



Pricol Limited – Q2 (FY 2016-17) Earnings: Investor Conference Call Transcript

Date: 28-October-2016

Time: 12:00 to 13:00 Hrs.

Thank you for standing by. Welcome to the Pricol Limited Q2 Earnings Conference Call presented by Mr. Vikram Mohan, Managing Director of Pricol Limited, Sridhar J, Group Finance Director, and Mr. S. Shrinivasan, Chief Financial Officer of the Company. We also have Mr. Sundararaman, President 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. [Operator Instructions]. Now I would like to hand the conference over to Mr. Vikram Mohan, over to you, sir.

Vikram Mohan: Good afternoon everyone and thank you for joining us on this call. Before we start, I would like to wish all of you and your family a very Happy Diwali and a lot of joy on this festive occasion.

Some of the key financial highlights. I will run you through as a presentation. This presentation has also been loaded on our website for your reference at the Investor Relations' announcements tab.

Some of the key financial highlights of the quarter gone by standalone total income from operations has grown about 35.7% quarter-on-quarter. Giving us a revenue of about INR 333 Crores in the quarter gone by.

The earnings per EBITDA margin stand at 12% as against of 6.6% for the same period last year.

Our PAT is at **INR 19.5 Crores as against INR 2.7 Crores** for the same period last year.

The sales of the Indian automotive sector has grown by 13.8% for this quarter compared to the same quarter last year, whereas our revenues have grown 35.7% for the same period. The growth in revenue has primarily been due to growth in two-wheelers production/ manufacture/ sales in the quarter two of this financial year.

We have had significant gains in market shares in our Driver Information Systems also known as the Instrument Clusters, for both two-wheelers and commercial vehicles, sustained efforts due to which we have increased our productivity and keeping our costs under control and increasing our inventory turn has also resulted in a higher bottom line.

These are some of the highlights of our financials giving you the sales, EBITDA, the finance for PBT and our profit after-tax resulting in an Earnings Per Share (EPS) of about INR 2 in this quarter.

The sales for the first half of this financial year resulting in an EPS of about INR 4.4 for the first half of the year. You would also notice that our finance cost has gone down substantially because of deleveraging and our debt equity is at an all-time low right now. This is just a graphical representation of the figures that I just shared with you now.



I would like to now invite questions from our investors, with some ground rules. We'd have one at a time from each person on to the call and if time permits after our entire round of questions we'd go back to the second question if anyone has the second or a third question.

Question-and-Answer Session

Operator: First question comes from Rangan Venky from Brilliant Securities. You may ask your question.

Rangan Venky: Good afternoon, Sir. Wish you a Happy Diwali. I'm very delighted about the results and you have kept growing, but the only thing that I would like to know is about salary (employee) and other expenses given on the higher side, can you just throw some light on that? What is the employee salary going on in Q2?

Vikram Mohan: The employee cost has gone up this quarter because every year on the 1st of July there is a salary increase both for the blue-collar as per the wage increment, and for the white-collar in line with the inflation and CPI. So there has been a 10% increase in the employee cost on average from the 1st July which is a reflection of why costs have gone up. But having said so, we have also launched a VSM exercise, (Value Stream Mapping exercise) in the Company which we'll see an overall production improvement of 800 blue-collar strength by March 2017, it's already underway. This will bring the employee costs back under check.

Rangan Venky: I have another question but I'll let others ask, then I will come back to you, Sir, because I want to give the others an opportunity.

Vikram Mohan: Thanks you Mr. Rangan.

Operator: Thank you. Next question comes from Shriram from IndiaNivesh Securities. You may ask the question.

Shriram R: Sir, Happy Diwali and thank you for the opportunity. Sir, this question is regarding the CapEx and acquisition plans. Now, basically we're aware that your plans of acquiring a company engaged in pumps business in USA and Europe and one in sensors from Europe. So basically our understanding is, totally three acquisitions plan for the coming year on FY 2020 and moreover, those acquisitions would add INR 750 Crores, **INR 1,000 Crores** to the top line. Now the amount needed to be allocated according to our understanding is INR 250 Crores towards Greenfield Plant in Vietnam and balance INR 250 Crores for acquisitions. So if that be the case, INR 250 Crores of acquisitions will be made which will fetch INR 750 Crores of addition to the sale. Just clarify this disconnect and also clarify what is your funding as far as the both acquisitions and the Greenfield plant that is to come up at Vietnam. And sir just one more question. On the pumps business if could throw some facts that basically what will be the margin, how do you compare it with **UCAL fuel systems**, they make about 12% to 13% margin. So we would like to know whether you have the same margin profile. And also segmental EBITDA margin for the DIS vertical and fleet management vertical would also do. Basically we met one company recently and in steering pump, they sell their pumps for about INR 2,000 per pump and that against 2011 numbers that we have and now it's about 83. So just clarify on those lines what will be the realization and all those things. I'll come back to you when they call for the second question.



Vikram Mohan: Good afternoon Mr. Shriram that is actually four questions bundled into one question, so I'll be answering the first question and then you know after doing the round that I'd come back to the other questions.

Shriram R: Sure.

Vikram Mohan: I suppose you didn't join us on our last Investor Call because your question was actually answered in the last Investor Call but for benefit of anyone who had not joined us on that call, I'll repeat my answer. We are in a better side INR 500 Crores for CapEx and acquisition. We are estimating to spend INR 500 Crores. This would involve two Greenfield ventures, one in Vietnam and one in India. But we have put the Vietnam project on hold right now because as you are aware the Vietnam project completely hinged on the Trans-Pacific Partnership (TPP).

But now with the American Elections underway and both the presidential candidates taking negative endorsement of the TPP, It does not make sense for us to go ahead with the Vietnam plant under these conditions. So unless the TPP is going to go through, it doesn't make sense to setup a plant in Vietnam to cater to the American and other global markets in a competitive manner. About the Greenfield project in India, we are looking at one Greenfield in either Southern India or Western India based on how the segmental growth or the automotive growth is going to be. we are looking at this as an asset like model where we are not going to be investing in the land or building and we are only going to be investing in the machinery which was why the CapEx on such projects are going to be low, because typically in our scheme of things about 50% of the cost goes into the building and as well as land, which we don't want to invest all unnecessarily to give us the flexibility. In terms of acquisitions, we are hoping to not do less than two, and not more than three in the markets and the verticals that you had mentioned about.

Shriram R: Yeah.

Vikram Mohan: And at this point we are hoping we'll have between INR 600 Crore to INR 750 Crore of sales. Now this spend from **Pricol will be directly INR 250** Crores and it's something will be reached on those assets that were leveraged by us. Then it would be higher, but it will be ring fencing Pricol and leveraging those are the best that we are buying, as we are not looking at buying loss making assets but quality assets. So that's how we are going to be acquiring.

We have decided in the pumps space, in Europe and North America company that had operations, but have decided not to go ahead with an acquisition because we're competing bids coming in from other players globally and especially Chinese players were extremely high, valuations which did not make economic sense, and hence we have dropped that for the time being the one that we were hoping to acquire, and we are looking at other asset at this point of time.

Shriram R: So that will be on the sensors business?

Vikram Mohan: The current acquisition (that I referred to) is not on the sensors business.

Shriram R: Okay. And your mix debt equity links, it will be 50-50 through internal acquisitions and debt, is that so?

Vikram Mohan: Yes.

Shriram R: Okay. Fine sir. Thank you.



Operator: Thank you, Shriram. Next question is coming from Virendra Kulsaria from VTSA Trustee.

Virendra Kulsaria: Hello, good morning sir. My question is regarding Pricol do Brasil. It hasn't shown an improvement on this current financial year from last year.

Vikram Mohan: This is regarding our Brazilian operation which we acquired about two years ago. The answer to that question is; revenue continued to slip every month. In fact, we were expecting the auto production there to stabilize, but large automakers like Volkswagen the General Motors are going for block closures. So it is looking quite bleak, and actually speaking we are working on options to somehow **revamp** the operations there. It is also deepening even with the New President (Michel Temer) coming in. There has been a lot of political **unrest** in the country which is a cause of concern, and a lot of which is beyond our control by this time. But having said that we've used the technology and Engineering team there, and globally had a technology roadshow with them, our marketing team in India handling about 30 customers globally and a healthy RFQ pipeline for business has started coming into –India, for which all the engineering and design is being done in Brazil. So that's the only silver lining in the Brazil operations.

Virendra Kulsaria: Okay sir. Thank you.

Operator: Thank you. Next question comes from Anand Aggarwal from Balaji Investment. You may ask your question.

Anand Aggarwal: Hello Sir, thank you so much for giving me an opportunity. Wish you a very Happy Deepavali and Prosperous New Year. And I congratulate you for the wonderful performance and consistency for Pricol Limited. My question is that, with the amalgamation of the Pricol Pune ltd, what kind of equity is going to increase with this? Since the ratio is 1:1 and also with this amalgamation, what kind of top-line growth in subsequently margins the Company is expecting. This is one, and another ; the Company had set up another unit in Pune which was scheduled to be commissioned in August 2016, so whether it is being commissioned and what kind of top-line the Company is assuming from that venture?

Vikram Mohan: If I understood your question, the question was we had supposed to go on stream in August, what is the status of that. Is there any cash flows of the merger of Pricol Pune? Am I right?

Anand Aggarwal: Yes.

Vikram Mohan: Plant was supposed to go on stream in end of August or beginning of September, but we had extremely heavy rainfall in Pune. I think from middle of June and it is only last week it has stopped in Pune, as a consequence of which we delayed the commissioning of this plant and finishing off this plant and –the management team took a decision not to press ahead with the final finishing because then we'd have perpetual problems in the plant. So as we speak the plant is getting commissioned and the plant will go live from the first week of December. There will be significant topline increase on account of this new plant because we are shifting operations from **our existing plant** and consolidating because we had a lot of material issues and productivity issues in the existing plant. This new plant will help ease all of those issues, but more importantly we see a result pipeline and LOIs for the western regions, and the reason for the new plant is to enhance the business coming out of the western region over the next 24 months. Earlier, plants had very little



space for the expansion, so the merger is purely being done for commercial reasons to get certain benefits out of the merger with the Company, which is also on track and it will be complete by the end of November.

And Pricol Pune is a wholly owned subsidiary, we had a joint venture with Johnson Controls of the Johnson Controls shareholding on Johnson Controls exiting the automotive business and that company and Pricol are getting merged for financial benefits advised by our auditors.

Anand Aggarwal: Okay sir. Thank you. Thank you so much.

Operator: Thank you Anand. Next question comes from Bharat from Sherkhan. You may your question.

Bharat: Congratulations on a great set of numbers. I just wanted to ask do we have any target in terms of the margin which you are targeting at the consolidated level internal target that you have because we are aware of the top-line guidance that you have given in your vision statement, so any guidance that you have in terms of the margins or what is the sense you're getting. So if you can throw some light on that.

Vikram Mohan: We are currently operating between 12% and 12.5% EBITDA for our standalone business based on our product mix. With all the actions been taken in the company on margin improvement, material cost reduction, on value stream mapping, and on productivity increase. We expect this to stabilize between 14% and 15% and I think trying to take it beyond will part, then we start losing our market share. We found that about 14% to 15% will be optimum to achieve the right market share at the right profitability. So that's what the team is working on and over the next four to six quarters we expect to stabilize at 14% to 15.5% EBITDA levels for India operations.

Our **ASEAN** operations have continued to show improvement growing steadily in terms of margins and I think ASEAN will also be 14% to 15% EBITDA by the last quarter of this year or the first quarter of next year and stabilize at post level. The cause of concern is Brazil. We are walking on a **tight rope** there and we are working on some restructuring measures to see how best to contain our losses there. I would be in a better position to give you some highlights on that during our next Investor Meet schedule for the first week of December.

Bharat: Okay.

Operator: Thank you. Next question comes from Aditya Wadale from Aequitas Investment. You may ask the question.

Aditya Wadale: Yeah, hi sir. I just like to know how many additional shares will be issued once the merger is completed with Pricol Pune or in future?

Vikram Mohan: I would request our Group Finance Director to take this question please.

Sridhar Pricol: Yeah. I'm Sridhar here. There will not be any additional shares, it will be the same shareholding. It would be replica of Pricol shareholding because Pricol Pune is the wholly owned subsidiary on Pricol Limited.

Operator: Next question comes from Ashish Rathi from Infina Finance. You may ask your question.



Ashish Rathi: Yeah. Hi. Thanks for the opportunity. Sir, just a feedback that the call quality is not up to the mark, and now at least it's better initially the line was completely patchy. So my question is in regards to the speed limiting devices. Sridhar Sir, if you could tell me how much is the sales for the quarter in terms of top-line contribution and bottom line contribution?

Sridhar Pricol: You want on Speed Limiting devices.

Ashish Rathi: Yeah.

Sridhar Pricol: Sridhar do you want to answer this?

S. Srinivasan: Yeah. The Speed Governor contribution for this quarter is INR 60 Crore top-line and about 20% is the contribution to the bottom-line.

Ashish Rathi: Right. I have more questions I'll come back in the queue later.

Operator: Thank you. Next question comes from Sanjay from Ampersand Capital. You may ask your question.

Sanjay Satyajit: Sir, I'm a little late in joining the call; can I just ask this question, I'm sorry for repeating if it has been discussed earlier. Regarding the Speed Governor, we understand that there will be this regulation change from April, so how it is going to impact the business?

Vikram Mohan: It will have some degree of impact of our sustaining growth revenue next year but nevertheless for the aftermarket, the legislation for the Speed Governor the government has already postponed it few times and our sources at the ministry tell us that it is not going to get pushed for any reason beyond 31st March 2017, to fall in line with was international safety norms. If that comes through, we are completely ready and poised as I mentioned in the last two investor calls also to right that wave which will last for about 18 to 24 months. If that happens our growth for next year will be in the 22% to 25% growth very easily. If that does not happen, then we would still have a growth rate of about 18% from our other products.

Sanjay Satyajit: Understood sir. Thanks a lot for this. And if you can explain the other part that the new engines will get something inside so while the OEM market and the other one is the aftermarket so how are you strategizing for both the market, once the new norms sets in?

Vikram Mohan: I will take this question but the protocol is one question at a time just because this is related to the Speed Governor I will take this question. The Speed Governor is integrated into the engine management system in the sensor. So there will be no Speed Governor in the new engines coming, so that's where our opportunity ceases to exist, but in the all the vehicles that have been produced over the last 20 years that are running in this country with the new legislation. There is an opportunity for the Speed Governor to be fitted in the aftermarket. Since we are the only OEM player that is a good opportunity for us to play in the aftermarket as well and we are targeting a 20% market share. We have also developed various variants at different price levels and under testing as well with ARAI and we are ready to ride on that wave if the legislation comes through.

Sanjay Satyajit: Thanks a lot.

Vikram Mohan: Thank you.



Operator: Thank you, Sanjay. Next question comes from Rajiv Bharati from India Nivesh. You may ask the question.

Rajiv Bharati: Yeah good afternoon, sir. This is regarding DIS business we understand that this is going to be one of the pillars of your INR 3000 Crore top-line by 2020. We happen to check on something also on peers of Fleet management and telematics business. So one doubt is who are your actually competitors. The growth trajectory these companies have witnessed and just barely double-digit and ROCE profiles have been in 10% to 15% territory. If you enter into this business and this is going to be a big pillar going ahead how is it going to change your return profile. Your ROCE profiles are definitely better than this. That's the question.

Vikram Mohan: Thank you. The fleet management system, it's not fleet management, it's Assets Management Solutions. It's not just for fleet. It's not just for the automotive segment, let me clarify. And we have already made a lot of inroads of significant business progress here, which is showing returns in excess of 20%. Because these are customized solutions with annuity return and we have already become the approved global vendor to JCB for this and we are working with few other major like Caterpillar, etc. on similar programs. While saying it's going to be a main stage I would like to stand corrected, it's not going to be one of the name plates of our business on the top-line of about INR 3000 Crores we are expecting about 8% top-line to come out of the asset management solutions with EBITDA of about 20%. And we have all the pieces of the pie in place. In effect, we have a very, very healthy RFQ and LOI pipeline not just in India but, globally for this business.

The advantage that we are having over the other players is our connect with the industry through our other products and our ability to develop both hardware and software, giving us an edge over many other pure software players.

Rajiv Bharati: Thanks a lot. I have few more questions, so I'll jump back in the queue.

Vikram Mohan: Thank you.

Operator: Thank you. Next question comes from Ramanathan from Ramo Financial. You may ask the questions.

Ramanathan: Yeah. Hi sir. Happy Diwali. This is regarding the amalgamation sir, when are you expecting this amalgamation to be completed sir with Pricol?

Vikram Mohan: By November 30 it will be completed in all respect. Worst case are some delays, it could get pushed to December 15 and no later than that.

Ramanathan: Okay. Thank you sir.

Operator: Next question comes from Ashish Rathi from Infina Finance. You may ask your question.

Ashish Rathi: Yes. Could you comment on the Indonesian subsidiary performance for growth and profitability for the quarter and also outlook on the subsidiary?



Vikram Mohan: Indonesian subsidiary will do about INR 110 Crores of this year with 3.5% to 4% PBT for which, by the next year we are expecting a growth of about 15% with PBT of about 8% to 9%, very similar to India.

Ashish Rathi: Sir, just to clarify on the previous question which I asked, 20% contribution is the bottom line of the Speed Governors was said so INR 16 Crores top-line as 20% profitability or for the company's bottom line because I guess it's only INR 4 Crores if I calculate for the company's bottom line 20% contribution.

Vikram Mohan: So it's 20% on the product.

Ashish Rathi: On the product. Thank you so much.

Operator: Thank you Ashish. Next question comes from Rangan Venky from Brilliant Securities. You may ask your question.

Rangan Venky: Regarding the statement of assets liability has it gone from INR 180 Crores to INR 198 Crores, what is the expansion? And also the extension on the current investment is from INR 95 Crores to INR 117 Crores what is it due to?

Vikram Mohan: Let me comment on that Mr. Rangan. As mentioned in our last Investor Call, we have taken a significant CapEx this year because our capacity utilization is hovering between 75% and 85% for our different products verticals and do need our growth for the next 18 to 24 months we are doing a lot of de-bottlenecking as well as some new investments to give us about 30% to 35% additional capacity to meet our growth needs. So there is significant CapEx that we are doing in terms of share for our pumps and mechanical products as well as our instruments and sensors in terms of the assembly machines, die-casting machines and other new machines that we have imported from Japan. And a lot of automation on our lines to improve the capacity of our lines and reduce our manpower dependence and that is the significant increase. In fact, you will see a lot more coming in the Q3, Q4 and Q1 and Q2 of next year.

Rangan Venky: No current investment also has gone up right?

Sridhar Pricol: I'll answer that question. Current investment has gone up mainly because of investments in Indonesia and Brazil.

Rangan Venky: So at the end of the day, whatever we are earning in India is going in those plants.

Sridhar Pricol: We are working on some recurring funds, we will get back to you in other 3 months. As of today we are pumping a certain sum of money to sustain the operations.

Rangan Venky: And what is the book value be after the merger?

Sridhar Pricol: Book value is the same.

Operator: Thank you Rangan. We will take last three questions from the participants. Next question comes from Deepak Jain from Subhkam Ventures. You may ask the question.

Deepak Jain: Hello sir, in your comments, are you indicating 18% top-line growth and 14% targeted operating margins for standalone or FY 2018? This is, what you were trying to achieve?



Vikram Mohan: Yes. About 16% to 18% top-line growth, and I'm expecting not in FY'18 to have 14% to 14.5% EBITDA, but stabilized EBITDA in Q1 & Q2 of FY'19 to stabilize that 14% to 14.5% or towards the fag end of next financial year. It will stabilize that those levels, once our entire productivity value stream mapping is done and investment expense are completed.

Deepak Jain: Thanks. Thank you sir.

Operator: Thank you Deepak. Next question comes from Shriram R from India Nivesh Securities. You may ask your question.

Shriram R: Thank you for adding me in the queue again. This is regarding the segmental margin profile. Now could you just tell the EBITDA margins for your different businesses Telematics, Fleet Management and DIS. And also, how do you compare with UCAL they are also in assembly pumps. So they make about 12% to 13% EBITDA margins, are you around the same figures. And regarding the pumps again we met steering pump company which was selling its pumps at INR 2000 per pump whereas what I could see is regarding the 2011 numbers it's around INR 83 per pump, so what will be the realization on those, can you just comment on this?

Vikram Mohan: Before I answer your question in multiple parts. If we sell a pump from anywhere at INR 150 going up to about INR 10,000 depending on the displacement of the size of the pump. A pump in a two wheeler is obviously of a very low value. And pump in a very large commercial vehicle, is about 35 kilos and of a very high value. So I don't think it's an apple-to-apple comparison to say that the value per pump is INR 2,800 or even INR 300 or INR 10,000 because it depends on which segment you are servicing and values of that segment.

In terms of EBITDA, segment wise I am going to request our President, Sundar and our CFO, Shrinivasan to give you those details because I don't have the figures in front of me. Sundar and Shrinivasan?

S. Srinivasan: Yeah. Srinivasan here. I'll answer this question. The DIS is the lowest range of the valuation that is there and followed by the pump, telematics and the FMS.

Shriram R: Can you throw out some numbers, sir?

S. Srinivasan: DIS EBITDA at about 8% to 10% and all others are in two digits and the FMS is in the top of line.

Vikram Mohan: DIS would be about 20% to 21%, Telematics would be at 20% to 22%, pumps we are at about 12% to 14%, the sensors and instruments we are at 8% to 9% roughly.

Shriram R: Okay. So I have just one more question. So just help me understand how much of your content goes into per bike or per car in value terms and how has it improved over the past five years and what we are projecting?

Vikram Mohan: Okay. This is what we call the industry terms as 'wallet share'. The wallet share in primarily in a bikes; again it's a very broad question. In Honda Accord or Toyota Camry if you look at the value of an instrument cluster as a percentage of the car is very less, and even in a bike which we supply, for example, a Pulsar cluster close to INR 900 and Splendor cluster close to INR 300. But the price for Splendor is not 30% price of Pulsar, so it's very difficult to give you a sort of broad based answer.



One of the key growth strategies of the company is to increase the wallet share. So to the customers we are presenting the instrument and the sensors. We have now entered pumps and other products. So the idea is, to help OEMs and the automakers to consolidate their vendor base as they want a lower number of vendors from being a pure instrumental sensor company. Now we have significantly grown our pumps and mechanical products business, that division has seen 35%, 40% growth over last year. We'll continue to see a similar growth over the next two years because primarily, that is by increasing our wallet share with the customers or the content per bike in addition to the instrument. And also, that is, to improve the margin because instruments and sensors have become commoditized to the number of players and we are under margin pressure there, and which is why we are focusing more on the pumps and mechanical products which are yielding higher margins as well as the asset management solution which in terms of our top-line will be not significant, but will contribute significantly to the bottom line.

Shriram R: Yeah, I get it. Thank you.

Operator: As there are no further questions from the participants, now I would like to hand floor back to Mr. Vikram Mohan for the final remarks.

Vikram Mohan: I'd like to thank all of you for participating in this call on the eve of Diwali. I once again take this opportunity to wish all of you a very Happy Diwali and an upcoming festive season. We have planned an Investor meet at Pune at our new plant so that you will also see where a significant amount of CapEx of the Company has gone in this year and to show you a gold standard plant which we are trying to replicate elsewhere. This is planned in the third week of December and our communications team will be in touch with you. It will be on a first come first serve basis for 20 investors. We will be running a Volvo service a morning-evening return from Bombay for those of you who wish to come on this plant tour. With this I would like to conclude. Thank you very much.

Operator: That does conclude our conference for today. Thank you for participating in Pricol Limited Q2 Earnings Conference Call. You may all disconnect now. Thank you all.
