PPAP AUTOMOTIVE LIMITED

"PPAP Automotive Limited Q4 and Annual Results FY17 Conference Call"

Transcript

May 24, 2017

MANAGEMENT: MR. ABHISHEK JAIN – CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR

MR. MANISH DHARIWAL – CHIEF FINANCIAL OFFICER

Moderator: Good morning, ladies and gentlemen. I am Aman, moderator for this conference. Welcome to the Conference Call of PPAP Automotive Limited, arranged by Concept and Investor Relations to discuss its Q4 FY17 Results.

We have with us today Mr. Abhishek Jain – CEO and Managing Director and Mr. Manish Dhariwal – CFO. At this moment, all participants are in listen-only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press '*' and '1' on your touchtone telephone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Abhishek Jain. Thank you and over to you, sir.

Abhishek Jain: Thank you, Aman. Ladies and gentlemen, a very good morning to all of you and welcome to the conference call to discuss the financial performance of the Financial Year 2017 of our company. The company's Chief Financial Officer, Mr. Manish Dhariwal, is also joining me here today.

To begin with, I will provide you a brief background about our company. I sincerely apologise if some of you have to listen to this introduction again. Also, please refer to the presentation which has already been shared with you.

Our company was originally incorporated in 1978 to manufacture custom made extrusion products. We commenced the automotive parts business in 1985 with the start of Maruti cars in the Indian market. We got listed in 2008. We are a leading manufacturer of automotive sealing systems, interior and exterior injection molded products. Our company's state-of-the-art manufacturing facilities are located in Noida, Greater Noida, Chennai and Pathredi in Rajashthan. We will be starting operations from our Chennai and Gujarat plant during this financial year. We will also be completing our Brownfield project at Pathredi plant during the year. All our plants are TS 16949, ISO 14001 and OHSAS 18001 certified. We continue to bolster our strong relationship with our Japanese technology partners. Our relationships with these companies are up to 25 years old. The joint venture, PTI, established in 2012 is running into its third year of operations and is doing fairly well, which will be evident from the consolidated numbers, that we will present you later. Today, the company manufactures over 500 different products for its customers and continuously targets to achieve zero defect and zero PPM in quality and delivery performances for all its customers.

Our company is led by Mr. Ajay Kumar Jain, who is Chairman and the Managing Director. He is also serving as the President of the Toyota Kirloskar Suppliers Association. I am myself part of the executive committee of Honda Suppliers Association.

Our company's target is always to be our customer's number one supplier. We strive to proactively meet the customers' expectations and are continuously evolving our products and services to meet their anticipated 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 respected product segments that we cater to. The company's core competence is in automotive sealing system and injection molded products. In the presentation, you can have a glimpse of the products that are made by us, and by the joint venture company.

As I have said earlier, we make automotive sealing systems as well as injection products and we continue our leadership position in the plastic sealing system in the Indian market. The company primarily services the passenger car segment, and we have also started supplying to the LCV segment. All the leading Japanese car manufactures operating in India are our customers. A few European and local vehicles like TATA and Mahindra are also being catered by us. Our customers are exporting the products made by us to countries like Japan, Europe, Mexico, Venezuela and other countries. These CKD exports form 10% of our total automotive sealing systems sales.

Our company offers complete built-to-print integration for all the customers. We get involved with our customers at the design stage and support each other during the entire development process. We have our own design center, tool manufacturing facility, as well as an exhaustive testing and validation facility. This integrated capability gives us a very strong comparative edge over our competitors as we are able to give our customers an integrated, cost effective solution for their product requirements. We have a track record of superior performance with all our customers and we will continue to be amongst the preferred supplier for our customers.

Recently, we have been awarded seven awards from our customers in various categories like carbon dioxide reduction, superior delivery, safety in operations, best HR practices and best Eco Kaizen. Apart from these we have also been awarded the overall best performance award by our esteemed customer Maruti Suzuki. Apart from this, we have also been awarded for superior productivity by the Machinist Super Shopfloor Awards.

In our continuous process to add new customers and to expand product portfolio, we are happy to announce that we have recently added Hyundai Motor India, which is the India's second largest car manufacturer as our new customer. We shall be supplying the automotive sealing system for their high selling models.

The auto industry in Financial Year 2017 grew by 6%. Overall, the passenger vehicle segment saw a growth of about 11%, while the two-wheeler and the commercial vehicles segment grew by 6% and 4% respectively.

Now, I would like to take you through the financial performance for the quarter under review. The detailed slides have already been shared with you, I will request you to kindly refer to them. For the fourth quarter ended March 31, 2017, PPAP recorded a total income of Rs. 95.50 crores as compared to Rs. 77.07 crores in the corresponding quarter of last year. Part sales amounted to Rs. 87.68 crores, whereas tool sales contributed Rs. 7.15 crores. We also received Rs. 67.75 lakhs as an income from subsidies from Rajasthan Government.

Our EBITDA grew by 57.61% in quarter four of the financial year at Rs. 20.30 crores, compared to Rs. 12.88 crores in the same quarter previous year. Sequentially, the EBITDA was up by 26.76% compared to Rs. 15.99 crores in the previous quarter of this financial year. The company's EBITDA margin has been improving consistently and stood at a robust 21.26% in Q4 for financial year 2017 as compared to 16.71% in Q4 of financial year 2016, and 18.98% in Q3 of financial year 2017. This rise in EBITDA is primarily due to the constant efforts of the company in achieving excellence across all the various facets of the organization.

Profit after tax recorded a jump of 106.13% year-on-year and stood at Rs. 8.74 crores in the quarter compared to Rs. 4.24 crores in the same quarter last year, and Rs. 6.33 crores in the previous quarter of financial year 2017. The company recorded a PAT margin of 9.15% in the Q4 compared to 5.5% in the previous year same quarter, and 7.52% in Q3. Our return ratios have shown significant improvement now with ROCE for the quarter at 20% and for the full financial year at 14%, from below 11% a year ago.

With the capacity utilization at around 70%, we have enough head room for expanding our sales without any major capital investments. CAPEX for the financial year 2017 stood at Rs. 30.51 crores. Barring the ongoing projects and maintenance CAPEX, there shall be no further requirement in financial year 2018 as well. All these requirements shall be meet by our internal accruals only.

Our debt equity ratio stands at 0.25 with a repayment of Rs. 14 crores of the existing long-term debt in financial year 2017.

I am happy to share with you that the Board of Directors yesterday have decided to recommend a final dividend of Rs. 1.75 per share. Thereby, the total dividend for financial year 2017 will be Rs. 3 per share, which is 30% of the face value, and is 50% higher than the previous year's dividend. The dividend payout ratio comes to about 20%.

Now, I will take you through the consolidated numbers. On a consolidated level, the total income stood at Rs. 366.11 crores, which is up by 14.9%, compared to Rs. 318.63 crores in the same period last year. Consolidated EBITDA stood at Rs. 68.90 crores for the financial year, compared to Rs. 52.97 crores for the previous financial year. We recorded our EBITDA margin of 18.82% for the current financial year compared to 16.62% in the previous year. The net profit stood at Rs. 26.21 crores, which is up by 86.81% from Rs. 14.03 crores in financial year 2016. Our PAT margins improved from 4.40% to 7.716%.

Now, I would like to leave the floor open for questions that you may have. I, along with Mr. Dhariwal, will try our best to answer your queries. Over to you, Aman.

Moderartor: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer sessions. We have the first question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: I just have couple of questions, first is just a clarification. You talked about capacity utilization at 70%, so that is both in automotive sealing and injection molding, or how is it like between those two segments?

Manish Dhariwal: Viraj, so 70% is at a consolidated level, the number for the extrusion would be a little lower, say about 65% - 67% types. And for the injection molded it will be on a little higher side.

Viraj Kacharia: So automotive sealing would be 65% to 67% and injection would be slightly higher than that?

Manish Dhariwal: Yes, around that.

Viraj Kacharia: what will be the utilization that JV would be operating at? The joint venture which we have, what will be the utilization there?

Manish Dhariwal: See, the utilization of the JV would at a much lower level, it will be under 40% odd.

Viraj Kacharia: Okay. And sir, Abhishek talked about the CAPEX for FY17 which incurred something around Rs. 30 crores, so for FY18 and for FY19 what will be the CAPEX we are looking at and what are more like Greenfield of it and which segments basically which we are looking at?

Abhishek Jain: Okay. Now, I will explain this question. By looking at FY18 first, in FY18 there are these three ongoing projects that are carrying on, Chennai, Pathredi and Gujarat. So, these projects will get completed in this year, and there will be some element of maintenance CAPEX that is a regular feature. So, all together we are looking at about Rs. 30 crores - Rs. 35 crores odd. And at this point of time we are not looking at any further CAPEX being incurred. obviously subject to developments that may happen, which may result in our re-looking at this prospect.

Viraj Kacharia: Okay. Basically, after this the capacity would increase by how much for this new facilities coming on stream?

Abhishek Jain: See, the production capacity which will be delivered by the actual plant and actual machinery being installed would not increase significantly, because what we are doing is that bulk of this CAPEX is actually being invested to create the infrastructure at these locations. And the machinery part, we are looking at it in a very objective manner and also shifting some machineries that are at our existing facilities to the new locations. What that will do is that it will result in a more effective utilization of our asset base. See the plant, which is the building, the infrastructure which is the utility,that is something that we cannot shift, and setting up of these plants at these locations is very important from a strategic perspective. But what we can do, keep in mind the policy of being extremely judicious in deploying further resources, we can shift our existing machineries to these locations which is what we are looking at right now.

Viraj Kacharia: So, this will primarily be funded through internal accruals or mix of debt, I mean, how are we looking at it?

Abhishek Jain: Yes, the plan for this year is to meet all our requirements from internal resources. And when I say all our requirements, I am also including the repayment of our existing long term loans.

Viraj Kacharia: Okay, got it. Second question which I have is, when we look at injection molding for us, this used to be around 50% of our revenue roughly. When we say that our market opportunity is big, typically what applications do we look at? So if we look at within auto, what is a peak content per vehicle one can cater to, both in exterior and interior injection molding parts? So if can you just throw some color on it, that will be very helpful?

Abhishek Jain: Okay. See Viraj, now if you will have looked at our presentation where we have also shown the pictures of some of the key parts that we do, so that would give you an idea about the focus areas for us. And since you have been now tracking us for a while, you would know that this business is largely being driven by the sales that we do to Honda, so the product profile is largely understood from there. And here the scope is immense because right now we are only looking at Honda as a customer, theoretically you may note there are so many other customers which we are already engaging with on the other side, so the opportunities are big.

Viraj Kacharia: Right, so just to get a rough idea of what is the peak content per vehicle one can cater to, if we look at both interior and exterior, just to get an idea on how big the opportunity size is for us, within auto itself, just for PV?

Abhishek Jain: Well, I will answer this question, I will give you very specific answers to these questions. We do close to Rs. 7,000 odd on this with Honda, so that would give you an idea about the content per vehicle. There are so many other products in the injection molded side like the instrument panel, like bumper, like whole lot of other products that we are not doing. So, I am not covering those parts in my submission to you.

Viraj Kacharia: Okay, got it. And broadly for directions perspective, because MD sir also talked about looking at other new product additions, new segments within injection molding, so also we are into non-auto, so basically just want to get some idea on what is the thought process behind getting into non-auto and we have a very good opportunity, it seems both in domestic and exports for auto itself. So, that is one. And second is, what is typically your margin differential between say injection and automotive sealing, and within injection say within auto and non-auto?

Manish Dhariwal: Okay, these are too many questions. So let me take up the last question that you asked in the segment, which is the margin differential. See, what we do is that we look at this business, the company and the EBITDA margins and the return margins, etc, on a consolidated basis. Now, obviously each product that we sign up with the customer will have a different profile. And just to give you a little idea, we do process some 70 - 80 parts for the some of the car model that we supply for. So, what we see is what will be the impact on the total EBITDA and that is how we look at our internal working when we look at the viability of each proposal that comes. Now, obviously the margin in the non-automotive, if you look at the white goods or some other segments, the margins would be lower there. So our strategy has to be very, well thought out and we are very cautious and objective in picking up any such opportunities.

Viraj Kacharia: So, basically just want to get a sense what is the thought process behind venturing into non-auto and opportunity size?

Abhishek Jain: See, non-auto we are basically looking at that not as a permanent strategy but only as a stop-gap arrangement to fill up some injection capacities which we have spare, so that is where we are focusing on the non-auto business. Otherwise, from a strategy point of view, we do not want to get into the white goods industry as such. As a stop gap arrangement to temporarily fill up our capacities.

Viraj Kacharia: Okay, just two more questions. One is, when we say margins in non-auto are lower, they are lower by how much in terms of differential one would have? And second is, we have managed to get some wins in LCV and two-wheeler business for injection molding, so where we are in scaling up those businesses?

Abhishek Jain: See, non-auto, as I told you, the purpose is only to fill up capacities. So, you can assume that the margins are going to be much lower than what the auto industry is giving us, focus is completely different. And again as I have told you, it is not a permanent business that we are looking at, it is going to be a very short term business.

Viraj Kacharia: Right. And on LCV and two-wheelers we have managed to get some wins in last couple of quarters, may be in terms of scaling of those businesses…

Abhishek Jain: LCV, we are developing this instrument panel for SML Isuzu and for motorcycles we have already started our business with Suzuki Motorcycles, so we started with one part and I think now already two or three parts, I do not have the exact figures with me right now, but that business is also developing now. We would also be supplying about four or five parts now to Suzuki Motorcycles.

Viraj Kacharia: Okay. And when you say instrument panel, what are we content per vehicle there for SML?

Abhishek Jain: That is still being decided right now, because we are just developing the base part right now, so there are lot of assemblies and lot of bought out parts which have to be done. So, we are negotiating with them to give us the complete assembly to us instead of the basic part.

Viraj Kacharia: And there the margins in LCV & two-wheelers similar to that of PV?

Abhishek Jain: You can safely assume that it is going to be similar.

Viraj Kacharia: Okay. Just last question was on the automotive sealing part, so when we talk about automotive sealing on extrusion and plastic side we have a very high market share and where Maruti is a big part of our overall revenue mix. So, just want to get a sense, what is the current wallet share when it comes to from Maruti and what is the content per vehicle for automotive sealing there?

Abhishek Jain: See, the automotive sealing system on the plastic side, our average comes to be about Rs. 1,200 odd per vehicle, only for the plastic sealing side. Then our joint venture which focus on the rubber side, that can add about around Rs. 1,200 more. And when you look at our market share with Maruti, almost more than 90% of their models are being catered by us. The recently launched Swift Dzire that has been done by us then Baleno is with us and Vitara. So all the major models, high volume models are with us.

Moderator: Thank you. We have the next question from the line of Manish Oswal from Nirmal Bang. Please go ahead.

Manish Oswal: My question is on, we were exploring business opportunity through SKD exporting in Korea, so what is the update on that, sir?

Abhishek Jain: We have never been, we are focusing on CKD Exports by customers but not focused on only a particular market. So we have already started the exports from Nissan, Toyota is doing it for us now, Honda is already doing it and now Renault is also going to export our products for this Qwid platform to Brazil.

Manish Oswal: Okay, sir. And on a full year basis could you breakup the revenue in terms of tool revenue and the other revenue basically, for the full year?

Manish Dhariwal: For the financial year 2017 we have done a total tool revenue of Rs. 30.44 crores and part sales of Rs. 310.7 crores.

Manish Oswal: Okay., And sir, what is our margin outlook for FY18 and revenue growth expectation? Because we are operating at 70% utilization, so how do you see

the utilization level moving up and the revenue growth and margin picture in them?

Manish Dhariwal: Yes, Manish, on the margins front, as you would have observed our margins have been improving consistently, which is basically a result of looking at all the aspects of our operations and trying to get efficiency out of all of them. We have been saying that the margin of 17% to 18% is something that we would protect and the process of efficiency once started it does not stop. And when there is an improvement in the turnover then the additional benefit that we get on the margins because of your fixed cost element gets spread over a higher base.

Manish Oswal: Okay. And last time when we met sir, you suggested that the business confirmation from Suzuki Gujarat plant is most likely, so what is the update on that, sir?

Abhishek Jain: See, we already have business from Suzuki Motors Gujarat, and that is reason why we are setting up the plant there. We are setting up three machines initially, three injection machines and so injection parts we will be supplying from our Gujarat plant, but the sealing system we will continue to supply from our existing Noida locations.

Moderator: Thank you. We have the next question from the line of Umang Shah from JM Financial. Please go ahead.

Umang Shah: I have one question in regards to our Hyundai service, which you just mentioned that we have started providing to Hyundai Motors India. So, before this we were not catering to Hyundai Motors, they were catered by their own facility or something like that, how it was?

Abhishek Jain: See, primarily Hyundai has its own Korean Vendors who were exporting these products from Korea to them, either directly or through one of their trading companies or some other associates. So now recently Hyundai has realized that in order to be competitive in the Indian market they have to localize all their products and achieve high localization per car. Only then they can be able to survive in the Indian market. So that is where we have started playing an important role now.

Umang Shah: Perfect. Any ballpark figure that how much business are we looking at from here, Hyundai motors as compared to Maruti or Tata?

Abhishek Jain: See, this is just a starting of our relationship, so we do not have any new model business with them, currently we are just localizing their existing product. So, I do not have a commitment from them how things are going to be in future, but we have to build up our relationship. As we had said earlier that Hyundai is a very important player in the Indian market, and we are very serious in gaining leadership position with Hyundai, and especially with Kia also coming in now, so there total volume is going to be around 1 million cars per year, may be in the next five to seven years, and it is a very important customer for us.

Umang Shah: In the opening remarks you mentioned some spilt that business with Maruti, some percentage, if I am not wrong. Do we provide that information or?

Abhishek Jain: Yes we can tell you.

Manish Dhariwal: Yes, we have also given that in the presentation that we have shared with all of you. See, the business spilt for the year FY17 is 49% of the revenue is from Maruti, 31% from Honda, 9% from Nissan, 6% from Toyota, 2% from Tata and the rest is from others.

Moderator: Thank you. We have the next question from the line of Dhiral Shah from Asit C Mehta. Please go ahead.

Dhiral Shah: Sir, now you have successfully added Hyundai to your client list, so by when you expect the revenue to come on books?

Manish Dhariwal: This financial year itself.

Dhiral Shah: Okay. So you will be started supplying the automotive parts to the Hyundai, right?

Manish Dhariwal: Yes.

Dhiral Shah: And are you under talks with Hyundai for other parts also?

Manish Dhariwal: We are in talks for a lot of things. See, MD san just shared with you that Hyundai is the second largest car manufacturer in the country. And with the coming of Kia it assumes more significance. We understand that very clearly and we are working on all fronts to improve and increase our engagement with this group.

Dhiral Shah: Okay. And sir, currently you are supplying Maruti only automotive sealing parts right?

Manish Dhariwal: No, we are also supplying the injection molded parts to Maruti.

Dhiral Shah: Okay. So you supply both, automotive sealing as well as injection moldings?

Manish Dhariwal: Correct. And that we just mentioned a couple of minutes ago that this plant in Gujarat that is coming up is basically for injection molded parts to Suzuki.

Dhiral Shah: Okay. And sir, are you in talks with any other OEM's currently?

Abhishek Jain: See, it is a very continuous engagement that we have with our customers, and it is a running process. So while I am speaking with you, there are some 15 odd projects that we are already working on.

Dhiral Shah: Okay. And lastly sir, what is the outlook on FY18 and FY19?

Manish Dhariwal: Again, see from the input that we received from our customers, the outlook is looking rather positive. And we are absolutely committed and take the position to capture that and service our customers, this is our main goal.

Dhiral Shah: Okay. And sir lastly about the margins, you have almost done 20% - 21% in this quarter, so do you expect further improvement or you will comfortable between 17% to 18%?

Manish Dhariwal: See the comfort will never be over a lower number, we continue to strive and improve further. If that had not been the mindset then the story would have kind of stopped at a much lower number. And if you can observe the improvement that has happened in our operating margins, it is basically a result of the activities that are being done at the ground level across functions. that process is never ending process. And when we see these kind of results, it basically gives us further motivation.

Dhiral Shah: And lastly sir, for this Hyundai which models are you catering to right now?

Abhishek Jain: We will be starting supplies for Eon as well as for Creta.

Dhiral Shah: Okay. So only two models right now?

Abhishek Jain: Yes.

Dhiral Shah: May be in future you can add up more models, right?

Abhishek Jain: See, these are basically test cases for Hyundai as well, because they have not tested waters for local suppliers in India for these products. So if we show them our good performance then they will have more trust on us to give us more business. It is just the beginning but I think we have a very good future with Hyundai now.

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

Sunny Agarwal: Sir my question pertains to the tooling division, this revenue I believe is very lumpy, so how one should look going ahead on tooling business for FY18 - FY19?

Manish Dhariwal: You very rightly observed that it is a lumpy business. While this activity carries on a regular basis, sales happen in a lumpy manner. Now, that is a function of when the customer is planning to launch a particular model. Therefore, we have a broad idea how it is going to be emerging, however, we cannot be very exact on this. Because if the model launch moves by a quarter or two, this will change. And what is happening is that with so many car companies introducing so many car models, this activity is now going to be a continuous activity.

Sunny Agarwal: Okay. And just one clarification on this part, so the margin in tooling business may be upwards for 30% at EBITDA level, is the understanding right?

Manish Dhariwal: See, the point is that I have discussed this earlier as well, that we are primarily in the business of selling parts of the automobiles that our customers make. Now to make those parts you have to also do the tooling. So it is an activity which is serving the main activity.

Moderator: Thank you. We have the next question from the line of Pratik Chaudhary as an individual investor. Please go ahead.

Pratik Chaudhary: I guess most of my questions have been answered, but I would still like to ask is Rs. 500 crores kind of a number too farfetched for us to achieve in the next two years, on a consolidated basis?

Manish Dhariwal: See, the number obviously is very desirable, achievable and will certainly be happening. But then we would not like to comment as to by which month and by which year it is going to happen.

Pratik Chaudhary: Right, given that I mean we have Hyundai as our new customer, even though on a test basis for this two models, we are setting up a plant for Maruti in Gujarat and we might get some other businesses along as well because in terms of which we catering to the automotive field I guess we are covering the bulk of what we need to cover now with the Hyundai on board. So, that said, I mean from a two-year perspective is Rs. 500 crores out of reach for us?

Manish Dhariwal: See, I would leave this to you. What we are focusing on is at the ground level interacting, engaging with customers at all levels. We are enabling ourselves so that we can service our customers in a best possible way. You rightly observed that with our plants that are coming up in the Chennai and Gujarat, we are now very close to the customer, we are offering the best possible platform available to our customers which they can use in enhancing their own value proposition and we propose to partner with them.

Pratik Chaudhary: And sir, these two Hyundai models, have you also got i10 from Hyundai?

Manish Dhariwal: No, we have not.

Pratik Chaudhary: So, it's only Eon and Creta?

Manish Dhariwal: Yes, as we just mentioned.

Pratik Chaudhary: And we plan to start supplying them in the second half of this financial year?

Manish Dhariwal: Yes this financial year the business with the Hyundai will begin, in fact first half itself.

Pratik Chaudhary: And then based on their initial feedback from the products that we supply to them, they will decide on whether to give us 100% for these models or not. So what I am trying to ask is, are there other companies also, I mean as our domestic competitors who have this business from Hyundai?

Manish Dhariwal: To our knowledge I think we are the only company, that is using and have received this business, so far these parts are being imported.

Pratik Chaudhary: And assuming that we, I mean, which most likely would, I guess it will happen that we supply these parts and they will approve of these parts, then in that case have they given any guidance on whether we would be 100% suppliers to them or going forward 50% would still be imports which they are already growing for these models, how have the talks taken place with them?

Abhishek Jain: See, they are committed to localizing their products and...

Pratik Chaudhary: To what percentage? I mean, since they have not done it all for last so many years and now this is the first step that they have taken after the long while.

Abhishek Jain: That might be their internal strategy which we are not aware of in details.

Pratik Chaudhary: But in terms of and they must have given you some projection in terms of the number of cars, the number of vehicles that they produce under these models and what sort of...

Abhishek Jain: Right now for Eon we have a commitment from them for the production volume, so only that much of information we have from them, the commitment from them.

Pratik Chaudhary: You said you have the commitment for the production volume?

Abhishek Jain: Yes.

Pratik Chaudhary: For the entire Chennai facility for these models?

Abhishek Jain: Yes, whatever Eon is being produced in Chennai, that model will be catered by us.

Moderator: Thank you. We have the next question from the line of Chirag Shah from Edelweiss, please go ahead.

Chirag Shah: Sir, two questions. One on margins, how do you look at margins from here on? And what are the key drivers, either positive or negative, for the margins for you?

Manish Dhariwal: See, not much has changed on the ground, if you ask me really. The movement in the currency, this will continue to happen. The crude is also not behaving in a very erratic manner, there is some volatility obviously expected. We believe that the margins, will broadly continue as it is.

Chirag Shah: Okay. And sir the second question is on the CAPEX side, if you can just re-confirm that, what kind of CAPEX you will need and when you will need the next level of growth CAPEX?

Manish Dhariwal: See, on a CAPEX point I just shared a couple of minutes ago that we are not looking at any CAPEX other than the existing projects and whatever is required for the upkeep and maintenance.

Chirag Shah: Sir, what I am trying to understand the existing projects that you are undergoing Greenfield, Brownfield, what kind of revenue you can get from these and when will you need the next lag of CAPEX?

Manish Dhariwal: See, what we are going to be achieving, with the setting up of these plants is that the infrastructure and the facilities will be available.

Chirag Shah: Fair point. And sir on the crude movement side, as well as currency, you would be having pass through arrangements, right?

Manish Dhariwal: Yes, there are some clauses in the arrangement that we have with our customers.

Chirag Shah: But that would be if the movement is beyond a particular band, right, only then the pass-through arrangement will come into force, is that the right way? Or it is really very well organized that any particular movement it gets passed through over a period of time with a lag?

Manish Dhariwal: See, broadly what you are saying is correct.

Chirag Shah: So, beyond a particular band there is a pass-through mechanism starts coming into play, is that the right way?

Manish Dhariwal: See, on the forex side there is a pass through with the customers there is a lag of a quarter, so that's how the forex part of the matter gets taken care of. On the crude price or on the raw material price front see it varies, in some cases it is a complete clear pass through, in some cases it is not, so it is a mix.

Moderator: Thank you. We have the next question from line of Sangam Iyer from Subhkam Ventures, please go ahead.

Sangam Iyer: Sir, just wanted to understand the three capacities that are coming on-stream in FY18, at peak what kinds of revenue potential that these can generate, the Gujarat, Chennai and Pathredi?

Manish Dhariwal: We mentioned that right now what we are doing is that we are setting up the infrastructure at these locations, because of a strategic reason we have to be close to the customer. And we also mentioned that significant part of the production machinery is actually going to be relocated from our existing locations to these locations, so that our capacity utilization improves.

Sangam Iyer: But if your machinery is just going to be relocated how does a… Okay, you are saying that…

Manish Dhariwal: Right now we are at a capacity utilization of a lower level, as we mentioned close to about 70% odd is our capacity utilization. So what we are doing is that with our production team we are freeing up some machineries, so that it can be relocated to these new locations. So, what will happen is the plant and the infrastructure and utilities like a digiset, that I cannot relocate from an existing location because existing location is working. But what I can do is in order to improve our asset utilization that machinery that I can free up from an existing location that can be used in the new location.

Sangam Iyer: Okay. So sir if had to put in different way, I mean in order to, since these are almost at the frag end of their commercialization kind of a stage, so would it be fair to assume that the machineries that have been freed up to be relocated here, I mean that is the prime reason why your utilization is at 70% correctly? So, existing machineries that are not freed up for these three expansions they would be almost at 100%, is that the right way to look at it?

Abhishek Jain: No, this 70% was basically including all the facilities and everything which we have.

Sangam Iyer: So, there would be certain machineries which you would have freed up in order to facilitate or relocate to the newer three locations that you mentioned. So, if you were to you know exclude for once those machineries which have been freed up, in that case what would the utilization be almost 100% correctly, or 95%?

Manish Dhariwal: See, I think I understand where you are coming from, but then it is a difficult question to answer. And in fact, it will be great if you could kind of visit our facility to see the things at a ground level to understand it better. See, our lines are of fungible nature, we can run multiple products in those.

Sangam Iyer: Got it. Sir, in your presentation I saw Baleno there, but Brezza was not there, are we present in all the models?

Manish Dhariwal: Yes, Brezza is very much there.

Sangam Iyer: Okay. So, how much would be the market share of ours when we say for these products that we are supplying it to say Suzuki which is currently around 49% of our revenue mix, for the products which we supply to Suzuki what would be our market share in that?

Manish Dhariwal: Close to 90%.

Sangam Iyer: 90%, in most of the models which we are supplying there?

Abhishek Jain: If you look at each model, there we have a 100% market share, but if you look at the total number of models then we are saying that it is of 90% market share. It is not that if Baleno is there, then the same part is being supplied by us and some other competitor of ours. 100% is supplied by us, but there are some parts which we are not supplying for may be Baleno or Vitara, being done by our competitors. So that is how we can say that it is 90%.

Sangam Iyer: So sir, I mean I think one of the earlier participant also asked, what next in terms of technology gaps etc., that you would want to look at in order to increase your wallet share with the customer, I mean is there anything, any particular area that you can give us some idea in terms of these are the goals that in the next two to three years we would like to fill up in order to increase our wallet share within the customers? Because we have an extensive customer list here and there the products that we are supplying, as you said we are almost at 90% or 100% kind of a market share in terms of supplying. So, that is a preferred vendor kind of the situation here as well. So, how would we increase our market share incrementally or increase the wallet share within the same customer incrementally, are they any areas which we are looking at or which you could throw some light upon?

Abhishek Jain: See, our sales strategy can be explained using on four quadrants based on customers and products. So whatever products that we are making right now, first of all we are focusing on finding new customers for it, be it the Indian domestic players or CKD exports, or even direct exports to our technology partners to their overseas plants and all that, that is one area which we are focusing on. And of course, on the same side we are also evaluating new technologies, but keeping the same processes in hand, because that is where our people are having their knowhow. So, if you look at last two three years, so we have introduced a few new technologies in India as well for this outer belts, so earlier they were in black type, now we do it in steel finished, we call it bright type of belts. Then we introduced this component called slide rail, which is basically used for the sliding door in the vehicles like Eco and Omni, etc. There are a lot of new variations which keep coming on in these sealing systems and we are continuously evaluating those options.

For injection side, we are continuously looking at higher value-added products. We started our journey for these injection products from side protectors, then we started partitions and then we started off with other small injection products, then we got into door linings, now we are starting up with the instrument panel. So, this is a continuous process for us, because one thing on which our company is very clear is that we do not want to get into any commodity business and we want to get into a business which adds value to the bottom line of the company as well as it gives us a lot of knowledge and knowhow as far as technology is concerned.

Sangam Iyer: Okay. So, you would want to expand in this place only, the injection molding and the automotive sealing?

Abhishek Jain: See, this is what our company knows today, if we venture out into untested waters, we cannot guarantee good performance to our customers.

Sangam Iyer: Fair enough, we should know the strengths and where we are and capitalize on the same, so that is fair enough.

Moderator: Thank you. We have the next question from the line of Shailee Parekh from Prabhudas Leeladhar. Please go ahead.

Shailee Parekh: I had a question on the average revenue per vehicle from Maruti, like you have told us it is about 7000 when it comes to Honda, could you share with us the figure that would be relevant for Maruti as well?

Abhishek Jain: See, Maruti we mainly do automotive sealing parts and also do the other parts in the small vehicles, the injection parts are just a smaller business. So, I can get back to you on the per car basis on the injection molding per market.

Shailee Parekh: I mean, earlier like it used to be about Rs. 1000 a vehicle in Maruti, so obviously now that you are going to be looking at supplying the injection molded parts, it would be fair to assume that this number would sort of inch up in the years to come, right?

Abhishek Jain: Sure.

Shailee Parekh: And would that be quantifiable?

Abhishek Jain: Yes, I can get back to you on this.

Shailee Parekh: Okay. And my other question, the CAPEX for FY18 as you said is about Rs. 35 crores and FY19 other than the maintenance CAPEX therefore then we have no other CAPEX lined up?

Abhishek Jain: Not right now.

Manish Dhariwal: Yes that's correct.

Shailee Parekh: Okay. So the facilities which are at Chennai and Pathredi, so all of those where we are moving machinery right now, obviously because there is no other CAPEX lined up and we are not adding machines, the strategy would be essentially focused on supplying higher number of parts to the same customers or adding new customers, therefore my point is to increase this average revenue per vehicle, right, whether it is with Honda, Maruti or anybody else?

Abhishek Jain: Correct.

Shailee Parekh: And your debt as on FY17, would you be able to tell me?

Manish Dhariwal: Yes, the debt as on the year end is about Rs. 58 crores total.

Shailee Parekh: And from your discussions what I kind of recollect is that we have a debt repayment scheduled, or at least the intent to repay about Rs. 20 crores or Rs. 22 crores over the next two years, do we still stand by that?

Abhishek Jain: Yes. See, as I mentioned you in the earlier part of the call, there is an annual repayment of Rs. 14 crores of the existing long term debt which will get repaid this year. And all of this will be met from the internal accruals.

Shailee Parekh: And in FY19 would it be another about Rs. 10 crores that would get repaid?

Abhishek Jain: Yes, that is correct. See, because there are three term loans, so one of the term loan will get completed in FY18, so that will take Rs. 4 crores out of the repayment schedule, the balance will be Rs. 10 crores which will get repaid in FY19.

Shailee Parekh: Okay. And what would be the cash on books as on March 2017?

Abhishek Jain: On March 17 the cash on books is I think Rs. 4 crores to Rs. 4.5 crores. This includes the investments in the mutual funds, which are basically in liquid mutual funds, I am adding that to the number. I can give you a specific number here, its Rs. 2.50 crores in the mutual funds and the cash in total would be Rs. 2.22 crores, I think Rs. 4.7 crores is the cash in hand.

Moderator: Thank you. We have the next question from the line of Jay Modi from the Emkay Investments, please go ahead.

Jay Modi: Sir, I just wanted to understand that during the quarter our revenue has grown by 24%, what has led to this growth?

Abhishek Jain: See, it has two components, one is the tools and the second is the parts. So the tool revenue is about Rs. 7.15 crores and Rs. 88 crores odd is on the part side.

Jay Modi: So the growth has mainly come by new customer acquisition or within the customer new models that we are doing, where has it come from?

Abhishek Jain: See, the newer models like the Brezza and your Baleno, they have been doing very well, in fact there is a Kwid in the Renault and the WRV has seen a good pick up. So yes, the revenues reflects the business from the new customers, the new products the new models.

Jay Modi: And who are our competitors?

Abhishek Jain: On the automotive sealing side are players like Anand Nishikawa then Cooper Standard, then TG. And the competition on the injection side is significant like from players like Motherson, Krishna Maruti etc.

Moderator: Thank you. We have the next question from the line of Paras Adenwala from Capital Portfolio advisors. Please go ahead.

Paras Adenwala: Again, at the cost of repetition, I am just still trying to wonder about the growth rates in the second half. I think they have been particularly spectacular considering the underlying environment that you are operate in. So, would it be fair to surmise that a large part of the growth, besides your tool room revenues, would be coming in from sales to Maruti?

Abhishek Jain: Yes, in fact if you will observe the percentage share of Maruti in our total revenue, that has gone up from 45% last year to 49%. So yes, that is a fair point.

Paras Adenwala: So, that I also means that your profitability in the sealant segment is significantly higher than your injection molding, right?

Abhishek Jain: See, that would be strong views that it would be significantly higher, there could be differences. And as I mentioned you during the call, when we look at the business we look at the margins that are total, the aggregate.

Paras Adenwala: Secondly, just also wanted to know about your growth in your injection molding in your last three to four years, considering the fact that you supply only to Honda, essentially to Honda. It looks like that customers has not been able to perform as much as perhaps you would have really wanted to kind of do with them. I am just trying to understand, do you see a very good future in injection molding, or at some point in time you would like to review your business in the segment?

Abhishek Jain: See, every customer can have ups and downs, but we have to look at the long-term strategy and long term commitment for Indian markets for them. So, Honda is very important customer for us and we realize that they have had a bad patch in the past, but I think their management is very focused and committed to the Indian market. So we would not like to change any strategy with them and we would like to support them completely in futures as well.

Paras Adenwala: No, considering the fact that Maruti and Hyundai, they continue to dominate passenger car segment and that has been the case for a long time. And injection molding is also, you do business in injection molding along with Maruti, along with Hyundai, this segment perhaps may not be able to grow as much as perhaps you would wanted to. And this I'm talking about the long-term track record, it is not just one year, it is not just two years, Honda has been struggling, and that is also kind of stunting the growth of your injection molding, and therefore the company as well. So, I was just wondering, if this business continues to disappoint you maybe for the next couple of years, would you want to review or would you just say that we just want to continue as it is?

Abhishek Jain: See, what we are doing is we are not changing any strategy towards Honda, but at the same time now we are focusing on Maruti in a big way for their injection products. So, especially since this Pathredi plant of ours has come up in 2014 and the new Gujarat plant which is going to come up this year, so from these two locations we are now targeting Maruti quite aggressively. Earlier our operations were in Noida, so Noida to Maruti Gurgaon, Manesar, was not viable option considering the high transportation cost. But with these two locations coming up we are quite competitive on the transportation cost as well. Because these injections parts are quite bulky parts, so transportation plays a very important role. So, I think to summarize, going forward we are not going to give less importance to Honda as a customer, we will be continuing the same thing with Honda. But at the same time we will be finding new customers for our injection products as well, so especially Maruti Suzuki and the Suzuki Motors Gujarat plant.

Paras Adenwala: Any possibility of making forays into HMSI in injection molding?

Abhishek Jain: We have been discussing with them but again it is a very, very competitive business. And they already have a lot of existing suppliers. But with HMSI, especially for the Gujarat plant, we may have a good scope because there are not many vendors in Gujarat area which understand the automotive requirements. Especially with this Gujarat plant coming up we are thinking about all the customers which are there in that area, which includes Tata Motors also and Ford, HMSI and Suzuki Motors, everyone will be targeted from that plant.

Moderator: Thank you. We have a follow-up question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Sir, just a couple of questions. You talked about wallet share for automotive sealing of Maruti for passing around Rs. 1200 and Rs. 2000 for rubber. So, if I am understanding is right, basically the rubber part is being catered by the JV, right?

Abhishek Jain: Yes.

Viraj Kacharia: So incrementally how has the mix been for us in terms of you know, the automotive sealing for Maruti?

Abhishek Jain: Come again please?

Viraj Kacharia: Basically what I was trying to ask is, primarily the standalone entities catering to the plastic based automotive sealing and we have a JV which caters to the EPDM and rubber based automotive sealing. So for Maruti, say for instance, how has the mix been roughly, currently versus two - three years back, into the rubber and automotive base sealing cost?

Abhishek Jain: No, these are completely different product applications when it comes to Maruti. So, the primary seals are basically rubber based seals, secondary seals are all plastic seals. So, secondary seals, we have already been a leader for Maruti and these primary seals which are rubber based, so we just started this company about three years back, right now we are delivering parts to I think three models for Maruti.

Viraj Kacharia: Okay. And when we do injection molding for Maruti, what will be current content per vehicle, I mean roughly, if you can just give a rough indication for it.

Abhishek Jain: Sorry, can you speak a little slow please… I can't understand.

Viraj Kacharia: So, basically if we look at, you talked about Honda where the content per vehicle is somewhere around Rs. 7000. Say, for Maruti for injection molding, what would be the content per vehicle?

Abhishek Jain: Yes, I mentioned that, I will get back to you on this, I think I mentioned to another colleague of yours.

Viraj Kacharia: Okay. Apart from that, just wanted to get an idea on, if we look at Hyundai, is it majorly a plastic based automotive sealing or it is a rubber based automotive sealing which we have bided for currently?

Abhishek Jain: Plastic base sealings right now.

Viraj Kacharia: Okay. And if we look over a medium-term basis for us in the other overall segment, we have been catering to Honda for injection molding for quite some time, and we have some wins when it came to LCV and two-wheeler for injection molding. So, typically what is the risks or the challenges we are facing for existing OEs or new OE customers in PV for injection molding?

Abhishek Jain: Sorry, we couldn't understand can you repeat it once again?

Viraj Kacharia: Basically, what I wanted to understand is if we look at the injection molding for the PV sector, we are primary catering to Honda. So what has been the challenge or where is the resistance coming from other OE's and in terms of scaling our business for us?

Abhishek Jain: See, basically as I mentioned just about a while back, injection molding products are basically bulky products, so you need to be present close to the customer in order to be competitive. So, earlier our injection plant was located in Noida, so we were not very competitive in getting business from Maruti. But after we setup this plant in Pathredi, now we are competitive to get business from them.

So, physical location of plant is quite important for when it comes to injection products.

Viraj Kacharia: Right. And last question is, if we look on medium term basis for us, the kind of capability we have in terms of infrastructure and other strength we have on the technology front, what are the kind of internal aspiration we have over the next three to five years for our businesses?

Abhishek Jain: Well, historically we have grown more than the industry growth and we are striving to continue with that trend in future as well.

Moderator: Thank you. We have follow up question from the line of Pratik Chaudhary as an individual investor, please go ahead.

Pratik Chaudhary: Sir, you mentioned that for rubber automotive sealing system you supply to three models of Maruti, could you just give out those which are three models?

Abhishek Jain: We are supplying to Celerio, we are supplying to Baleno and we are supplying to Vitara also, one part is going for Vitara.

Pratik Chaudhary: And when one of the previous participant asked about the content per vehicle, you said that it's almost Rs. 1,500 to Rs. 2,000 more expensive than the plastic sealing, is that correct?

Abhishek Jain: No, not expensive but total parts put together, they contribute about Rs. 2,000.

Pratik Chaudhary: So, from the perspective of an OEM going ahead for a plastic sealing system product or rubber sealing system product, what is the thought process behind, because I guess these models, Celerio, Baleno and Vitara, we must be supplying plastic sealing products as well. So, what is the difference between in terms of, how does rubber or plastic add to the product characteristic, does it add some feature in the sealing system, just if you could give some clarity on that?

Abhishek Jain: See, we mentioned this earlier, when we tried to explain the nature of this parts, the plastic based sealing parts are primarily secondary sealings and the rubber base sealing has the primary sealings which basically have a higher compression strength. So, basically in a car you need both, you need the rubber based parts as well as the plastic based parts.

Pratik Chaudhary: So, they are not competing in nature in anyways?

Abhishek Jain: Yes, absolutely they are complementary. With this line of business that we started in JV, our offering in the automotive sealing system side is complete, so now we can offer a complete bouquet of parts on the automotive sealing side to a customer.

Pratik Chaudhary: And any success for us on the JV side, or are we in discussions with more customers because there are capacities utilization?

Abhishek Jain: See, happy to share with you that this year that i.e. FY17 we started supplying to Toyota as well for the new car models, Fortuner and Crysta. So, yes we are continuously getting more business, we are getting more revenues, and it is a tough situation because it is a new business, already there is a very strong competition lined up, but we are able to make good wins.

Pratik Chaudhary: And sir, this Gujarat plant which we are setting up is basically an injection molding plant, right?

Abhishek Jain: That is correct.

Pratik Chaudhary: And for Hyundai, other than Eon and Creta are there other models also for which they have gone ahead with localization?

Abhishek Jain: See, as I told you also they are first testing waters and capability of local suppliers. And if we exhibit superior performances with them, that is when other models will be considered.

Pratik Chaudhary: No, I agree that we have got Eon and Creta, but have our competitors got other models is what I want to know?

Abhishek Jain: That information I do not think we are aware of, so that is I think Hyundai's internal strategy which we are not aware of it.

Pratik Chaudhary: And sir, on the tooling side, this tooling that we do which we are saying would be since lot of new models are being launched, so it would be around Rs. 25 crores - Rs. 30 crores every year, so is this tooling, is this tolling largely for the sealing system or the injection molding and how will that be for FY17?

Abhishek Jain: No, see the tooling are required for all the parts, whatever part that we have to create you need a tooling.

Pratik Chaudhary: And sir, last question on our potential tie-up with Kia, since they are coming up with a plant somewhere in 2018 or 2019 in Andhra Pradesh, so are we in discussions with them as well?

Abhishek Jain: See, right now we just know that Kia is coming into Indian market, and right now we do not have much information about what is their product, which vehicle segment or whatever they have finalized on. But it is important that we are present in Hyundai supply chain in order to get an opportunity to cater to Kia as well. So, this starting up business with the Hyundai will automatically give us increased opportunity to get into Kia business as well.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, I will now like to hand the conference over to the management for their closing comments. Thank you and over to you.

Abhishek Jain: Thank you, Aman and team of Concept to organize 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 schedules to listen to us today. Please feel free to contact Concept or us in case you have any further questions. Also if you happen to be in NCR region, do give us an opportunity to show you around our world class operations. Thank you.

Moderator: Thank you all for being a part of the conference call. If you need any further information or clarification, please mail us at parin@conceptir.com. Ladies and gentlemen this concludes your conference for today. Thank you for using Chorus Call Conferencing Services. You may disconnect your lines, thank you and have a pleasant day.