



PPAP AUTOMOTIVE LIMITED

(Formerly Precision Pipes and Profiles Company Limited)

“PPAP Automotive Limited Q3 FY16 Results Conference Call”

Transcript

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MANAGEMENT : MR. ABHISHEK JAIN - EXECUTIVE DIRECTOR

MR. MANISH DHARIWAL – CHIEF FINANCIAL OFFICER



Moderator: Good afternoon, ladies and gentlemen. I am Ali, moderator for this conference. Welcome to Conference Call of PPAP Automotive Limited arranged by Concept Investor Relations to discuss its Q3 FY16 results. We have with us today Mr. Abhishek Jain – Whole Time Director and Mr. Manish Dhariwal – CFO. At this moment all participants are in the listen-only mode. Later we will conduct a question and answer session. At that time if you have a question, please press '*' and '0' on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor over to Mr. Abhishek Jain. Thank you and over to you, sir.

Abhishek Jain: Thank you Ali. Ladies & gentlemen, a very good afternoon and welcome to the conference call to discuss the financial performance of the third quarter of financial year 2016 of our company PPAP Automotive Limited. The company's CFO Mr. Manish Dhariwal is also joining us in this call. To begin with I will provide a brief background about our company. The company was originally incorporated in 1978 for the manufacturing of customised extrusion products. The company commenced the Automotive Parts Business in 1985 with the start of production of Maruti Suzuki Cars in the Indian market. The firm was converted into a public limited company in 2008. In May 2014, the company's name changed from Precision Pipes & Profiles Company Limited to PPAP Automotive Limited to reflect the actual operations being done by the company. PPAP is a leading manufacturer of automotive ceiling 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. All the plants are TS 16949, ISO 14001 as well as OHSAS 18001 certified. We are working with three Japanese companies for our technology requirements. The relationships with these companies are up to 25 years old. We have also established a joint venture with our technology partner in 2012. After the establishment of this joint venture company, as a group PPAP can cater to the requirements of the entire automotive ceiling system for our customers. Today, the company manufactures over 500 different products for its customers and continuously targets towards Zero PPM in quality and delivery performance for all its customers. Our company is led by Mr. Ajay Kumar Jain who is the Chairman & Managing Director. He is currently serving



as the president of 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 customers' no. 1 supplier. We strive to proactively meet the customers' expectations and are continuously evolving our products and services to meet their requirements. It is this strategy that has resulted in our leadership position in the respective product segments that we cater to. The company's core competence is in automotive sealing system and injection molded products. We maintain a leadership position in all the products that are made by us for our respective customers. The company primarily services the passenger car segment and has also started supplying to the LCV segment. All the Japanese OEMs in India are our customers. Few European as well as local makers are also being catered by us. We are exporting about 10% of our products through our customers to countries like Europe, Mexico and Japan and soon we will start supplying to countries like Argentina, Venezuela and South Africa. 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 product requirement. We have a track record of superior performance with all our customers. We have and we will continue to be amongst the preferred suppliers for all our customers.

Now I will take you through the financial performance of the third quarter of financial year 2016. For the third quarter ended December 31, PPAP recorded a total income of Rs. 71.78 crores as against Rs. 71.46 crores in the same quarter last year. The other income reported for the current quarter is Rs. 45.64 lakh. It is the investment subsidy received from Rajasthan Government towards our new manufacturing facility in Pathredi, Rajasthan. This subsidy will continue and it will be received by us for the next 7 years on a quarterly basis. The EBITDA grew by 52% in Q3 and it was Rs. 12.07 crores compared to Rs. 7.94 crores in Q3 FY2015. The company's EBITDA margin stood at 16.82% in Q3 as compared to 11.11% in the previous year same quarter. Consequently profit after tax was at Rs. 3.51 crores in this quarter which was up by 49% as compared to Rs. 2.36 crores in Q3 FY15. For the quarter under



review the sales have been stable compared to the previous year. The growth which was expected could not take place due to lower demand by the end customers. The improvement in operating margins is a reflection of the company's continuous focus on improving operational efficiencies across each and every aspect of the company. We are continuing our development of parts for many new models which will be launched by our customers in the next 2 to 3 years and are continuously discussing about new models thereafter. As I told you before we are continuing with our track record of superior performance with all our customers. Our parts are used in the latest block buster models like Baleno and Kwid which were launched recently and also in the new cars showcased in the recently concluded Auto-Expo like Toyota Innova Crysta, Honda BRV, Tata ZICA as well as Maruti Suzuki Vitara Brezza. I will also briefly take you through the 9 months numbers for financial year 2016. In the 9 months of this fiscal year total income was Rs. 225.69 crores as compared to Rs. 220.73 crores in the same period last year. EBITDA grew by 35% in these nine months and it is at Rs. 39.01 crores as compared to Rs. 28.85 crores in the same period last year. The company's EBITDA margin for nine months stood at Rs. 17.28% compared to 13.07% in the same period last year. The net profit was Rs. 11.04 crores which is up by 51% compared to Rs. 7.29 crores net profit in the same period last year. As a result of the above the EPS for 9 months has increased to Rs. 7.88 per share from Rs. 5.20 per share. The debt equity ratio is also under control and we are in a comfortable situation to effectively manage our exposures. As stated earlier we are not planning to take any additional exposures in the current year and are planning to fund the capital expenditure from our internal resources. Overall, if you look at the trend for the previous 3 years we have been improving on all parameters and are making our best efforts to sustain the improved performance. Myself and Mr. Dhariwal will try out best to satisfy your queries with clear answers. But before we open the floor to 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. Ali, over to you for managing the questions.



Moderator: Ladies and gentleman, we will now begin the question and answer session. We will take the first question from the line of Saket Lohiya from Phillip Capital.

Saket Lohiya: Just wanted to understand, first thing first on what basis your margins depends? What exactly does it depend on because earlier you used to have 20-25% margins then it declined for the last 2-3 years and then again it is up? So could you please just let me understand what caused the same? So a perspective of yours on this.

Manish Dhariwal: If you observe the performance of the company over the last couple of years, you will note that raw material cost has been a game changer. In fact, there were times when it was under 50% and for the year ending March 2013 it was 60%. Now, this is one key reason which will explain the way our profitability margin has moved. After 2013 our raw material cost as a percentage to sales has been consistently coming down and if you observe our quarterly numbers you will note that it was say 54.2% in June 2015, it came down further to 53.41% in September and in December it is 51.87%. So there has been a consistent improvement in the raw material consumption of the company. Now the reasons are multifold. It is not just one reason that I can say that this is the one reason which has visibly brought down the cost like this. First of all, our raw material mix which in terms of the sourcing has changed considerably. We were primarily importing our raw materials and now significant part of raw material is locally sourced. So that is one reason. The second reason is that when our cost went up the way it was in 2013 we started a very active working with our raw material suppliers as well as technology providers to identify alternate materials. And that process which is a long drawn process because the materials that we use are highly specialized in nature. So that process started getting results. And as our utilization of the alternate materials is increasing, our raw material cost has been coming down. I must also recognize the fact that the product mix for the quarter has a bearing on the raw material consumption and all these factors when consolidated give the kind of numbers that you get. I will reiterate that we



make close to 500 parts for more than 25 to 30 models for our car manufacturers.

Saket Lohiya: So if I just see, this is mainly regarding the product mix and the alternate raw material that you used. Just to understand what is the basic raw material? Is it a mix of various other raw materials?

Manish Dhariwal: Amongst, the most important reasons which has brought the cost of raw material down is also the work that is actually been put in at the shop floor. Our internal efficiencies have consistently been improved and it has shown results in the rejection reduction, in the improved utilization of the raw material, and so forth. Coming to the question that you raised about the basic raw material, the basis raw material that we use are polymers which are crude driven. However, they are highly specialized in nature, given the lot of additives etc., that go into them.

Saket Lohiya: So you mean to say that the raw material prices are crude driven as well, if it just goes to a general assumption?

Manish Dhariwal: The general direction is yes, but the percentages are going to be extremely different. The crude prices have come down from \$100 to \$30 and my raw material cost has come down but not even close to that.

Saket Lohiya: So that is what concerns me as well that why is it not so? I mean is it the nature of the product as well, or the nature of raw material as well that it does not really matter what the crude prices are, you will be only having your raw material cost in the tune of 50-55%, no matter what the crude prices are, is it so?

Manish Dhariwal: Yeah, broadly yes.

Saket Lohiya: So we do not have a risk of crude prices going up or something like that?

Manish Dhariwal: Not really, not significantly.



Saket Lohiya: Just to understand, what can really affect your raw material cost going up? What can really lead to it? Or you think this is a sustainable raw material cost percentage as of now because that has really driven our profits down for the last three years and now if it is coming back I just wanted to understand the sustainability of the same.

Manish Dhariwal: See, plus-minus 1-2% is possible but otherwise if you say that, you are going back to 60%, clearly no because we have addressed a lot of concerns. We have addressed the foreign exchange aspects because now that is the pass on, then we have addressed localization, then the internal efficiencies that we have been able to achieve are totally sustainable. They are only incremental, in fact there has been only increase. They will only be improved. So broadly I do not foresee the raw material cost changing significantly from the level that we have achieved so far.

Saket Lohiya: Sir any sort of big competitive advantage in a single line? May be what I mean to say is any sort of competitive advantage that a company has, or let us just say that who are our competitors I am not able to find much on the competition side. Are there many or are you one of those which is called oligopoly players, something more or 2-3 more or 4-5 concentrated players. Is it so the nature of the industry?

Manish Dhariwal: No, there are many competitors but most of them are all unlisted players. And we do command a leadership position in all the product that we make.

Saket Lohiya: Your market share on the overall segment sir?

Manish Dhariwal: Mostly with all our customers we are maintaining more than 90% market share.

Saket Lohiya: So you mean that for a particular supplier you are providing for the 90% of the requirement, is it so?

Manish Dhariwal: Next for Maruti we are almost 90%. For Honda, Toyota and other customers we are 100% now. So wherever we are present we are supplying the entire sealing system for all the cars.



Saket Lohiya: One more thing, if I just look on the quarterly numbers, what happens sometimes I see if the last December 2013, the margins were 22% and they suddenly dropped to 14%. I have not seen the reason quite far but if you could provide an insight, is it because of the raw material shield something or the other?

Manish Dhariwal: That was primarily because of Yen price change with respect to Rupee.

Saket Lohiya: In December 2013 and March 2014, between that quarter..

Manish Dhariwal: Yeah, in that year. See basically we were importing a lot of material from Japan at that particular time. So because of this exchange rate movement our entire profitability went down.

Saket Lohiya: No, no sir. Actually I did not want to understand on why it went down, I just wanted to understand why it went up on December 2013 because the margins were 22%. So why all of a sudden it goes up and all of a sudden it goes down?

Manish Dhariwal: You are talking about December 2013, is it?

Saket Lohiya: Yeah, exactly.

Saket Lohiya: See that is the only odd one quarter for the entire 8 or 10 quarters if I see. The only quarter which is having more than 20% margins was December 2013. So I just want to understand on that particular part.

Manish Dhariwal: I think you need to check your numbers again. There may be some sort of anomaly happening there.

Abhishek Jain: Our revenue was 60.8 crores in 2013 December.

Saket Lohiya: And expenses were roughly around Rs. 52.2 crores.

Manish Dhariwal: Rs. 52.1 crores, yeah.

Saket Lohiya: So that goes to around Rs. 12-13 crores.



- Manish Dhariwal:** Yeah, so EBITDA was 14.1% and not 22%.
- Saket Lohiya:** How is it? On Rs. 60 crores of sales if Rs. 12 crores are operating profit.
- Manish Dhariwal:** No, no, not Rs. 12 crores, Rs. 8.62 crores of EBITDA.
- Saket Lohiya:** May be it is showing some wrong calculation. I am sorry on that part.
- Manish Dhariwal:** No problem.
- Saket Lohiya:** If that completes the answer on the raw material sustaining part how are you supposed to increase the sales from here sir, or let us just say the capacity part and the expansion you might have done in the last one year?
- Abhishek Jain:** See as I shared in my opening commentary, we are working very closely with all our customers. So all the new models that are coming with them, we are getting involved right from the design state. Recently we concluded this Auto Expo. So then all this, the new Innova Crysta and Honda BRV and all those models, we are already present there with them.
- Saket Lohiya:** No, that is very good because it shows manufacturers' trust in you and one of my friends have also commented on your products, so products are good, no doubt. What I wanted to understand is if the overall sales are not increasing then how do you think the new models are going to affect or not? If there is an e-model of this car, all of a sudden it will not help the overall market to grow. It will only take share from somebody else. So how will the overall market be like?
- Manish Dhariwal:** It is a market's phenomenon. We cannot actually do anything about it because we are not in the business of selling cars. So that is something which market has to do by themselves and we do not have any control over it. What we have control over is to get associated with our customers and try to get maximum order for all these cars from them. That is what we are doing now and that is what we have been doing in the past as well.



Saket Lohiya: I think your major sales breakup, it should be in the old models and the new models. Is it so that the old models might be major part of the sales and the new models which are coming up they increased their own share or is it they just – what I mean to say is sir, if the new models are coming they are taking share from the older model as well. So overall how is your share increasing? Are you going to export or from exports you are trying to increase your sales because if the sales are not improving from here, then how are you managing your sales from here?

Manish Dhariwal: See, if I have understood your question correctly, my sale obviously is to the OEMs and then you have to understand their sales composition based on the existing products and the new products that they have launched. You must have observed that in the recent times the new models are getting good traction that it is at the cost of the business for existing models. So that is something which is yeah it is a market phenomenon that is happening. What we are doing is that in terms of our sales top-line, if you can see we are trying to get more parts from the customers like if earlier models are coming in we are pitching in for more parts, so we are getting those. To give you an example, in fact, Mr. Jain also mentioned in the call that our parts are now going to South America as well as South Africa. Toyota is going to buy from us and selling there. So all those initiatives are in place.

Saket Lohiya: So right now your sales mix in domestic and export terms is Rs. 71 crores, if I just bifurcate in domestic and exports how will that count be?

Abhishek Jain: 10% is exports but not directly, all through our customers.

Manish Dhariwal: We sell to Honda, Toyota and Nissan who sell to their counterparts outside. So the part that I make is used in a car that is being run in Japan or say in South America but we are not directly exporting to South America. We are selling it to Toyota in India who are then in turn selling it out, not as a car but as a part itself.

Saket Lohiya: So if I just go 2 years back, was the percentage same or it was zero exports and all domestic?



Manish Dhariwal: No, it has been increasing. I mentioned Toyota as a new addition. So earlier Nissan was not there. So obviously it is a new phenomenon and it is on the rise.

Saket Lohiya: So do you have the numbers of exports 2 years back or last year or is it might be in the annual report as well I think so.

Manish Dhariwal: See as I mentioned here that we are selling domestic only, but the parts are going abroad. See the parts are not going to the cars that are being made for India only.

Saket Lohiya: Okay. So you sell it here only and it goes abroad. So is there any margin difference in exports in domestic because that is an increasing phenomenon as you say. The sales are increasing on that part so is there any margin difference as a percentage.

Abhishek Jain: See I would tell you very clearly, we are supplying it to the local customer here in India. So if I am supplying to Nissan, he is comparing my cost with Nissan with parts which are being used in Nissan India as well as Nissan Japan. So I cannot have a differential pricing with them that my export price is different and my local price is different. So it is a common same price depending upon the difference in specification or their packing requirement. That is the only difference otherwise margins and basic costing is all same. It cannot be different.

Saket Lohiya: Sir just last question on the capacity part. Just the basic capacity, how do you calculate the capacity and the capacity utilization, if there is any because how am I supposed to know that what levels of utilization are you having?

Manish Dhariwal: Capacity calculation in the kind of work we do is not really possible. Each part is different and each part has a different sort of complexity. Our parts undergo a number of processes. These can be different for different parts. A process of flocking is required for weatherstrip. This process is not needed for say, roof molding. In fact if you will visit our facilities you will get a better understanding of our business.



Saket Lohiya: I did an active visit because this is something which is in my area of concern. I will take it offline that part but actually just wanted to know that if the overall market does increase, what I am trying to say is that if the overall car market does increase will there be an incremental Capex or there is existing capacity that would be able to serve the market. That is what I am trying to understand.

Abhishek Jain: I think we are quite comfortable in our existing infrastructure to deal with the increase in the market right now.

Saket Lohiya: To what level, just say Rs. 400 crores means if there is an increase you could be able to touch Rs. 400 crores without any need of incremental Capex, is that quite a good number? I am not trying to portray your revenue position; I am just trying to understand what could be the possible drivers. If I am trying to understand this company on the sales growth, I am not able to understand why this company could grow if the market is not growing. So where have I gone wrong? So I am just trying to understand on that part. I hope that is not a big problem.

Manish Dhariwal: Well as we make about 500 different products, so some products are there in which we have got some capacities spare so we do not need to invest in new capacities. But there are certain products wherein if the demand is increased then we might need a Capex also. So it is a very dynamic situation that we need to manage. But fundamentally what I can say is right now we do not need to invest in any new capacities based on what we have in hand. But in case some new models are coming up in future then we might need to review that situation.

Moderator: We will take the next question from the line of Nikhil Deshpande from Axis Bank.

Nikhil Deshpande: This was on your raw material cost as a percentage of sales. In bad times it has gone up to almost 61-62% and in good times it is about 45%. We are somewhere near the good times, so where do we see it moving now?



Abhishek Jain: I think we are in a very comfortable situation now because we see it moving plus-minus 2% based on the market situation or everything.

Nikhil Deshpande: Yeah, so 45% so may be just passing by. So somewhere around 50 would be where we would be comfortable. Is that true?

Manish Dhariwal: Somewhere around 52.

Nikhil Deshpande: Okay. Sir the growth this time is quite low, you have stated earlier also. It is almost a year flat on revenue front. But if you see Maruti had done quite well during this quarter, double digit growth over there. Honda has been doing pretty well and Toyota was somewhat slightly on the weaker side. So what has caused this to be because Maruti being a large customer the revenue should have been on a higher side or is that so that there is a portion of the raw material cost and that is why the revenues look flat?

Manish Dhariwal: Nikhil if you will look at our sales composition, Maruti gave us 43% in the year 2015 and Honda gave us 39%. So for us Maruti and Honda are quite equal in terms of revenue it creates for us. Now while this year the Maruti sales grew although not great but there was a dent in the Honda business specifically in the third quarter, ending December 2015. Now, because of that most of the increase that we got from Maruti was kind of adjusted by the dent we had from Honda. So that is the reason why the sales have seen the kind of numbers that they have.

Nikhil Deshpande: And so what is the outlook for your key customers? How do you see them going forward?

Manish Dhariwal: See it all depends on the market now. I mean everybody is focusing on bringing out excellent products and the pricing is also on the correct side now. But since people do not have spare money in their hands they are not able to buy cars. So as soon as this liquidity improves in everybody's hand I think the overall market should get better.

Nikhil Deshpande: How is the share with Brezza?



- Manish Dhariwal:** Share meaning?
- Nikhil Deshpande:** We are present on the Brezza platform you said, what kind of products would be there?
- Manish Dhariwal:** We are present in both sealing system and injection products.
- Nikhil Deshpande:** And Baleno is also doing quite well, so there also we have a good thing.
- Manish Dhariwal:** That is right.
- Moderator:** We will take the next question from the line of Bhavesh Jain from Envision Capital.
- Bhavesh Jain:** Any update on new logos like Hyundai or Mahindra & Mahindra?
- Manish Dhariwal:** We are constantly after that, so I think next week our team is going to Mahindra's to represent for new business and Hyundai is still under process.
- Bhavesh Jain:** And sir any update on our JV, performance of our JV for that EPDM rubber for 9 months?
- Manish Dhariwal:** See the business is progressing in the same fashion. The JV also services the same market. So therefore there is not much change there. Anyways the next quarter, which is going to be the full year numbers, we will be consolidating the numbers of the JV as well and the details will be available during that period.
- Bhavesh Jain:** Can you share the revenue mix between a sealing system and this injection molding product for 9 months?
- Manish Dhariwal:** It is broadly equal.
- Bhavesh Jain:** Okay, 50-50. Any tooling revenue in these 9 months?
- Manish Dhariwal:** Hardly any.
- Bhavesh Jain:** And sir how much raw material we are importing?



- Manish Dhariwal:** Raw material import percentage has been consistently coming down, in fact from over 60% it was about 27% last year and it is around that level at this point of time.
- Bhavesh Jain:** 26%?
- Manish Dhariwal:** 25-26%, yes. It was 27% last year, FY15.
- Bhavesh Jain:** Any new product addition in these 9 months?
- Abhishek Jain:** We started this business in Baleno and Kwid has also started.
- Bhavesh Jain:** I am talking about some injection molding products, any new product addition in that particular segment apart from what we are currently doing?
- Manish Dhariwal:** See that is a continuous process.
- Bhavesh Jain:** Anything we have added in these 9 months FY16?
- Manish Dhariwal:** Means?
- Bhavesh Jain:** New products which are doing production apart from what we were doing in FY15?
- Manish Dhariwal:** We started this bright type of outer belt for new projects, like earlier we were doing it for Maruti, so last 9 months we have started for Toyota and Tata as well.
- Bhavesh Jain:** And sir the revenue mix which we have given for the overall entity, the same holds true for injection molding products also from 43% Maruti and 39% from Honda, so that holds for sealing system?
- Manish Dhariwal:** It holds true for the whole. Now the injection molded parts we only do for Honda and Maruti because proximity to the customer is a key factor. Injection molded parts are slightly bulky in nature and voluminous. So for all the customers we give automotive sealing parts. Injection parts we give only to Honda and Maruti.



- Bhavesh Jain:** So any new client addition in that particular segment? We are looking for addition of new logos in that particular segment?
- Manish Dhariwal:** We are discussing with every customer for the opportunities but last 9 months we have not been able to add anyone but we are getting new models from our existing customers.
- Abhishek Jain:** And see for the existing parts, we are getting offers from new customers.
- Moderator:** As there are no further questions in the queue, I now hand the conference over to Mr. Abhishek Jain for closing comments.
- Abhishek Jain:** Thank you Ali. I would like to thank Concept Investor Relations to organize this conference call. I will like to pay my gratitude to all my analysts and investor friends who took time out of their busy schedules to listen to us today. Please feel free to contact Concept or us in case you have any questions. Also if you happen to be in the NCR region do give us an opportunity to show you our operations. Thank you very much. Good bye.
- Moderator:** Thank you all for being a part of conference call. Thank you for joining us and you may now disconnect your lines.