



Pricol Limited

Financial Year 2017 Fourth Quarter and Full Year's Earnings Investor Conference call transcript

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Operator: Thank you for standing by and welcome to the Pricol Limited Financial Year 2017 Fourth Quarter and Full Year's Earnings Conference Call presented by Mr. Vikram Mohan, Managing Director of Pricol Limited with S. Srinivasan, Chief Financial Officer of the company; and Mr. Amit Dakshini, Chief Strategy Officer of 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.

Now, I would like to hand the conference to Mr. Vikram Mohan. Over to you, sir.

Vikram Mohan: Thank you, ma'am. Good morning to all of you and thank you for having joined our call today. I hope all of you have got a chance to see the presentation that we have uploaded on the BSE and company website. I will quickly take you through this presentation if I can request all of you to go to Slide 8 of the presentation, please.

Slide number 8 gives us a snapshot of our performance in the financial year gone by vis-à-vis to the previous year. In the driver information systems, which is also called the instrument clusters, which is the mainstay of our business, we have grown by about 4.8%. This is primarily on the account of two reasons. We have sold the Renault business of instrument clusters to Visteon as per the earlier agreement and also Bajaj, which is a key customer for us in the western region, has seen a significant drop. With these reasons, we have dropped about 4.8% on the instrument clusters.

Switches and sensors, it's a conscious decision that we have taken to restrict the sales of the fuel level sensors and speed sensors due to the lower margins. Drop in volumes is across all vehicle segments and customers and thereby, we are realigning our sensor strategy and will witness significant growth in 2017-18. During the latter half of this call, I will also be talking about our new strategy for sensor for both technology and to be cost competitive.

Pumps and mechanical products, which is a fast growing segment for us, grew in line with the market at 9%. Asset management solutions and telematics, which is a new area of entry for us, has grown at 26%. Auto accessories, which is a small part of our business, has remained more or less flat. Speed limiting devices, which was mandated by the law for OE Fitment, has grown at 25.3%, the primary reason being the revenue in the previous year does not reflect the full year production whereas the revenue in 2016-17 represents a full year's production.



This product now ceased to be part of our portfolio because as per the new laws, which kicked in from 1st of April, 2017, this product has now become obsolete. So, this is a window opportunity that we will use, is for about 18 months to put this product on to the market. Thereby, totally our sales increased by just about 1%, which is lower than what the market grew at.

Going to Slide number 9, our standalone revenue breakup, instruments contributed about 39% of our revenues, Pumps and mechanical Products close to 30% of our revenue, our asset management solutions about 18% and sensors about 11% and telematics 2% to be precise. We still continue to cater to the two wheeler segment and part of our strategies is to deal it by focusing on the other segments. Two wheeler segment contributes to 52% of our sales, personal passenger vehicle segment 9%, commercial vehicle segment 21% and tractors and off-road vehicles about 11%. Others primarily talk about All Terrain vehicles, and industrial applications which is about 6%.

Slide number 10 talks about our quarter-wise financials. Quarter four was quite a challenging quarter for us. We took the full impact of the demonetization, which happened in November which saw a slowdown in sales. And most importantly, in line with the new Indian Accounting Standards, which are coming in, our revenue recognition policy, we derived it for change because of earlier, on the last date, what was dispatched from the plants has been taken as revenue, but from the month of March, only GRN punched in by the customer is recognized as revenue. So consequent to that, about Rs.25 crores or Rs.250 million of sales drop has been there in March purely as the revenue recognition and it's not been a loss of sale. So the combined effect of demonetization and this has resulted in our Q4 numbers for FY 2017 dropping quite drastically.

Going down to Slides 11 and 12, they are quite self-explanatory and our CFO would be happy take questions on these two slides during the Q&A session.

Going to Slide Number 13, where we are today, the long term borrowings and short term borrowings. Long term borrowings have increased this year significantly, because of a lot of new audits that have come into the pipeline which will go into production next year and the year after. We have invested quite heavily in capacity building. We have invested about Rs. 40 crores in the plant in Coimbatore for the Pumps & Mechanical Products. We have invested in a new plant in Pune. We have modernized three plants this year, which has resulted in high CapEx. This will not continue in the same fashion in the coming years, because this will take care of next two to three years of growth.

We have also made an announcement that we have entered into binding agreement to buy out the Ashok Piramal Group's Wiping Systems business, which is the only auto component business they are in. I'll hand it over to our Chief Strategy Officer who is handling this transaction to give more details on this, which is from Slide 15 onwards.

Amit Dakshini, Chief Strategy Officer: Good morning to all, this is Amit Dakshini here. So we have just entered into the binding agreement with the Ashok Piramal Group for the interest on PMP



PAL as an asset. The company is in the business of manufacturing wiping systems. They have manufacturing locations across Czech Republic, Mexico and India. The 2016 sales was in the range of around Rs. 230 crores and it [the asset] is something that is strategically very important for us because what we are looking at is the low cost manufacturing footprint that we are getting with this particular asset, in the international locations. The business in India is a growing business for them, they have won lot of new businesses and new platforms here, which is very exciting for us to look at.

Vikram Mohan: What's interesting in the deal is, when I did talk to the investors a few years ago we said we will need to have a low-cost manufacturing location in Europe and one in Northern America to grow our businesses in those geographies. So this is giving us two new locations which is Mexico and Czech Republic, which are established low-cost locations with good labor relationships.

And number two, we have already met all the customers of PMP and determined all the new business portfolio going forward in the next three years. They have a very healthy growth plan which will take them to about between Rs. 400 crores to Rs. 450 crores of business by 2019-20, confirmed with business for which even the tooling advances have been placed.

The company is very profitable and has very low levels of debt and this will also give us entry into new customers like Peugeot, SEAT, Fiat, Volvo, Škoda, Daimler, etc, in those geographies. It will also de-risk our high dependence on the two-wheeler segment. We can add value to this business. Pricol is quite strong in the off road vehicle segment globally, with customers like John Deere, Polaris, MAN, Scania, the commercial vehicle segment. We propose to introduce the products from this company to those customers globally.

Some of the key investment highlights are in Slide 17, which is something that we have covered in our presentation. They have very strong R&D center in the Czech Republic. They are also in the final stage of development of the advanced four pole motor which will add revenues and market share in the future. They already have a high torque motor developed and supplied to Daimler which we can then take it to the other commercial vehicle manufacturers.

Coming to the next item on the agenda which is restructuring of our Brazil operation. Brazil continues to be a big concern for us and I'm sure for many of you over the last two years. And we've had series of discussions with our key customers General Motors, Volkswagen and Fiat. We are happy to say that the customers have increased our share of business. But nevertheless without restructuring, we don't see a way forward to turnaround the business, so we've taken all our customers into confidence and they have fully endorsed and supported the restructuring plant, both at Brazil and global headquarters of the respective customers at Germany, Italy and U.S.A.

The restructuring is expected to cost us between \$7 million and \$7.5 million. And is expected to be completed no later than November of this year. Post restructuring, we see an immediate



turnaround even with depressed market conditions in Brazil, we are not predicting any major growth coming out of Brazil market for the next two to three years. So the restructuring will result in a positive EBITDA going forward.

What's also interesting is, we have won a major new program from GM called the CSS Project, which is a new world engine project, which is located at Brazil and Mexico. And we will be the single supplier of pumps to that platform and it's been given in writing and confirmation for the program where Brazil will be the manufacturing hub. Revenues for the program kicking in 2019 and 2021. And we are now in the final stages of concluding the second phase of CSS Prime, as well, which will really bump up revenues in revenues in Brazil going forward, at least about two years to three years.

So hopefully with this restructuring, we are very confident that the cash bleed will stop and it will turn positive. The team is putting the fullest efforts to do this restructuring. Our head of manufacturing from India has been deputed to Brazil to operate out of there for the next eight months till the restructuring is complete.

Going on to **Pricol Surya, Indonesia**, it's been a fairly flat year there. Industry has been very flat in Indonesia this year. Nevertheless, we have turned around and our EBITDA margins have gone from -0.2% to 6.4%, resulting in some amount of cash generation in that market. This year also is not going to be a very great year in terms of the market, but going forward we have made a lot of inroads into the commercial vehicle segment and the personal passenger vehicle segment, revenues for which will kick in the coming year starting from 2018-19 and 2019-20.

We are now open for questions. Before we go on to questions, I would just like to give you some more insights into our forecast for this year. Instrument clusters, which is the mainstream of our business we did Rs. 509 crores last year, we are expecting to close this year with about Rs. 592 crores based on the new orders we have won and confirmed the order pipelines which will represent 16% growth. Switches and sensors we have made a comeback after some technological advances which will see us growing by about 26% which means we will go up in revenue from Rs. 133 crores last year to about Rs. 168 crores this year. Pumps and mechanical product is an area which is growing very fast and will grow for the next two years.

We will be growing from Rs. 318 crores last financial year to about Rs. 373 crores this year. Asset management solutions and telematics is going to see a huge growth because we've now established ourselves as the premier player in the telematics segments in the auto industry and revenues there will jump from about Rs. 26 crores to about Rs. 96 crores.

Auto accessories and others will remain to be flat at around Rs. 25 crores to Rs. 30 crores, Speed Limiting devices which contributed Rs. 200 crores to our top line for the last financial year will cease to exist this year for us because of mandatory norms. So in all our verticals we will be seeing significantly higher growth than industry growth because we are increasing our market share by winning a lot of new platforms across four wheeler and two wheeler and commercial vehicle



customers. We are expecting the same trend to continue for the next two years. We have also won a lot of international business from customers for pump and mechanical products, which will see that group becoming Rs. 500 crore to Rs. 600 crore top line in the next two years.

We are expecting to have Q1 EBITDA of about 9% and for full year about 11% and over the next two years to stabilize between 12% and 14%. Telematics is an area I'd like to touch upon, we have and will continue to grow significantly and it will become at least Rs. 200 crore to Rs. 250 crore business by 2019-20. We have carved it out as a separate division within the company for given greater impetus and hubbed it out of Chennai because of availability of talent and access to customers. And this is going to be a good growth area for us both from a top line and from a bottom line perspective.

Some more interesting news to share, on the sensors which is the mainstay for our instruments business. We have inked a technical collaboration agreement, technical collaboration and technology transfer agreement with Kerdea which is a technology company based in the United States for the oxygen sensors and as we speak, the Kerdea team in India doing trials with the vehicle maker in India at their location. As of now the trials are all good successful and cost competitive with the new BS VI norms kicking in we are looking at a bare-minimum of Rs. 300 crores of revenue coming in from the year 2019-20, on the oxygen sensors. On certain other sensors for the BS VI standards, we are in advanced talks with a global sensor major and multiple rounds of discussions and visits have happened. In the next 30 days, we will be announcing the signing of another partnership and a technical collaboration which would cover the entire gamut of automotive sensors which would make us completely ready for BS-VI which will also contribute another Rs. 400 crores of top line both directly and indirectly for instruments and the sensors.

The third is fuel pump module which becomes mandated as well and we have got confirmed LOI for about Rs. 300 crores of business from the year 2019 from one customer Hero Motors Corporation and we are spreading that across all two wheeler customers. Further to which we are in advance talks with another company for the technical collaboration, for the fuel pump module with the potential collaboration multiple visits happened and we will be announcing a technical collaboration for that space within the next 30 days. So this is some of the growth prospects for the next two years and how we are handling our technology and readiness for BS VI.

We will open to questions now.

Question-and-Answer Session

Operator: The first question comes from Mantesh from SBI CAP Securities. You may speak.

Mantesh: Thank you. Good morning, gentlemen. I just want to understand two things; one is that you guided for a 9% EBITDA margin for Q1 and you have guided for certain revenues for the full year. So can you just tell us what would be a Q1 revenues and what will be a full year revenue for FY2018?



Vikram Mohan: Q1 revenues are likely to be about Rs. 290 Crore and for the full year we are expected to close at around Rs. 1,250 Crore, that is, removing the SLD Revenue which was contributing Rs. 200 crores last year.

Mantesh: And these numbers are standalone numbers?

Vikram Mohan: Standalone numbers, what I'm talking now are completely standalone numbers.

Mantesh: What happens in the consolidated entity- corresponding numbers?

Vikram Mohan: Corresponding numbers of Indonesia and Brazil would be more or less flat, because the markets are pretty flat and going through restructuring.

Mantesh: Will you be announcing your consolidated quarterly results hence forth or you will give only the consolidate results at the end of the year?

Vikram Mohan: Annually, we propose for annual consolidated results.

Mantesh: My request is that if you can give it consolidated on a quarterly basis that will really help us understand how your businesses are growing, because much of your revenues now will happen outside the standalone entity including the acquisition of this wiper business and your new sensor business etc. with the information given by you it seems to suggest that your standalone business vs consolidated business will be 50:50 in the years to come, am I right in the assessment?

Vikram Mohan: No, that's not entirely right. The sensors business will be part of our standalone it's not going to be part of our consolidated especially because it's more technical collaborations and not joint ventures. But we will consider your request to see whether we can publish the consolidated results on a quarterly basis going forward, perhaps from the next financial year.

Mantesh: Thank you very much. If I have any follow-up question, I will come back in the queue.

Operator: Thank you. Next question comes from Shriram from India Nivesh Securities. You may speak.

Shriram: Thank you for the opportunity. So you were talking about oxygen sensors, what kind of opportunity are we looking at in 2-3 years down the line? Is it for India or for any global market, just want to understand what is the change in norms or something that has happened, that has made you to look into this business?

Vikram Mohan: Oxygen sensors becomes mandated with the BS VI norms coming in. If we have to be present in the instrumentation space and the sensor space, we need to focus on the



production of oxygen sensor, which is going to be one of the key sensors going forward in the automotive space in India.

At this point of time, we are not restricting our geography only to India, we are also doing so because the company that we have tied up with has developed a next-gen oxygen sensor, which is even better than some of the peers in the market, which is being tested today, in terms of operating conditions, cost and in terms of light weighting. Yes, we're taking one step at a time, but we would like to first approach the Indian market and work in the Indian market and then take this product globally.

Shriram: Okay, sir. That's it for now, I'll join the queue.

Operator: Thank you. Next question comes from Anand Agarwal from Balaji Investment. You may speak.

Anand Agarwal: Yes, sir. Thanks a lot for giving an opportunity. Just wanted to know that, it seems the company's almost, debt free, but this year Pricol has taken some kind of loan for expansion and acquisition. So, after this amalgamation, amortization and depreciation expenses have gone up substantially. Because of that the bottom line is getting affected. So what is the call of the management on this?

Vikram Mohan: Amortization is on account of the reverse merger, which benefits will continue to accrue over the next few years, which is a non-cash item. So that cash accrues into our balance sheet. So that cash is available with us for our disposal. Yes, our debt levels will increase this year on account of the acquisitions that we are proposing to do. And also two more new assembly plants that the company plans to set up in the South to take care of our growth. We're looking at one plant close to Chennai in Tada and one plant close to Hosur to take care of growth coming from our Southern customers.

Company's also sitting on non-core assets like real estate, which we have concluded to sell some of those real estate parcels which will give us some cash revenue this year as well. So we expect to be able to manage all our growth through all these means. And like I mentioned, the amortization is purely a benefit which is a non-cash outflow on account of the reverse merger.

Anand Agarwal: Sir, I mean, this is going to affect the bottom line, so what is the management call on this?

Vikram Mohan: It will not affect bottom line in terms of cash flow or cash generated by the company, it is like depreciation, which is a non-cash item.

Anand Agarwal: Okay, thank you. I will join the queue, again.



Operator: Thank you. Next question comes from V Nagappan from Oriental Stocks. You may speak.

V Nagappan: Hi, Gentlemen. This is something related to the earlier question that how you are planning to fund the new acquisitions, I think you have answered that. So I switch over to the next question like, the speed limiting devices group had contributed almost 15% of the turnover. And probably I think you're trying to compensate it with or new acquisition will bring in the kind of the margin revenue which will make up for it. But will it make up for? How are the margins on the new products? Will it compensate? Will it in any way make up for the loss of the bottom line?

Vikram Mohan: The speed limiting device because we had more of a monopolistic situation obviously was very high margin business. I don't think routine auto component business is going to give us that those of margins. Telematics is one area which is a solution-based business consisting of both hardware and software because of the integration, we will have pretty high margins like the speed limiting device business and telematics, growing at a fast clip for us.

The wiping business that we are buying normalized growth billings about 8% to 9% EBITDA margins for the wiping business; this year will not be that much for that company. But going forward on a normalized business, they're expecting that company also to do about 9% to 10% EBITDA margins on the wiping business. So the speed limiting device was a one window of opportunity which we capitalized upon. We are now looking at growing our top line in a rapid manner to compensate for that loss of top line from the speed limiting devices business and the high bottom line.

And as I mentioned in the presentation, just from three technical collaborations that we are entering into; one of which we have entered into and the other two we are at the final stages, which will be announced in the next week. These three alone will yield revenue of upwards of Rs. 900 crore to the company with EBITDA margins of about 12% going from 2019 onwards.

V Nagappan: Okay. Thank you.

Operator: Thank you. Next question comes from Deepak Jain from Subhkam Ventures. You may speak.

Deepak Jain: Yeah. Sir, these orders which you just mentioned, are these annual orders? You gave Rs. 300 crore from Hero and oxy sensors Rs. 300 crore and another sensor of partnership Rs. 400 crore. So these are annual potential or it some kind of a lifecycle or how do we understand that and what is a growth potential?

Vikram Mohan: Oxygen sensors are about Rs. 300 crore annually, fuel pump module would be about Rs. 300 crore just with one customer and expanding the customer base will be much larger, it could go up to even Rs. 550 to Rs. 600 crore annually and all the other sensors put together like tire pressure monitor sensor and other things which are becoming mandatory by the law is about



Rs. 300 crore annually. We have assumed that we will only have 20% of the market and not 100% of the market.

Operator: Thank you. Next question comes from Viswanathan from Investor. You may speak.

Viswanathan: Hello, gentlemen. My question is about the standalone performance and as I see this current quarter performance is highly skewed compared to the last quarter this year or on even previous quarter on a sequential basis, why is that? I think it has drastically come down compared to last quarter this year almost from 27%. On a sequential basis it is come down by 10%. Also the...

Vikram Mohan: Can I just request for a little clarity here please can you just refer to it as Q4 FY2017, Q4 FY2018 or Q1 FY2018, I'm getting a little confused as to which quarters you are referring to please?

Viswanathan: I'm comparing with Q4 FY2016 versus Q4 FY2017, which has come down by 27%. And Q3 FY2017 versus Q4 FY2017, revenue has come down by 10%. So this quarter performance per se is down by 27% & 10%. So why this quarter performance is so poor and what about the market share? Is it drop in prices or is it because of volume mix is down on a standalone basis where you got the market the substantial market share in India? Can you go as throw some light on that?

Vikram Mohan: For quarter four of FY2017 as I mentioned earlier there is a revenue recognition methodology that we changed which we have been following all this years to be in line with Ind-AS and be ready with Ind-AS. We just had Rs. 25 crore impact in that quarter alone which is Q4 of FY2017. In addition part of the effects of demonetization still linger for us in Q4 of FY2017. And SLD started slowing down because everyone was ready for April with a new emission standard, so which also dropped significantly.

Q4 of FY2016 was when the SLD was at its peak production that was a quarter which we saw the higher production of speed limiting devices to the market and the highest earning potential from that quarter. So this is the comparison between Q4of FY2017 and Q4of FY2016.

Viswanathan: I'm not able to follow the Rs. 25 crore you mentioned at the first place, can you explain that Rs. 25 crore...

Vikram Mohan: Sure. There is a new Indian policy which is coming into effect in the country. The revenue recognition, earlier any dispatch from the plant is treated as revenue. Going forward, the Indian standard set only if the goods receipt note has been accepted and acknowledged by the customer, it will be treated as revenue. So in the month, last week of February and the beginning of the March, we have redesigned the way we are capturing our revenue. So it is not a loss of revenue, it is a revenue recognition methodology that has got changed, a one-time thing



to be in line with the Ind-AS standard for which about Rs. 25 crore of revenue recognition, you don't see the revenue happening in quarter four of 2017. That's a first explanation of mine

Viswanathan: Which means in the next quarter, it will be catch up this Rs. 25 crore.

Vikram Mohan: Yes. It's a one-time aberration.

Viswanathan: Okay, all right. So regarding the margin I'll stand in the queue.

Operator: Thank you. Next question comes from Sanjay Satpati from Ampersand Capital. You may speak.

Sanjay Satpati: Hi, sir. The SLD, can you just tell us what exactly the amount of revenue in this March quarter.

Vikram Mohan: SLD for the year was about Rs. 200 crores and for the March quarter, It's about between Rs. 40 and 45 crores.

Sanjay Satpati: okay. And the other thing sir, you have mentioned about your margin guidance for quarter one as well as for the whole year. It looks like you're looking at maintaining the margin for the whole year compared to fiscal 2017, despite the speed limit revenue going away. Can you just tell us, what can really replace such a high margin product for you in fiscal 2018?

Vikram Mohan: Lot of the investments that we have done to improve our productivity, part of the reason why our increased CapEx of almost Rs. 120 crores of CapEx this year, and that was to improve the productivity thereby to improve the margins. For example, in one of our plants, we have got rid of 125 special purpose machines which are involved in manufacturing have been replaced by 12 automatic machining centers. We've done a lot of line balancing, modernization, productivity improvements. Vendor rationalization and that something that have been talking about in every call of mine then I have been interacting with investors and material cost reduction, this has been something that's been an ongoing activity for us for the last three years. So which is why I'm very confident about maintaining the margins at around 10% to 11% for this year.

Operator: Thank you, Sanjay. Next question comes from Prashant Bhaskar from Individual Investor. You may speak.

Prashant Bhaskar: Hello. Good morning, sir. First, I have actually two part of my question, first part is that in Q2 FY 2017, when we had a con-call and the guidance came from your side that you will be targeting Rs. 3,000 Crore revenues by 2020. So right now you're saying that you will be doing around Rs. 1,250 crore revenue by 2018. So what I assume that in next two years you will be growing at 60%.



Vikram Mohan: Rs. 1,250 Crore Revenue is standalone, when I spoke about Rs. 3,000 Crore Revenue, it was consolidated. With the new acquisition with our existing plants with the new technical collaborations, we are anticipating at this point of time about Rs. 2,750 crores of revenue. This year our standalone will Rs. 1250 Crore and consolidated between Rs. 1,750 and 1,800 crores with the clear programs that we have in the technical collaborations we have entered into for the new products. It's about Rs. 2,750 Crore for 2019 and 2020 on a consolidated basis. And the team is looking at gap filling to the extent. What is the black hole if I can call it right now, is about Rs. 250 crores.

Prashant Bhaskar: And the second part was what kind of PBT margins you can expect on the standalone and consolidated basis.

Vikram Mohan: We are looking at EBITDA of about 12% to 14% on 2019-20 revenues.

Prashant Bhaskar: EBITDA is broader, but what kind PBT or PAT margins.

Vikram Mohan: 7-8% of PBT or a PAT of about between 5% and 6%.

Operator: Thank you. Next question comes from Shriram from India Nivesh Securities. You may speak.

Shriram: Thank you, again. Sir, I just want to know your CapEx guidance for FY2018 and FY2019 and please clarify whether we're going to put up a new facility in Chennai and Hosur. And my second question is whether we accept some sort of growth in SLD aftermarket opportunity that we can expect?

Vikram Mohan: Yes. It's going to be asset light greenfield facilities in both Hosur and Tada, we are trying to replicate the same model as Pune, we are trying to get into build suite plant by a third party industrial park operator so that we don't want to invest in the land and building, we just invest in the machinery. And on the speed governor, it's a million dollar question. I really hope that the aftermarket opens, every quarter has been postponed by one quarter and we have been seeing this happen for the last two years. So it's anyone guess. We are fully ready, the product is ready and we are just waiting for the market to open up. Even if it's going to open up even if you are able to get 20% of the market it's a gold mine waiting to happen.

Shriram: Okay. Sir just – can you just put some number on the CapEx side.

Vikram Mohan: Rs. 70 crore will for the new plants plus existing plants. Total spend is expected to be between Rs. 70 crore and Rs. 80 crore this year and no more.

Shriram: So the same will follow for the last year also FY2019.



Vikram Mohan: FY2019 will be significantly lower, because all the technology absorption would have happened, the new plants would have gone on stream. I think we will be happy to look at one more plant in the North and one plant in the West in Gujarat. So we are looking to have about Rs. 60 crore to Rs. 70 crore in FY2018-19.

Operator: Thank you. Next question comes from Rohit Gupta, Individual investor. You may speak.

Rohit Gupta: Sir, I had the same question as the previous participant. What is the amount being paid for that acquisition? And what are valuation multiples like in terms of price to earnings or EBITDA?

Vikram Mohan: I will announce it shortly when the acquisition is complete, I think it's a little premature to announce right now.

Rohit Gupta: Okay, that's it from me.

Operator: Thank you. Next question comes from V. Nagappan from Oriental Stocks. You may speak.

V. Nagappan: Hi, this is the same question what is the cost of acquisition PMP system and how it is going to be funded.

Vikram Mohan: How it's going to be funded I already answered earlier, but the cost of acquisition I will not be in a position to say it now, because the numbers from the March 2017 for PMP are just getting finalized and will be based on this number, the EBITDA multiple. When we do complete the acquisition within the next 30 days we will make the firm number announcement.

V. Nagappan: Thank you.

Operator: Thank you. Ayyappan Chinnappan, Individual. You may speak.

Ayyappan: Speed governor device is completely stopped for all the OEMs or at least there for lighter vehicle it will be continue.

Vikram Mohan: No, it is completely stopped. It has got integrated into the ECU specific vehicles now.

Ayyappan Solaiappan: Okay fine. Thanks.

Operator: Thank you. Next question comes from Palaniappan Meyyappan from VRamath Financial. You may speak.



Palaniappan Meyyappan: Good morning Mr. Vikram, this is Palaniappan. Can you throw some light on the margin from the new business from PMP?

Vikram Mohan: As I mentioned earlier Mr. Palaniappan, I think we are looking at about 6% margin currently and a visibility for about 9% to 10% going forward in the next two years.

Palaniappan Meyyappan: Okay, thank you. I hope it is not like Brazil right?

Vikram Mohan: Why don't you come and evaluate for us? we are trying our best, if everything is like Brazil then you all have to jettison the Pricol stock, we are trying to do our best. And I think that was very absurd question and I take offense to that.

Operator: Thank you. Next question comes from Amit Jeswani from Stallion Asset. You may speak.

Amit Jeswani: Hi Mr. Vikram. My question was about Brazil again. We lost Rs. 46 crores in last year and we lost Rs. 32 crore this year in this season. We invest in Rs. 50 crore more up payback or do feel this is extremely high even if I go by your estimate a payback during the Brazil subsidy is very high. So can you just sell that subsidy are there buyers. Can you just not sell it and get out of the Brazil?

Vikram Mohan: We evaluated this a lot of times in our board meeting, not just once or twice and we when evaluated closing it down, it came to be strong conclusion that if we have to continue in servicing in auto component business and the customers, selling is certainly not an option. We tried for a year, after the markets collapsed in Brazil, they weren't willing to touch anything in Brazil is a barge pole, as what happened there. We evaluated shutting down that subsidiary, that would have a debilitating impact on the rest of that businesses, because our perception in be auto industry, will gone down so many notches that of our continuity would have been questioned. So we are forced to do this. Yes, the payback period is going to be much higher then what I will desire, I mean how will we look at payback for 4 years or 4.5 years, maximum 5 years if it is strategic, whereas this is stretching the for longer than that, so it is technically it is like a tiger on our back that is sitting on and is refusing to get off.

Amit Jeswani: Right. That's it from me. I will get back in the queue.

Operator: Thank you. Next question comes from Deepak Jain from Subhkam Ventures. You may speak.

Deepak Jain: Sir, this 12% margin which you're targeting, is it for consol. or standalone? And is there standalone revenue guidance also?

Vikram Mohan: Standalone revenue guidance I did give you for this year, we went through in fact segment-by-segment, we spoke about the revenue growth and consolidates for the



standalone margin is 10%. In fact for every segment of our business on the standalone business, I will give you the revenue guidance as well as the bottom line guidance.

Deepak Jain: I was referring to FY2019, because FY2018 is flattish, because of the offset of SLD business.

Vikram Mohan: I will not able to give you FY2019 guidance at this moment, because I'm not prepared on which for FY2018 I have the numbers set in stone.

Deepak Jain: Okay, and margins for consol. rate 12% or its standalone which you said.

Vikram Mohan: Standalone. Whatever I'm talking right now is standalone. Once we see little bit of stability after the restructuring in Brazil, I will be able to comment on the margins coming out of Brazil. Having said that we are expecting 10% EBITDA margin by 2020. And the confirmed business we have from Brazil and the three main customers.

Deepak Jain: Thank you, sir.

Operator: Thank you. Next question comes from Prashant Bhaskar, Individual Investor. You may speak.

Prashant Bhaskar: Sir, coming back to one of the questions actually, you said that you're targeting Profit after tax of around 5% to 6% right? So if I assume that then on a standalone number which you have given for 2018, well 50 crores you're targeting, so 5% to 6% would be somewhere around 75 crores PAT, in this FY2018.

Vikram Mohan: No, this is the guidance that I have given on a long-term basis 2019, 2020 on about 2750 crores for we have visibility for revenues which we are trying to grasp in and take it to about 3000 crores that is the year I am talking about, stable 6%, PAT 5% to 6%.

Prashant Bhaskar: No, no, I'm talking about FY 2018, you've given a revenue guidance of Rs. 1250 Crore on standalone basis. So on that standalone basis on that Rs. 1250 Crore, PAT margin could be 5% to 6% that is what I'm asking?

Vikram Mohan: This 5% to 6% will be for the year 2019, 2020, it will not be for this year, because this year will end with the significant amount of depreciation as well, because of the investments we have made last year.

Prashant Bhaskar: So, what kind of margin we can expect this year?

Vikram Mohan: We are looking at a PBT of about 70 crores this year on a standalone basis. There is a significant amortization which will happen this year also like the last year (arising out of the amalgamation with Pricol Pune Ltd), which will be non-cash item. Which will be cash in the bank.



Prashant Bhaskar: Right, and one more thing, I just wanted to confirm is that the book value that has significantly come down after this amalgamation, the book value is only 6 rupees right now.

Shrinivasan S: Yes, this will significantly increase the years to come.

Operator: Shall I take next question, sir?

Vikram Mohan: Yes, please ma'am.

Operator: The last question comes from Chirag Shah from Edelweiss. You may speak.

Chirag Shah: Thanks for the opportunity. Sir a clarification first, before going to the question. You indicated Rs. 2750 crores of revenue by FY 2020 for conceded number and EBIT margin of around 12% to 14% right?

Vikram Mohan: Yes.

Chirag Shah: In that standalone would be around 12%, so subsidiaries would actually contribute a far bigger profitability, that's your aspiration?

Vikram Mohan: No, standalone profitability will be higher than subsidiary profitability even in 2019-20.

Chirag Shah: Okay. This was helpful, sir. The second question if you can share some light what exactly give you this confidence of such a strong guidance, especially, when the subsidiary that we had, both the Indonesian error as well Brazil have been going through the own set of problems, so internal error and other external issues. So what gives you confidence that the worst is behind – if you can give some specific insight to beat customer with cost, how should one look at it? And what is the margin of safety you're building in this strong aspirational number?

Vikram Mohan: It's not an aspirational number, its number that is set in stone, it is confirmed business to more of our customer from terms reduces. Brazil, yes, the restructuring is giving us clear numbers going forward because you know exactly, what are the cost, what are financial costs, what are the production costs, etc. It's not assumed any market growth in Brazil, we have assumed it to be flat and even other growth, we have assumed to be flat. We have taken it very conservatively. Indonesia has turned around and even it has continued to remain flat.

The new commercial vehicle business, we're assuming only from 2018-2019 and 2019-2020. So this is really the efforts of last two to three years paying off now as increased orders for example, we have acquired new customer, Caterpillar have become global account, JCB we have become a global account, Cummins, Generac. I can give you series of customers which are each Rs. 80 to 100 crore accounts. I should these ask find, confirmed, invite with schedules for manufacturing



based on the transferring these numbers now. This is why we're creating lot of new capacity, both in India and abroad to cater to it.

Chirag Shah: So this business is to be served from India or from Brazil. Is there – most of the new business, that you have highlighted are largely from India or they're going to be serve from Brazil or Indonesia or how it is?

Vikram Mohan: 85% from India and rest from the other geography. The CSS Prime and Harley-Davidson would be from Brazil for they are specific to Brazil. Hino and Daihatsu from Indonesia. Everything else from India.

Chirag Shah: This was really helpful. And one last thing, if I can squeeze in. So in the presentation, you have indicated on the revenue projection for Brazil, which goes from 12.90 crores in 2016, 2017 to 1,900 crores in 2020. Is it for Brazil or consolidate number?

Amit Dakshini: No, this is for Brazil. These numbers are for Brazil.

Chirag Shah: And you're a showing a sharp employee cost reduction.

Vikram Mohan: That is correct. That is why the restructuring is helping us the employee cost reduction. The whole point of restructuring is to reduce the employee cost, which is killing us today.

Chirag Shah: So is it that employee have agreed or that process are started at your end. How should one look at because...

Vikram Mohan: Given terms is – because if this becomes public domain knowledge, it is going to affect the restructuring process.

Chirag Shah: Fair point. Okay, sir. Okay, sir, all the best. Thank you very much.

Vikram Mohan: Thank you.

Operator: Thank you. As there are no further questions from the participants. I would like to hand the call back to Mr. Vikram Mohan. Over to you sir.

Vikram Mohan: Thank you very much, everyone for your patience and participating on this call. Wishing you a good afternoon.

Operator: That does conclude our conference for today. Thank you for participating. You may disconnect now. Thank you all.

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