the line of Pratish Vohra from Inceudo. Please go ahead.

Pratish Vohra: Why the revenue declined in this quarter?

Abhishek Jain: Primarily the reason for this revenue decline is a temporary adjustment of production volume by one of our customers but this customer has not revised the yearly production plan it is only just for the three months that he has made this temporary adjustment. So for the entire year I do not think it will be going to be a concern.

Pratish Vohra: What sort of growth rate we can see for the entire year?

Manish Dhariwal: We are looking about 350 odd crores of turnover this year.

Pratish Vohra: How much?

Manish Dhariwal: 350 crores of turnover.

Pratish Vohra: Why your ROE is so low what is the reason you are technically collaboration with so many overseas company why your ROE is so low?

Manish Dhariwal: Something that we are also working towards and thank you for sharing the challenge that we also face. Now the thing is that the nature of our business as I mentioned to you earlier as well the asset turn is rather low so the investment per se has to be higher to set up the capacities to set up the facilities that is required to make these parts. Having said that as we also mentioned to you that we are working on improving our efficiencies internally which will basically result in our asset turns improving and that is something that will also be visible once when our new facility at Pathredi starts delivering its full potential. Yes our ROE at this point of time is low but it is expected to improve. To add to this I may also mention that we have invested close to 40 crores in our JV which actually does not culminate into returns on the PPAP's bottom line so that factor also has to be considered when we look at the ROE for PPAP as a whole.

Pratish Vohra: What are the measures to improve the asset turnover? Is that depends upon the client and inventory, what are the factors that will lead to asset turnover?

Manish Dhariwal: One is the efficiencies, the second is that as we mentioned our products are highly specialized the kind of materials that we use TPO, Thermo Plastics, PVC, Polypropyne we are working at a very micro level, how to basically use the same line for a different variety of products. There are certain challenges there, you have which actually I cannot go in to detail but if you will visit us I'll be able to share with you the challenge that we face in making it a multiproduct kind of a line but we're working on it and we have achieved success and once the business comes from the new models as we discussed again we do not plan to increase capacities so what happens is that my asset turn will improve.

Pratish Vohra: Is it asset turnover will improve because of the efficiency improvement within the plant but your ROE is too low, will only efficiency improvement will result into better ROE, I mean 6% ROE below even the bank rate what it leads to a higher ROE within your business. Do you enjoy any pricing power why can't you price your product more to earn more or is it that there is competitive pressure on you?

Manish Dhariwal: Not just one factor but there are these number of factors which basically have affected our ROE and going forward there will be an improvement on pricing side, there will be improvement on my asset utilization side as we shared with you that our capacity utilization on the extrusion side is just about 50% which will basically improve given the fact that so many new models are going to coming in. All these factors internal efficiencies will play a role, so all these factors will basically result in the improvement of our ROE.

Pratish Vohra: You mentioned about 40 crore JV investment. When it will get materialized into sales?

Manish Dhariwal: No, sales it is already started doing but if you look at it on a technical basis on PPAP's Balance Sheet there has been an investment outflow but there are no inflows on account of that JV, but that JV is extremely important for line of business because with the setting up of that JV we complete the total sealing system solutions that basically go into a car. And that strengthens our competitive position in the market very strongly.

Pratish Vohra: What sort of sales it gives this JV?

Manish Dhariwal: So far as I told you that we are into a project business, so the business can only come in from the new models so we are in the region of about 30 odd crores which is continuously going to be increasing, we mentioned that Toyota is a new customer who will be supplying to from this year onwards. We have already supplied to Maruti and Honda.

Pratish Vohra: So 40 crore investment for a 30 crore topline is it the math?

Manish Dhariwal: So far you have got it right but then you have to look at gestation period that is what is the fact of life, I also mentioned that this investment that we have done will give us close to 100 odd crores and going forward once the business stabilizes then the assets turn there also will significantly improve.

Pratish Vohra: Is there any other CAPEX done apart from this JV?

Manish Dhariwal: We mentioned that Chennai plant will be setting up this year so that is one CAPEX.

Pratish Vohra: What is that amount?

Manish Dhariwal: Between 10 to 11 crores.

Pratish Vohra: What type of sales it will generate?

Manish Dhariwal: The idea of setting up of this plant is basically converting existing facility which is on a rented premises to our own premises and also becoming very strong supplier of parts to OEMs in the Southern region Nissan, Toyota and also it will help us in building our case with Hyundai.

Pratish Vohra: What is our consolidated debt as of now?

Manish Dhariwal: I mentioned that as of 30 June 2015 it was 84 crores.

Pratish Vohra: That includes working capital loan?

Manish Dhariwal: Everything.

Moderator: Ladies and gentlemen that was the last question. Before that we would like to take the question of Mr. Bhavesh Jain from E nvision Capital. Please go ahead.

Bhavesh Jain: Any internal target for our ROC over the next three years, how much we are trying to achieve minimum?

Manish Dhariwal: I am not in a position to put any target to this. What I can do is that all investments that we are undertaking have to pass the test of ROI each element of capital expenditure is deeply analyzed and with the growth in sales that will take place our ROCE will certainly improve but if I put a number to it then that would not be justified.

Bhavesh Jain: Regarding that JV the turnover can be 100 crores any target over next three years four years five years we can achieve that?

Manish Dhariwal: This should be achieved over a period of four years, why I can tell you is that because our business is primarily project driven so the work on the projects begin at least 3-4 years before the car that you see on the road actually comes on the road. So based on those projections we can say that we are targeting 100 odd crores in sales.

Bhavesh Jain: Our contracts with OEMs is based on the model or based on the yearly contract we do it with OEMs how it is?

Manish Dhariwal: It is on a model basis. It is a very integrated kind of activity and the work with our customers start from the time that a project that a car is conceived, and that is where our linkages with our technology partners who also happen to be our joint-venture partners and the relationships that they have with OEMs at international level all those play a role. So it is at a model level.

Moderator: The next question is from the line of Pratish Vohra from Inceudo. Please go ahead.

Pratish Vohra: Who are your major competitor?

Abhishek Jain: For the sealing system there are companies called Bharat Seat, Mayur Ingress and Anand Nishikawa and Cooper Standard India and Hyundai they are not directly competing with us but they're also present, the company called Hua Seng Chemicals India Limited it is a Korean transplant. There are other companies not for the plastic sealing but for the rubber sealing called Gold Seal Engineering.

Pratish Vohra: What percentage of revenue is a raw material cost?

Manish Dhariwal: It was under 55% this quarter.

Pratish Vohra: Mostly it is rubber?

Manish Dhariwal: No PVC plastics.

Abhishek Jain: PVC pollypropylene, thermo plastics and LLDP also we use some ABS also we use, AES also. There is a whole lot of materials that we deal in. Steel is also one of the inputs which we use.

Moderator: Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Abhishek Jain for closing comments.

Abhishek Jain: Thank you Ms Lizzane and a thank you to the team of Concept to organise this conference call. I would like to pay my gratitude to all my analysts and investors friends who took time out of their busy schedules to discuss our performance today. In the investor presentation we have provided you the contact details of our company. Thank you.

Moderator: Thank you. On behalf of PPAP Automotive Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.