



## **Event Title: Pricol Limited First Quarter Earnings Call FY 2017**

**Event Date:** 8/5/2016

**Event Time:** 16:00:00

**Operator:** Thank you for standing by and welcome to the Pricol Limited First Quarter FY 2017 Earnings Conference Call presented by Mr. Vikram Mohan, Managing Director of the Company. We also have Sridhar J, Group Finance Director with Mr. Srinivasan, Chief Finance Officer; and Mr. Amit Dakshini, Chief Strategy Officer at Pricol Limited. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. [Operator Instructions]

Now, I would like to hand the conference over to Mr. Vikram Mohan, Managing Director of the Company. Over to you sir.

**Vikram Mohan:** Good evening and thank you for joining Pricol Limited's Q1 earnings call. I would like to take you through our presentation. The same presentation has been up-loaded on our website for your reference. We'll start with the presentation now.

The key financial highlights for quarter one:

- Standalone total income from operations grew by about 38.5% over the quarter one of last year.
- Our earnings before interest, taxes, depreciation and amortization stood at 12.2% as against of 5.5% in the same period last year.
- Net Profits after taxes are at INR 221 million as against INR 16 million for the same period last year.

The automotive sector has grown by 13.4% during the first quarter of 2016-17 whereas Pricol has grown 38.5% in the same period. Growth in revenue has been primarily due to: growth in our business in the two wheeler space, where we have got a lot of new business from the competition and our growth has around to 27% in the two wheeler segment. Also we have increased our market share in the off-road vehicles and asset management solution, which is also leading to a healthy revenue pipeline. Our sustained efforts to increase productivity while keeping costs under control is resulting in our increased profitability.

The profit margins against Q1 of this year is at around 7%.

I would be happy to take more detailed questions just on ground rules for the question, since we have multiple participants on the call, we would like to restrict it to one question per participant and once we have completed one round of questions, then we would like to move to the second round questions. Thank you.

### **Question-and-Answer Session**

**Operator:** First question comes from Vinky Rangan, Brilliant Securities Office. You may go ahead.



**VinkyRangan:** Good Evening, sir. Excellent set of numbers you have given. Now, I'd like to know how you are going to increase and decrease the employee expansions and going forward how much would be the net margin over the whole year?

**Vikram Mohan:** Our employee expenses will remain flat as our growth has been planned for this year, next year and year after next, where a lot of new product development is taking place. So I think employee cost is likely to remain flat and not decrease. On account of growth, we will have a 20% of growth over last year and we are expecting a fat margin of 7.5% to 8% because of a lot of the new businesses. These new businesses that we are competitively winning against competition, where there are price pressures. To sum it up, sustaining 7.5% to 8% tax margin with a 20% growth and a flat employee cost as a percentage of sales is what is expected

**Vinky Rangan:** Ok, thanks.

**Operator:** Thank you. Next question comes from Bharath from Canara Bank Securities, you may go ahead.

**Bharath:** Thanks. Congratulations for a good set of numbers. I just wanted to ask - in the presentation you have mentioned a lot of new products will drive growth going ahead. So will you be able to highlight a few examples? Please highlight the new products, from which the growth is expected and you can split between the regulatory and non-regulatory aspect of it just what is there.

**Vikram Mohan:** The only product that we offer on account of regulatory issues is the speed limiting device also known as the speed governor and as for the new BS IV standard the business on this will exist only until March 31, 2017 as it stands. As we have worked out, substitution for the revenue coming out of it, which is about Rs. 250 crores of revenue this year on our total sale. But we have a very healthy order pipeline for filling this gap especially from the export customers in the off road and tractor vehicles.

Another area where we are increasing our sales is asset management services and solutions, which is in the specialized lubrication system, cab tilt system and the telematics, where we are making rapid strides in India and globally on the commercial vehicle, off road vehicle and tractor vehicle segments.

So this is broadly where we are gaining a lot of traction for our new business. We have started increasing our presence in the water pump, in the four wheeler segment which is something that has been incubated internally and thanks to our Brazil plant which is developing these products we are making fair amount inroads in the tractor and the CV market in India.

Lastly the electric water pump which is again being developed in Brazil. We have just won LOI from McLaren, Duetz and some of the other international customers, which will lead to significant revenues next year. So this is will fill the gap created by the regulatory product speed limiting device going on to the next level. I hope I have been able to give a good answer to all your questions.



**Bharath:** That's very helpful sir. Thanks very much.

**Operator:** Thank you. Next question comes from Ashish Rathi from Infina. You may go ahead.

**Ashish Rathi:** Hi, sir, thanks for the opportunity. My question is with regards to the variable oil flow of pump technology. Sir if you could just elaborate on where is this technology in terms of penetration today. I believe you've acquired this technology from a Brazil acquisition. How is the pricing of this technology in comparison to mechanical pumps, broadly understanding this piece and how you see the outlook for this technology going ahead?

**Vikram Mohan:** The variable flow oil pump is a next generation pump, which will result in fuel saving overall in the vehicle. It is not very significant from a percentage point but, between a 2.5% to 3% fuel savings happens, which is very substantial over the life cycle of the vehicle. The cost of the pump is likely to be about 30% higher than the regular pump. Actually as we speak, we are in tie up with certain vehicle makers for this pump and I think we should go into production with our first customers on this pump in about 12 months to 18 months.

**AshishR athi:** What is the penetration of this technology right now?

**Vikram Mohan:** Today it is almost zero, it is something that is coming in and we are ready with the whole product and with the vehicle validation.

**Ashish Rathi:** Globally it is zero, sir?

**Vikram Mohan:** It is almost to zero expect from very high-end vehicles.

**Ashish Rathi**

Okay. And I have more questions, I'll follow.

**Operator:** Thank you. Next question come from Rohan Shah from Alpha Enterprise. You may go ahead.

**Rohan Shah:** Sir, could you clarify what percent of this quarter's top line and bottom line would be rising through speed limiting devices?

**Vikram Mohan:** About 15% of our top line and about 17% of our bottom line will come from our speed limiting devices in the next quarter.

**Rohan Shah:** Ok. Thank you.

**Operator:** Thank you. Next question comes from Deep Shah SBI Capitals. You may go ahead.

**Deep Shah:** Sir, to start with first, can you update us on the performance of the power of subsidiaries that is Indonesian subsidies and Brazil subsidiaries. How has the loss come down during this quarter? If you can share the number.



**Vikram Mohan:** Indonesia has turned the corner, after all our restructuring efforts and also because of the new president who have come in there, which is more forward looking and favoring industries. The general economy has improved with about 6% of cash profit and we have a good outlook for the rest of the year in the Indonesia. We also hope that with the changing political climate, Pricol should look at taking on a steady growth.

Brazil continues to be a concern from our performance point of view because the economy is just nose diving and the vehicle production in Brazil has gone back to 2007 level. So there is a 9 year regression in the vehicle sale. And even with the impeachment of the president there no signs that the economy may be reviving and I think it is going to be at least three years away. We are taking a lot of restructuring efforts in Brazil on letting go of our permanent employees replacing them with contract employees, etc. to reduce our cost impact and reduce our losses.

Nevertheless the good thing is the present technical center may be helping us grow our exports business for India. Now our present technical center has started developing a lot of products for India. We have an excellent technical and a testing center. We just completed a technology show with about 25 customers in Europe and America and that has been a very healthy RFQ pipeline. So all of these translating into business will help, but it is not going to be before the next 18 months or so.

**Deep Shah:** If you can quantify the amount of losses separately for both these subsidiaries?

**Vikram Mohan:** I think, I will first ask our group finance director who oversees Brazil to give you the exact number.

**Sridhar J, Group Finance Director:** Good Evening.

**Deep Shah:** Yes sir, Good Evening.

**Sridhar J, Group Finance Director:** This quarter we may have around six crores of cash losses. And for the whole year, as we had mentioned it last year, at the end this is going to end up somewhere around Rs. 20 crores cash loss. That we can't avoid, because now we are restructuring. Last time we made a huge loss which does we have brought it down by 50%. By 2017- 2018 we hope to breakeven in Brazil.

**Deep Shah:** Alright sir.

**Sridhar J, Group Finance Director:** Thank you.

**Operator:** Thank you. Next question comes from Ashish Rathi from Infina, you may go ahead.

**Ashish Rathi:** Yes, sir you mentioned in the press release that you've garnered some market share and some business in the Two-Wheeler segment, which divisions have driven this growth? And also if you could give us a break up of the CS, in terms of Driver Information System and Telematics, speed governor for the quarter and other segments?



**Vikram Mohan:** The speed governor, like I mentioned, has actually seen a dip over the Q4 of last year, because the CV segment has de-grown in this segment, so total sales contributes to about 15%. Our primary growth in the Two-Wheeler segment has been on account of instruments and as well as the pumps and smaller product chain tensioner. On the Telematics, being the nascent project we have started increasing our supplies to our biggest customer there, JCB.

**Ashish Rathi:** Telematics has grown from JCB's contract?

**Vikram Mohan:** Primarily because of JCB which is our largest customer now.

**Ashish Rathi:** Ok, under pumps what is the sales figure for the quarter?

**Vikram Mohan:** I will not be able to give you this data right away, because of the product-wise sales for the quarter, we will come back to you later.

**AshishRathi:** Ok, yeah fine.

**Operator:** Thank you. Next question comes from Abhinav Ganeshan from Canara Bank Securities. You may go ahead.

**Abhinav Ganeshan:** Thanks for the opportunity. Just wanted to know broadly what would be your outlook on two-wheeler and four-wheeler in India, because we are seeing very good traction in sales. And can you also give details on how you are ramping up, last time we met you in Mumbai, you were saying that you are going to ramp up the per vehicle utility of components that your company is manufacturing. So how is this panning out? If you would just give a brief outlook, it would helpful sir.

**Vikram Mohan:** The two-wheeler industry is expected to grow at around 14% to 15% this year. The CV segment is still questionable, it has actually de-grown. The whole industry was expecting a small level of growth of 3% to 4%, so that is surprise for us. But we are expecting that to turnaround back for the next couple of quarters to have 3%, 4% growth. The car segment where we don't have much of a place, will grow at around 4% to 5% where our growth will be in line with that, but nevertheless our revenues in the car segment is small compared to other segments.

The tractors and off-road vehicle segments will grow at about 6 to 7% this year hopefully. But our growth in that segment has been substantially more because of both the existing and new business wins. For example, in the quarter that has gone by, our growth in that segment has been 24%.

Coming to what we call the wallet sharing in industry parlons, we were at a certain basic makers or the two-wheelers we would only supplying the instrument cluster. Now we have added on the auto fuel pump and auto decompression unit. So each customer we have added one or two more products and that's how we have seen over 30% growth in the two-wheeler segment. This is primarily because of increasing wallet share and taking away some from our competition.



**Abhinav Ganeshan:** Ok that was helpful. All the best for the future.

**Operator:** Thank you. The speaker has requested to take last three more questions. The third last question comes from Deep Shah from SBI Capital, you may go ahead.

**Deep Shah:** Yeah, I just wanted to have a perspective of yours. What is that separates you, or what is unique about you that helps in garnering share from the competition? Competition is very stringent in instrument cluster segment as well as in pumps. So you have mentioned that you have garnered shares from competition. What are those factors basically that have led to such a market share growth for you?

**Vikram Mohan:** Thank you. That is a very pertaining question, it has a two-pronged approach that we have taken. It has been three years of work which is resulted in increase market share. So those of you not familiar with the company we went through some hard times about five to six years ago, where we lost a lot of market share to competition because of our cost structure and also the instability in the organization. But now we have rebuilt the confidence in customer and have rebuild our product development capability and that is how we've been able to go back and win back the business that we had lost 5/6 years ago.

And also in terms of cost structures, we have done a lot of deep restructuring in the company over the last couple of years, which has taken later competitively. But one unique advantage at least in India, from the two wheeler instrument cluster space over the competition is, lot of them are dependent on their partners to do the product development overseas. Whereas if you notice from our balance sheet, maybe 4% of our sales and about 200 engineers that we have are working on product development. And that is giving us an edge reflecting in this market share.

And to the question of Mr. Rangan, which was the first person to ask a question on today's call, will reduce the employee cost. Strategically it will be moved because this is what is giving us competitive edge, which is going to help us keep growing at 20% plus for the next couple of years. I hope I given you an answer.

**Deep Shah:** Yes, that was helpful. Thanks.

**Operator:** Thank you. The second last question comes from Bharat Gianani from Share Khan. You may go ahead.

**Bharat Gianani:** You also added in your presentation that all the margins are going to see a very significant range of upgrade. So I want you to highlight on some of the factors that are being taken so that margins go back being high. The measures that you're taking in terms of margins so that it can reach from 10%, 11% on the standalone level to 15-16%

**Vikram:** I probably would like to add something about the margins, before I walk you through your question. I expect the EBITA to plateau off at 14% ROCE to plateau off at around 20. This is primarily because we have now reached an optimum level and we now have to grow, for which we will have to be competitive. We are going to grow our top line significantly so that the overall cash flow grows and the overall profitability improves.



The activities that we undertook to achieve this margin level include; increasing our inventory term significantly, restructuring of our man power, and restructuring of our manufacturing footprint. We have improved our man power productivity on the shop floor by about 27%. We have also undertaking a major modernization exercise, which will help us reduce our overall cost of quality and that modernization will also free up capacity which will enable us to growth for the next year. So there are multiple actions that have been under taken over the past four years, which has resulted in the margin increase.

Lastly, we have significantly rationalized our vendor base so that we are able to get a better purchasing power with those vendor perspective. And we are also in a process to create a vendor park, with some of our very important vendors for critical components. This will give us a better vendor control over our supply chain, which is also getting implemented as we speak.

**Bharat Gianani:** Sir, sorry I missed your first point you had mentioned something on the inventory thing I just didn't understood. Can you please repeat?

**Vikram Mohan:** We were at around debt inventory term and we are now currently at 14 inventory terms and we are expecting to all the current 17 to 18 inventory terms.

**Operator:** Thank you. The last question comes from Vinky Rangan from Brilliant Securities. You may go ahead.

**Vinky Rangan:** How was the Pricol Pune doing, is it the same as the last year?

**Vikram Mohan:** It was a very flat situation there, with very little significant growth and we are also in the process of shifting to our new plant, which will get completed by September. After which we see a significant improvement and expect that merger will also give us the benefits of scale. We looking for this to kick-in from the third quarter of this year.

This year there will also be some cost associated with the moves and inventory build up to move to the new plant. In fact during the launch of the new plant, all of you are welcome to come and spend some time with us and you will notice it's probably one of our state-of-art plant in terms of layout and things like minimum wastage. Thereby when all this kicks in and the merger happens a lot of economies of scale are going to kick in for which I think results will start coming in from October/November of this year.

**Vinky Rangan:** With the exciting level of investment creation of fixed assets you can scale up to another 30%, 40% for the next two years or you want to add any further fixed assets?

**Vikram Mohan:** I'm not adding any capacity significantly, but like I mentioned to one of the investor earlier, we are spending nearly about Rs. 85 crore on modernization this year at our various plants, which will free up another 30% to 35% capacity to meet our growth needs for the next two financial years.

**Vinky Rangan:** Thanks.



**Operator:** Thank you. Next question comes from Ashish Rathi from Infina. You may go ahead.

**Ashish Rathi:** Thank you so much for the opportunity. Sir, I've just wanted to follow-up of this variable oil flow pump and the Brazil acquisition. If I understand correctly, the Brazil acquisition was done for the purpose of technology and primarily there's variable oil pump from technology, is that right?

**Vikram Mohan:** No, that is just one of the components. There were three customers that we had access to; there was manufacturing technology, we had access to variable flow oil pump technology and electric water pump which we had access to. So these are various reasons for the technology center in Brazil. this very own technology center with testing facilities which would have cost us at least about \$2 million to set up here. So these were the various reasons that we acquired Brazil.

**AshishRathi:** Right. So this is a mechanical pump or it's an electric pump? There's variable oil flow pump.

**Vikram Mohan:** Mechanical pump.

**AshishRathi:** Ok, the only question I want to ask is why – what gives us this confidence or bullishness about a pump which at currently has zero percent penetration? Because from my past interactions, I understood that Brazil just for major thing that we got in from variable oil flow pump. Do you see this as a big growth driver going ahead or this – it can just happen or will not happen?

**Vikram Mohan:** No, it is definitely going to happen. All the vehicle markers have said that moving into the variable flow oil pump, it's not something that we've just pulled out off the air. So every vehicle meets up trend that we need and for us to advice a variable flow oil pump technology in India, the royalty that are demanding European markers who are already a developed product is very high. So in 18 months if we are not ready, we are not going to have the oil pump business, very clearly.

**AshishRathi:** No, but then electric pumps are also supposed to come in, right? So there will be a transition from mechanical to variable to electric or how will it payout?

**Amit Dakshini:** This is Amit here. See basically there is a technology roadmap which is followed by OEM. It is a sequence in which evolution will happen, first is variable flow pump and then electric. Today if you look at an electric pump, it's mostly used in Europe, it's very high in cost. And the penetration which is expected in Europe by 2025 year is not really more than 10% on electric pumps. So it will take some time for it to come to India. Mostly it will be mechanical pumps for the next five to seven years.

**AshishRathi:** Right, Ok. Sir, thank you so much, this is helpful. And Sir, if I could squeeze in a last question, do we have any other contract for a four-wheeler, PV, passenger vehicle after KWID for pumps?



**Amit Dakshini:** Yes, of course. We got the Renault business in India for the KWID which is one. And now we have one of the order for McLaren and Deutz, two other vehicle makers.

**AshishRathi:** For India?

**Amit Dakshini:** No, this is for international market. McLaren obviously doesn't make in India.

**Ashish Rathi:** Right, Sir. Thank you so much.

**Amit Dakshini:** Thank you very much.

**Vikram Mohan:** Thank you all.

***{End of Transcript}***