PPAP AUTOMOTIVE LIMITED

"PPAP Automotive Limited Q3 & 9MFY20 Conference Call"

Transcript

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

Moderator: Good evening, Ladies and Gentlemen. I am Janis the moderator for this conference. Welcome to the Conference Call of PPAP Automotive Limited arranged by Concept Investor Relations to discuss its Q3 & 9MFY20 results for the quarter ended 31st December, 2019. We have with us today Mr. Abhishek Jain – Chief Executive Officer & Managing Director and Mr. Anurag Saxena – Chief Financial Officer. At this moment, all participant lines are in the listen-only mode. Later, we will conduct the question-answer session, at that time if you have a question, please press '*' then '1' on your touchtone telephone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Gaurav Girdhar. Thank you and over to you, sir.

Gaurav Girdhar: Good evening, everyone. Thank you for taking time out for the Q3 & 9MFY20 conference call of PPAP Automotive Limited. We have with us today, Mr. Abhishek Jain – Chief Executive Officer and Managing Director and Mr. Anurag Saxena – Chief Financial Officer. We will begin the call with opening remarks by Abhishek sir and then we will have the question and answer session. I would just like to point out that certain statements in today's call may be forward-looking and we have already put out a disclaimer to that effect at the end of the presentation. So now, I would like to hand over the conference call to Abhishek sir. Over to you, sir!

Abhishek Jain: Thank you, Gaurav. Thank you, Janis. Ladies and Gentlemen, a very good evening to all of you, I am Abhishek Jain. I welcome you all to the conference call to discuss our financial performance for Q3 & 9MFY20. Firstly, we will start with a short overview of the industry followed by a brief about the company after that we would cover our financial performance. Along with this, today we will touch upon some of the initiatives that we have taken in the past quarter to sustain our profitability as well as steps taken by us to de-risk the company's operations from the current scenario. Ladies and Gentlemen, you are already aware, the last quarter was again a challenging quarter for the overall auto as well auto ancillary sector. The quarter witnessed a 7.6% de-growth in the production of passenger vehicles compared to the previous year and 5.6% de-growth compared to the previous quarter. The nine months production also witnessed de-growth of 13.5% compared to the previous financial year. The festival season has resulted in good sales growth of the industry. In the quarter under review, the sales of passenger vehicles recorded an upside of 26% compared to the previous quarter and almost stable sales compared to the previous year.

The quarter saw drastic reduction of inventory levels of passenger vehicles, the inventory which had reached 65 to 70 days, saw gradual decrease to 25 - 30 days levels. Going forward, we expect recovery to take place in the industry due to the reduction of inventory levels and the launch of BS-VI vehicles by the OEMs. The confusion over BS-IV transition to BS-VI is somewhat cleared with most of the OEMs now offering BS-VI compliant vehicles. However, high GST registration charges as well as insurance charges continue to dampen the sales of the vehicles. We are hopeful that government will take prudent measures to ensure good growth in the automotive industry since this industry forms the backbone of the manufacturing GDP to which it contributes almost 45%. The recent budget has re-emphasised the focus on development of infrastructure, which should also result in higher demand of vehicles.

So now, just a small recap of what PPAP is about. We are into manufacturing polymer extrusion based automotive sealing systems, interior and exterior injection moulded products. We have 7 facilities which are established strategically in the key automotive hubs in India. We manufacture over 1,000 different SKUs and we ships over 200,000 parts every day to our customers which include the Japanese as well as the other major OEMs in the passenger vehicle segment as well as commercial and two-wheeler segment. The company continues to focus on enhancing it's per car contribution. We have a joint venture for making rubber parts in the passenger vehicle segment. Kindly refer to the presentation which is already been shared with you, more details can be found in that presentation. In the current year, we have started supplying 102 new parts to our customers. We are supplying parts to models recently launched in the market like MG Hector, Tata Harrier and Renault

Triber, Nissan Kicks, Hyundai Creta, Maruti S-Presso, Toyota Glanza amongst other. We have also started supplying parts for new Suzuki Motorcycle Gixxer along with their scooters Burgman and Access. We have also added parts for Honda scooters.

We are currently developing 169 parts for 15 new models which will be productionized in the next two years. We are also in talks with our customers for perspective parts for their new models for which development will start soon. To de-risk our sales we have established a new commercial tool room vertical in the company. As you know, that we have been operating our tooling facility as a captive tool room. But this year, we have converted it as a commercial tooling facility where we will be manufacturing tools for our in-house purpose as well as for commercial sales purposes. Also, taking advantage of the problem of reduced sales in the last quarter, we have established two new wholly owned subsidiaries of the company. While, one of the companies will focus on distribution of components and automotive accessories in the market, the other company will focus on the development of electric vehicle components. For the distribution company, we will start designing and manufacturing of special products with our knowhow and also explore the untapped accessories market. The focus here is to provide the customer with high quality products as a competitive price. For the electric vehicle components vertical, we will be focussing on products for the two-wheeler and the three-wheelers industry. Apart from development of the existing product range with the new customers this vertical will also develop new products in the battery space.

Now, let us talk about the financial performance of the quarter ended 31st December, 2019. In the quarter under review, revenue from operations on a standalone basis stands at Rs. 79.14 crore as compared to Rs. 85.29 crore witnessing de-growth of 7.2% on Q-o-Q basis. Our part sales for the quarter stands at Rs. 76.38 crore as against Rs. 80.51 crore in the previous quarter. The EBITDA margins for the quarter stood at 13.4% as compared to 12.7% in the previous quarter and the overall nine months margin are at 14.3%. The profit after tax for Q3 stood at Rs. 3.52 crore as compared to Rs. 4.32 crore in the previous quarter. The PAT margins stood stands at 4.5% and the EPS for the quarter stood at Rs. 2.52. Looking at the challenging times, the company started a drive in August 2019 called "*Every Paisa Counts"*. The purpose of this campaign was to identify the wastages in the company and make the company lean. In this campaign our focus was to extensively look at our cash flow management, cost management as well as reduction of breakeven levels. All the heads of department were required to come up with areas where they maybe possibility of becoming lean. Discussions were held with various CFTs and many counter measures were taken. Each key expense was critically reviewed like production process, material cost, man power cost, power and fuel generation expenses, repair and maintenance cost, logistics cost, etc. The focus was to find the red behind the green. By doing this campaign, the company was able to maintain profitable operations in this quarter and improve the margin even though the sales were lower than the previous quarter.

In difficult times, we remained fair to all the stakeholders of the company. We did not lay off any people, everyone in the company shared the burden and contributed to improve the operations as one team. We are quite confident that with the strong cost awareness and mind set being developed during the trouble times, the company will bounce back to its financial performance as soon as the production of vehicle surges due to higher utilization of assets. Now, just to recap what is the nine months figures, for 9MFY20, revenue from operations on a standalone basis stands at Rs. 256.48 crore as compared to Rs. 311.84 crore witnessing a de-growth of 17.8%. Our part sales for the 9MFY20 stands at Rs. 245.32 crore compared to Rs. 294.87 crore due to the slowdown and low production in the industry. For 9MFY20 EBITDA was Rs. 36.71 crore. The company reported a standalone PAT of Rs. 13.61 crore for 9MFY20 to Rs. 26.36 crore during the same period last year. The PAT margin is 5.3% for 9MFY20 as compared to 8.5% for the 9MFY19. In spite of the challenging time, the company has paid an interim dividend of Re. 1 which is 10% of the face value for H1FY20. The EPS for 9MFY20 stood at Rs. 9.72 as against Rs. 18.83 for the corresponding period last year.

I hope you now have got a sense of the activities which the company is taking and has taken to ensure future growth as well as to sustain profitability. Now, I would like to hand over to the moderator for managing the clarifications that you may want to seek. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-answer session. We take the first question from the line of Debraj Himatsingka from Bajoria Financial. Please go ahead.

Debraj Himatsingka: I just wanted to understand how the auto market has placed in the next six months like what you see because the inventory still there or do you see the inventory clearing out like do you think auto sales are going for passenger vehicles especially since there are larger customers would they start picking up any time soon?

Abhishek Jain: See for what I have been discussing with the customers, so most of the customers they have a negligible inventory of BS-IV vehicles in their premises. So, most of the customers now have only BS-VI vehicles available and at the dealers end there are still some BS-IV vehicles available, along with these BS-VI vehicles. So, inventory side like the biggest concern that the industry had faced was the dead inventory of BS-IV post 1st April, 2020. So, that concern might not be there now because everybody has taken counter measures and most of these companies have started producing BS-VI vehicles. Inventory side you are taking about inventories have already come down to 25 to 30 days which is a standard inventory size for the industry.

Debraj Himatsingka: Sir, I just have one more question. I just wanted to ask like do you think that do you see like a trend of like more orders coming in compared to say maybe the past two to three quarters where there has been a severe slowdown.

Abhishek Jain: Well, this quarter is looking much better than what previous quarters have been. So, we are quite hopeful that this quarter is going to be much better than what we have. There is going to be a substantial amount of recovery in this quarter.

Moderator: Thank you. We take the next question from the line of Jaimin Desai from ICICI Direct. Please go ahead.

Jaimin Desai: My first question, I wanted to get a sense on the pricing environment, has it improved in Q3 compared to Q2 and what is the trend that you are seeing in Q4? I ask this because of production numbers from the OEM side where better sequentially during Q3?

Abhishek Jain: Mr. Desai, actually production numbers were bad in Q3 compared to Q2. The sales were better not production because they had lot of inventory piled up. So, last quarter basically clearing out this inventory. And I am not sure I understood your pricing concern, what exactly are you interested in asking?

Jaimin Desai: No, see, the sense that I was trying to understand was have the OEMs sort of relaxed their pricing terms with you or does it continue to be slightly challenged still?

Abhishek Jain: No, it continues to be the same as what it used to be. There is no change in pricing agreements or something between us and the customer. So, we are already like this got foreign exchange contracts with the customers wherein they compensate any foreign exchange increase or decrease. So that is, those contracts are already in place there is nothing change for that and since we know extra pressure on us just because the market is down that we have to supply our part at a cheaper cost or something to the OEMs.

Jaimin Desai: Secondly sir, I wanted to understand the margin improvement that we will see on a Q-o-Q basis. How much of that can be attributed to the cost initiatives that you spelled out and how much of that was due to other factors, if you could give a sense on in number terms?

Abhishek Jain: Most of it was based on this initiative. For example, I will share with you some initiatives which we have taken like for energy cost so like all seven plants we have got a certain amount of connected load for which we have paying minimum fixed charges every month. Now during this period we reviewed all the connected load and we could reduce, we could identify that in some plants we have got extra connected load and we have gone ahead and reduced that connected load from these power companies which will reduce our fixed cost when it comes to power energy. So, that is like one initiative which we have taken. Then logistics like our number of delivery is going to the customer was remaining the same. But, in every truck the number of parts were reduced because timing wise it remain the same but quantity wise it was reduced. So, earlier we were sending like dedicated trucks from each plant to the customer but now we are doing like a truck pooling between our plants and making sure that the truck is completely full load and then sending it to the customer. So, this kind of system has also benefitted our bottom-line. Then we looked at maintenance cost like, we have got same machine in different plants. So, we maybe there was a need of keeping spares and inventories in all the plants. So, we combined our spare store and we are managing now inventories within one plant only for all the other plants. So, that reduced our inventory in the spare side. Then we looked at the AMC which we were giving for all the equipment's that are there and we reviewed it whether we require that or not require that. Then the maintenance schedule which we were doing for our machines was basically on a time based schedule that we shifted now from a time base condition to a condition base system. But, then lots of initiatives like this which was taken by the whole group which has yielded this reduction of costs.

Jaimin Desai: Then finally, you spoke about our ambition to increase our kit value with the OEM customers. Could you give us sense on what it would be at present and how much do you see going to over the next three to five years?

Abhishek Jain: See, currently our kit value for Honda vehicles is the maximum where we do about Rs. 6,000 to Rs. 6,500 per car and when it comes to other OEMs it varies substantially like with Maruti it used to be about Rs. 1,100 range now we are trying to make it up to Rs. 2,500 or something by adding more injection molding products. So, every customer we are doing the same thing. So, now our focus has been on increasing per car value with Maruti.

Moderator: Thank you. Next question is from the line of Sunil Shah from Turtle Star Portfolio. Please go ahead.

Sunil Shah: Sir, I have one question, we are catering to various different car models. We are big time with Maruti and all these new companies as well, I mean, MG Hector and all the new models. Sir, can we get a sense on of the actual sales which are happening? How many different types of vehicles have our product? So, what is our penetration level of the total market? Can we get some indication will be also doing for Wagon R and Ertiga and Ciaz or whatever. So just want to get a sense of so my thought is that when the cycle turns how much we are already there in terms of the market place?

Abhishek Jain: Even Maruti when it comes to extrusion products, so we have almost in plastic extrusion we have almost 85% market share. And we have present across all models may be one part we are not supplying our something like that but we have presence across all models of Maruti and same thing for Honda also. Whatever models are produced by Honda in India we have present across all models. Same for Toyota, same for Nissan, Renault also which have models are being developed in India now we have presence in all the models together.

Sunil Shah: Let say, 200,000 cars which are getting sold in the country from all the companies put together on a monthly basis just hypothetically. Now, in that may be if for Maruti we are almost there for all the vehicles. Likewise for Honda we are there for all the vehicles even Toyota. So, is it fair to say that of the 200,000 may be about 160,000 or 80% models would have our products across all companies put together.

Abhishek Jain: I would say 75%, because out of this I think 20% is basically Hyundai and Hyundai we have present only in one or two models only right now. So, if you exclude Hyundai and Kia basically, so I think these two companies put together they would be contributing around 20%. So, barring that we are there everywhere.

Sunil Shah: How about two-wheeler side?

Abhishek Jain: Two wheeler side we have just started venturing into it about three or four years ago. So, we have just present in I think one or two models of Honda and one or two models of Suzuki. We are not present in Hero at all.

Sunil Shah: What is the product which you give out, I mean two-wheelers?

Abhishek Jain: We make these injection products like this cover shields and all that.

Sunil Shah: And what could be our content per two-wheeler then, kit value?

Abhishek Jain: Kit value, we just starting it. So, kit value I think would be not more than Rs. 300 or something.

Sunil Shah: Sir, one more is on our ROE, it is really very low. So, what action, meaning, it is very low single digit and even though we are doing lot of things, lot of new developments and all that. Over a period of time how do you see that number improving or what are your thoughts on now we see a two digit kind of a number on ROE. How is that work out and by when?

Abhishek Jain: See, if you look at the ROE for the last year before this slowdown started I think we were doing a decent ROCE of about 16.5% for financial year, 2019 and in the first quarter also our ROE, ROCE were basically in double digit. It's only because of this lower utilization of assets that the return ratios have come down. So, as soon as these market corrections take place I think we should be in a fair enough decent position to have a good ROCE in this.

Sunil Shah: Sir, is it safe to assume that the third quarter which went by was probably one of the worst that we could be and going forward meaning good quarter as well.

Abhishek Jain: Well, it is certainly looking like that.

Moderator: Thank you. Next question is from the line of Raj Oza, individual investor. Please go ahead.

Raj Oza: Sir, my one question was that in our employee cost has reduced, any specific reason for that? Is there any layoff which we have seen because why I am asking this question because many auto ancillary have top fall or shutdown kind of a thing for some days like so, we have seen some kind of situation in our organization?

Abhishek Jain: So for, our manpower cost we have looked at couple of things. So, first is we have started like in good times you look at only your manufacturing manpower and you tend to ignore the support manpower which is there. So, during the last quarter we looked at how many people are we actually using in support functions like logistics, like quality, like maintenance and then we were trying to rationalize the quantity of them and as well as quality of them. The quantity is matching with our requirement and whether the quality of vehicle that we have whether that is matching or not. So, this is the first exercise that we have started doing and this has products thrown a lot of grey areas which we have started attacking. And the other initiatives that we took in this quarter was that because of reduced sales we, basically we were not working for four days in a month. So, in those four days it was, people were given basically an unpaid leave. So in that, in the last quarter whoever was earning less than Rs. 25,000 we did not touch those kinds of employees but whoever was earning more than Rs. 25,000 there salaries were reduced by about 10% to 13% on an average.

Raj Oza: On a consolidated basis sir our joint venture has posted a significant loss. So, just wanted to know reason behind that?

Abhishek Jain: That also is primarily because of the volumes going down. So, unfortunately in that joint ventures we have got a very limited number of models and number of customers. So, primarily it was because of the volumes going down and the depreciation has increased a lot. So, basically cash profit was not big problem there but overall we took a hit on the PBT.

Raj Oza: What kind of client addition we are looking after, names?

Abhishek Jain: For PPAP?

Raj Oza: Yes.

Abhishek Jain: So, we like MG Motors we have already started our association. Started with one product and now we have got RFQs for other products for them as well. Hyundai is one of the major OEMs that we are targeting now. So, Hyundai and Kia maybe we will, we do not have any direct leads from Kia. But through Hyundai, we might get some opportunity to supply it for Kia Motors as well. And Volkswagen, we have the tracking. Volkswagen is planning to launch an India specific model in the next 2 years. So, we have already got business for that and we are developing those parts. We are not leaving any stone unturned for any new model which is being launched in the Indian market or that is coming in the Indian market.

Moderator: Thank you. Next question is from the line of Manan Shah from Moneybee. Please go ahead.

Manan Shah: Sir, I just wanted to know, are we in talks with the Chinese OEMs who are planning to enter the Indian market?

Abhishek Jain: Not right now. I mean, we are trying to contact them but there is nothing concrete as of now. We are frequently contacting them, I mean, they are on our radar and we will not leave that opportunity to get associated with them.

Manan Shah: And sir, I just wanted to understand despite being having say 80%-85% market share from Maruti why is that Kit value not comparable with Honda?

Abhishek Jain: See, this 85% market shares which I was talking about this is for the plastic extrusion systems, which is the main products of the company. And when you talk about kit value of the system it basically as like 3 components, plastic extrusion, this rubber extrusion which we do from the joint venture and then the injection molded products. So, injection molding products varies from customer-to-customer because in there close proximity to the OEM plant is a very big factor. And so with Maruti we started the journey quite recently in 2014, when we started the plant in Pathredi. And that is when we have started getting RFQs from them for injection molding products.

Manan Shah: So, can we expect that to go up from here onwards for the new model that will be launching?

Abhishek Jain: Yes, we are aggressively following on this new business and things should get better.

Moderator: Thank you. Well, ladies and gentlemen, as there are no further questions, I would now like to hand the conference back to the management for closing remarks.

Abhishek Jain: Thank you Janis and thank you Gaurav from Concept for organizing this conference call. I want to pay my sincere gratitude to all my analyst and investor friends who have taken time out of their busy schedule to listen to us today. We believe there are lots of questions that you have been left unanswered and we will be more than happy if you can engage with Concept or us for any of your queries. We are very interested in showing you the kind of efforts that are being done to achieve these results. So, I would really encourage you to please come and visit us in the NCR or in any other region in Chennai or in Gujarat to see what is actually being done by us. Thank you so much for today.

Moderator: Thank you, ladies and gentlemen. On behalf of PPAP Automotive Limited, we concludes today's conference call. If you have any further queries you can write to gaurav.g@conceptpr.com Thank you for joining us and you may now disconnect your lines.