“PPAP Automotive Limited

Q3 FY '23 Earnings Conference Call”

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MR. SACHIN JAIN – CHIEF FINANCIAL OFFICER – PPAP AUTOMOTIVE LIMITED
SGA – INVESTOR RELATION ADVISOR

Moderator: Ladies and gentlemen, good day, and welcome to Q3 FY '23 Earnings Conference call of PPAP Automotive Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhishek Jain, MD and CEO of PPAP Automotive Limited. Thank you, and over to you, Mr. Jain.

Abhishek Jain: Thank you, Tanvi. Good evening, everyone, and welcome to our Q3 and 9 months financial year '23 Earnings Call. I am accompanied by our CFO, Mr. Sachin Jain and SGA, our Investor Relation Advisor on this call today. I hope everyone has had a chance to go through our investor presentation which includes the strategy for making the company and the subsidiary companies stronger, resulting in higher growth going forward, along with the financial performance for the quarter and 9 months ended December 31, 2022.

Before we begin on our company's performance, let me talk about the overall industry scenario. The domestic automobile industry looks resilient and has delivered healthy sales volumes across segments. The passenger vehicle segment reported a sales growth of 31% on a year-on-year basis from 26.14 lakh vehicles to 34.21 lakh vehicles between April 22 and January 23.

The sector witnessed a robust festive demand, coupled with premiumization of cars. The availability of semiconductor chips is somewhat eased. And with the reopening of China, it may bounce back to normalcy going ahead. The Indian auto ancillary sector catering to domestic market will benefit due to revival in demand across segments.

Healthy order book of OEMs augurs well for the auto component industry. Auto ancillary companies with higher aftermarket exposure can benefit from improving replacement demand and better pricing. In the recently held Auto Expo 2023 which is India's flagship automobile show, Indian automobile industry, both OEMs and auto component players showcased their might across the business verticals.

The key focus was on EV themes wherein the industry is ready to harness the EV technology and shape the future. PPAP being a manufacturer of battery packs finds itself in a formidable position to capture the encouraging trends in the EV vertical.

Now let me throw some light on our business model, which we have curated in the last 2 years. PPAP was established in 1978 for manufacturing custom-made extrusion products. Today, the company, along with its subsidiaries and joint venture companies delivers value-added products to various customers in automotive and ancillary industries. The company's core competence is in developing plastic and driver-based extrusion systems as well as plastic injection moulding systems for various industries. The company also focuses in developing high-precision plastic injection tooling. I am delighted to share that all our products are engine-agnostic which enables PPAP to cater to all the OEMs and all of their models, irrespective of the engine specification.

The company started the journey of achieving global level excellence in 1985 with the start of automsotive business. Over the years, the company strives to delight its customers in the automotive industry as well as industrial products industry. PPAP Group is poised to establish itself as a leading product solutions company in areas of its core competence. We have also set its foothold in the aftermarket business with development and sale of spare parts accessories.

The business is in 100% owned subsidiary called Elpis Components. The focus is on Pan-India distribution with offline and online models. We've received a robust traction for our products and our endeavour is to achieve 10% of the total revenue from this business segment in the next 2 to 3 years. With the advent of electrification, PPAP established itself as one of the leading manufacturers of lithium-ion based battery pack solution for the 2-wheeler and the 3-wheeler industry.

We are in the process of designing and manufacturing our battery pack, which will be in compliant with the AIS Phase 2 standards, and we are in the process of getting them certified by ICAT. Therefore, by the end of March, when these new regulations kick in, we will have a value-added product ready for our customer.

The group has started its journey for achieving ESG standards with the objective of running the operations sustainably and responsibly. I'm happy to share that our new report for sustainability has been released recently, and we will soon put it on the company's website for everyone to have a look at. Through the company's CSR activities, there is a constant focus on enriching people's lives in areas of environment, health and education. The group supports various biodiversity parks by planting and sustaining native trees to improve the environmental conditions, which are detrimental in the NCR area.

Now let me throw some light on the financial performance and key developments. Revenue grew by 24.4% from INR 293.7 crores to INR 365.2 crores in 9 months on a year-on-year basis on account of supplying parts to newer models across OEMs for stand-alone PPAP. EBITDA registered a growth of 27.5% to INR 34.4 crores in the 9 months. EBITDA margin improved from 9.2% to 9.4% on a year-over-year basis. PAT stood at INR 5.6 crores in 9 months as against INR 1.7 crores in the previous year, 9 months same period. 93.1% of the revenue is derived from the sale of parts, whereas balances derived from sale of tools and others.

Maruti Suzuki continues to be the largest customer of PPAP, and it contributes more than 40% to the overall revenues. We have begun supplying plastic extrusion and injection moulding parts and rubber extrusion parts from Maruti's new models, which are Baleno CNG and Toyota's much awaited Hycross model. The company has also been awarded for Quality of Spare Parts Appreciation and QCC Qualification at National Level by Honda.

The capacity utilization for 9 months stood at 75%. Our aim is to improve utilization going forward to achieve operational efficiencies. On a consolidated basis, our aftermarket business continues to be profitable and continues to yield value as it is growing. On a consolidated basis, the revenue grew by 26.6% from INR 299.3 crores in 9 months financial year '22 to INR 378.8 crores in the current 9 months. Similarly, EBITDA has also increased from INR 26.5 crores to INR 35 crores.

Just to summarize, the five business segments will act as growth levers for the company, the semiconductor issue again has been easing out now and will soon be seeing things completely normal. Going forward, the macroeconomic factors should be favourable, coupled with an industry growth that will enable us to take the best drive forward in capturing the market and catering to new models of all the OEMs.

Thank you for your kind listening, everyone. We will be happy to answer to any questions that you may have. Over to you, Tanvi.

Moderator: The first question is from the line of Raj Joshi from ACE Securities.

Raj Joshi: Sir, my first question is gross margin has dropped by almost 200 bps in Q3 FY '23 as compared to Q2 FY '23. What has led to this drop, given the softening of the raw material prices?

Sachin Jain: So regarding the drop in the gross margin, if you see there are some incremental tool sales in this quarter. In this quarter, we have the part sale of around INR 110 crores and rest is from the tooling sales. In tooling because the trading part is also involved in that. So the metal cost is a bit higher if you compare with the last quarter. And in this quarter, in Q3, there is an increase in the employee cost also because we added the festival season, so there was a distribution of gift and extra and winter uniforms, we have distributed across the plant.

Further, in the south side, the new model is coming in the South, like YFG, that new Hyryder and Grand Vitara is from the south side. So we are also recruiting more spend power in that area. And so due to that, there is an increase in them and power cost also and other expenses side, in this quarter, we have the plant maintenance and the maintenance expenses has gone up and sales promotion has gone up. So which led to the drop in the gross margin by 200 basis points with respect to the last quarter.

Raj Joshi: Sir, my second question is, what is the revenue mix between the plastic institution and the injection modelling part?

Sachin Jain: It is almost 50%, 50%. It depends 1% here and there in every quarters.

Moderator: The next question is from the line of Lavanya Tomar, Individual Investor.

Lavanya Tomar: First of all, I want to ask that what is our average realization per vehicle for our top customers such as Maruti, Honda? And the second question is that we have been very vocal about our standalone performance. However, if we see our performance at a consolidated level, we see that our performance has not been good. And I want to know that how are these JVs doing value addition to our business. And if they are not profitable at all, then why are we pursuing them?

Sachin Jain: So regarding the average realization from the top customer for Maruti, it ranges between INR 2,500 to INR 3,000 per car, Honda, INR 6,000 to INR 7,500. MGI to INR 6,500, Tata, it is up to INR 1,400, INR 1,500 – the share. About the consolidated performance, if you see the main reason is the loss in the JV, which we are having in this year. So we have also taken with the customer regarding the price increase. So that was a quite advanced stage, but due to some abnormal situation at the customer end, it got extended.

And we are quite hopeful that we will be able to get this price compensation from the customer in this quarter. After that, the situation will turn around for the JV company, about supporting the overall group business by this JV company, if you see in this company, we produced mainly rubber technology part. So due to that, we are able to showcase ourselves to our customer as a complete solution provider for the interior -- exterior part in the rubbers and plastic category. So when we go to the any customer, so like with Maruti, Honda or any customers who present ourselves that we have the complete range of product, which they are required for their selling system.

Lavanya Tomar: Yes. One more question, I just wondered to add what percent of our revenues are coming from exports currently? And how do we see this number going ahead?

Sachin Jain: Right now, there is no export as such in company. Currently, we are supplying domestically and the material is exported by the customer itself like we supply some CKD part to our customers, and they exported outside India. And export is also one of the areas which we want to get into because it provides better margin than the other things. So that is in our radar. But right now, we don't have any export.

Moderator: The next question is from the line of Jigar Shah from AK Securities.

Jigar Shah: So I have two questions. So the first one is in quarter 3, we have undertaken maintenance work at plant. So where all the plants under maintenance? If yes, how many days there was a shutdown. The second one is since we are supplying our products to newer models across OEMs, what is the content per vehicle, especially for Maruti and Toyota.

Sachin Jain: Regarding the maintenance, the shutdown period, it was directly linked with the customer requirement. The south side that is linked with the Hyundai and TKML requirement, Nissan requirement in north, it is more linked with the Honda and Maruti requirement. So shutdown is taken based on the customer shutdown period, it lasted 3 days to 7 days based on the linkage with the customer shutdown period.

And second, as I always already mentioned about the content per vehicle. So Maruti again, INR 2,500 to INR 3,000, Honda, INR 6,000 to INR 7,500. So that I have already informed. Anything else?

Moderator: The next question is from the line of Hema Kothari from SK Securities.

Hema Kothari: I wanted to understand that we were supposed to receive the compensation from OEMs and revision enterprises. So have you received it from all the OEMs, including Maruti?

Sachin Jain: No, no. As I already mentioned that regarding one of the company that is spending with the Maruti. So we had to receive that compensation.

Hema Kothari: And also, how is the demand scenario on the ground?

Sachin Jain: I think demand is strong, as I already mentioned in the opening speech by MD Sir that there -has some growth in the production and sales around 31%. So demand is there. There is no issue with that demand right now.

Hema Kothari: SoSo, can we now expect normalcy in terms of supply of semiconductor chips?

Abhishek Jain: More or less, it's quite normalized. And generally this quarter 4 is supposed to be the highest quarter for the entire year. So quite excited for this quarter. It should go quite strongly.

Moderator: The next question is from the line of Kanika Kothari from Kothari Securities.

Kanika Kothari: So sir, I wanted to ask that in the past, EBITDA margins have been fluctuating. So at what level can we see sustainable EBITDA margins going forward?

Sachin Jain: From the last -- we always maintained that the sustainable margin would be in the range of 13% to 14%. So that is our internal target, and we are working on that. There are some challenges in this year, which we are facing regarding competitive price, understating the plant under the customer requirement. So that says there is a pressure this year in the margins. And we are quite confident and hopeful that from next year, we'll be able to have good margins along with the good topline.

Kanika Kothari: And secondly, on the capex front. So has the company incurred any capex in Q3. Can you kind of give a colour on what amount of capex you will incur in FY '24.

Sachin Jain: Yes, FY '24 figures, so right now, I don't have. Until 9 months, we have had the capex of INR 29.8 crores. And in this quarter, we done the capex of INR 8.7 crores.

Moderator: We have a follow-up question from Lavanya Tomar, an Individual Investor.

Lavanya Tomar: Yes. So I wanted to ask it in your investor presentation, you have been mentioning again and again that after -- there's a big aftermarket in cars such as phone holders, chargers, sockets, etcetera. So in my opinion, I think these are very low-margin businesses. So I want to do that, what is our strategy as to how we are going to gain market share in this field?

Abhishek Jain: Mr. Tomar, the main business of aftermarket is for supplying of spare parts. So last year, we did, I think, sales of about INR 10 crores and this year, the business is supposed to grow by somewhere in the range of 75% to 80%. This accessory in what you're talking about, this forms a very small part of that business, which we are doing online. And now we are starting to roll out on offline distribution also. But majority of this aftermarket business is the spare parts business. Accessories business is a very small part of it.

Lavanya Tomar: And I just wanted to know that in coming 5 years, where do you see your company going ahead? And what will be the big changes in new products where you will be the leader.

Abhishek Jain: Are you talking about aftermarket business or overall business?

Lavanya Tomar: Not like in general, where do you see your company going ahead in the next 5 years. Like are the EBITDA margin is going to be the same or the product mix? Is the product mix going to be the same? Where do you see your company standing in next 5 years?

Abhishek Jain: As we have stated that in the investor PPT also, till about 3 years ago, PPAP was only focusing on the automotive products only for the OEMs. But in the last 3 years, we have established these 5 different business verticals in the company for enabling future growth of the company. So primarily automotive part business which we will continue to grow.

We are doing -- we are getting business from all the customers. They are trying to increase our per car business not only from the OEM, but also at the Tier 1 level. So that overall per car business goes up. We have an R&D team also, which are continuously developing new technologies which are becoming very attractive for customers like Tata Motors and local players. Second business vertical, of course, is the aftermarket business, which you were referring to. This is another business which was not existing in our portfolio in about 2 years ago when we really started working towards it.

Third is this commercial tool room which we've established, which will focus on developing a high-precision, value-added injection moulding tools for all the customers. Not only for PPAP requirement, but for other requirements also. And it will focus not only on automotive industry, but on outside other kind of applications as well.

The fourth business, which we are focusing on for higher growth is the Industrial Products division. These industrial products basically means that whatever strength we have in the automotive business, which is in three core technologies, plastic extrusion, plastic injection moulding and rubber extrusion. So we want to leverage these technologies in areas outside of the automotive industry.

So there, we are trying to get to some injection parts for machines, some profiles for the construction industry, profiles for some special applications. And in that business, we're getting some export opportunity as well to do the business. Fifth area which we are focusing on for increasing the top line and making our company stronger is the lithium ion battery business.

This year, as you must be knowing, this -- the government launched AIS standard, Phase 1 was implemented in December. Phase 2 is expected in March. So we are getting our products all ready for which will be completely aligned with the AIS requirements, getting them ICAT certified so that we can offer a good solution to the customer. So going forward, all these businesses are going to add a lot of value to the complete group.

Last 2 to 3 years have been spent on basically laying the foundation of all these businesses, learning the nuances of these businesses. But from next year onwards, I am quite hopeful and I'm quite positive that all these businesses will start changing the way PPAP on a stand-alone basis and on a consolidated basis looks today.

Moderator: The next question is from the line of Anjana Shah from Shah Investments.

Anjana Shah: First, if you could just throw some light on what is the current industry scenario in the automotive industry considering the global slowdown that in general, we're observing. So if you could enlighten on that, please?

Abhishek Jain: I think the demand remains quite strong in the Indian auto industry. I think largely Indian ecosystem remains insulated from what is happening globally apart from the rupee depreciation that is going on against the dollar. So things are quite strong on the ground. And if you go to any dealer today to buy a vehicle, I think the minimum time is going to tell you to wait is at least 2 months. That's a very good indicator of where what things are in the automotive industry today.

Anjana Shah: So sir, what according to you could be the good drivers for our company in the coming quarters?

Abhishek Jain: I just explained all these growth drivers. The five businesses which we are -- which we've started focusing on aftermarket business, new models starting production for the automotive business and the other businesses, which will start shaping up. So all of these cumulatively should change the complete landscape of the group. An important factor for the bottom line is this price compensation coming through. So we are quite hopeful that this -- in this quarter, we should be getting some things sorted out. The entire consolidated performance and start looking better.

Anjana Shah: Sir, also, you would tell us what is the percentage contribution that goes to MG Hector and Kia.

Abhishek Jain: MG Hector, specifically, I don't have that data, but on a general basis, we do around INR 6,500 worth of business for MG. That's on an average model basis. Hector also we do this ZS EV also when we are developing a couple of new projects also with them. On an average, it's about INR 6,500.

Moderator: The next question is from the line of VP Rajesh from Banyan Capital Advisors.

VP Rajesh: I'm sorry, I joined the call a little late, so you may have given this answer already, but the question is that the compensation that we're expecting to get from your OEs. Has that already been negotiated or you're still in the process of negotiating that?

Abhishek Jain: No, it's already been negotiated. It's just in the final stages of approval.

VP Rajesh: So you will realize most likely that in Q4, correct? That's what we should expect?

Abhishek Jain: Yes.

VP Rajesh: And my second question is that in the content for vehicle that you were earlier describing with different companies. How -- has it trended over the last 3, 4 years? Is it coming -- is it going up? Or is it coming down? Basically, what I'm trying to understand is that if we are losing market share with these vendors or gaining market share?

Abhishek Jain: A couple of years back, Maruti used to be just about under INR 1,500 per car. Now we've raised it up to INR 2,500 to somewhere INR 3,000 per vehicle. Honda, as you know, there's no -- kind of purposely not trying to increase our business, but that has remained almost similar to what earlier level was, somewhere between INR 6,000 and INR 7,000. MG, like I was just telling the lady earlier, we've come up to INR 6,500 for an average.

Tata Motors or the current models, we are at about INR 1,400 per car. But for the next models which are supposed to line up today, this INR 1,400 per car contribution still go up to almost INR 8,000 per vehicle. So with every customer, we are trying to develop new products, design engineering teams work closely with all the customers at the OEM level also and at their Tier 1 level also. So both of them put together, we are trying to improve our per car contribution for any model that is launched in the market.

VP Rajesh: And lastly, what is the capacity utilization and the composite of all the plants?

Sachin Jain: Yes, it is around 75% in this 9 months.

VP Rajesh: So are you planning to then start expanding capacity next year? Or how are you thinking about that?

Sachin Jain: About capex, because most of the facilities have been set up. So for the next few years, like 1 or 2 years in short-term period, so there will be more focus in to have the balance sheet equipment requirement in line with the customer business requirement. So as per se, we are not focusing to expand the capacity, but it will depend based on the customer requirements, but balance sheet equipment we require for that.

VP Rajesh: But what is the maximum capacity you can take the 75% to? Is it 90%, 95%?

Sachin Jain: But then it will go hardly up to 90%, we can do it. But then after when it reaches up to 90%, then we do certain activities, size and activity to increase the utilization to reducing the reduction levels, reducing the cycle time. So there are a lot of action the plant team takes to improve the capacity utilization to improve the availability of time. So without investment, we can increase the capacity.

Moderator: The next question is from the line of Dipti Kothari from Kothari Securities.

Dipti Kothari: Sir, my first question was on how much revenue by commercial tool room contribute to the overall revenue?

Sachin Jain: Yes, this quarter, out of INR 124 crores, the INR 2 crores of revenue has been contributed by the commercial tool room.

Dipti Kothari: Sir, and what is your guidance for the top line and border line for FY '24?

Sachin Jain: It is difficult to give you guidance right now, we are working on that. Right now, internal teams are on the business plans. So based on that, we'll be able to give some guidance in Q1. Right now, it is difficult to give some guidance.

Abhishek Jain: I'll tell you on an overall basis, for automotive business, we will follow the trend of the industry, which we have been doing until now. So our growth is going to be in line with what the industry growth will be. In these businesses, CTR and aftermarket next year should be a period wherein we can really exploit the investment and the fundamental things which we've done in these businesses. they will act -- next year will act as a major year for all these new focuses that we've started in the company.

Moderator: The next question is from the line of Lavanya Tomar from Individual Investor.

Lavanya Tomar: I wanted to know that who are our top two competitors. And how are the [inaudible 0:35:17].

Abhishek Jain: We have some unlisted competitors if you're talking about the automotive part business, there are companies like [inaudible 0:3537], Cooper Standard, TG Minda. TG Minda is of course, a listed entity, the parent entity is listed. Gold Seal are booming. So, there are a lot of competitors in each respective space. But in plastic extrusion, I'm happy to say that we command almost 85% of the complete market share for the passenger vehicle industry. Rubber side, there is a lot of competition.

And because we've just entered into that product range about under 10 years ago. So we are still a very at nascent stage of about 15-odd percentage of the whole market. Injection moluding space, there are a lot of competition, Motherson being, I think, the biggest one. There are a lot of other companies called Krishna Maruti or Machino Plastics. Machino Plastics is another listed entity. So there is a lot of competition in what we do, but our focus of global level excellence and customer delight and giving customers a good value-added technological product gives us a lot of advantage over our competition.

We are very attractive for the customer to do business with because we understand what is reliability, what is repeatability, what is good quality, what is good service. How to develop a new part, how to ameliorate, how to make the tool. So - we do all this in-house by ourselves.

We have our tooling facility in-house, which will make the tools in-house. So all this complete solution that we give to the customer is a very attractive proposal wherein with one company, we can get everything done. That is what makes us attractive over our competition to all these customers.

Lavanya Tomar: And though you have already told the realization per vehicle for the various companies. However, just a suggestion that if you could include these numbers in an investor presentation, that will help us as an investor to evaluate the results better. And last but not the least, I would like to say that you did a very commendable work during COVID times handling the whole situation, and I'm happy that our company has come through well.

Moderator: I now hand the conference over to Mr. Abhishek Jain for closing comments.

Abhishek Jain: Thank you, Tanvi. Thank you, everyone, for taking time out of your busy schedules to attend the conference call today. Please feel free to approach us with any questions that you may have. In case you are in the NCR or in any region where we have a plant. We would be more than happy to show you around. Please get in touch with us or with SGA Advisors to schedule a plant visit.

Last but not the least, I thank SGA Advisors and my team and the Conference Call Chorus team for organizing everything today. Thank you very much, everyone. Have a good evening.

Moderator: Thank you. On behalf of PPAP Automotive Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.