



PPAP AUTOMOTIVE LIMITED
"PPAP Automotive Limited Q1FY20 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 Stephen, the moderator for this conference. Welcome to the conference call of PPAP Automotive Limited arranged by Concept Investor Relations to discuss its Q1FY20 results for the quarter ended June 30th, 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 a question and answer session. At that time, if you have a question, please press * and 1 on your touchtone telephone. Please note, that this conference is being recorded. I would now like to hand over the floor to Mr. Gaurav Girdhar. Thank you and over to you.

Gaurav Girdhar: Good evening everyone. Thank you for taking time out for Q1FY20 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 will 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, I would now like to hand over the call to Abhishek sir. Over to you, sir.

Abhishek Jain: Thank you, Stephen. Thank you, Gaurav. Ladies and Gentlemen, a very good evening to all of you. I am Abhishek Jain, CEO and MD of the company. I welcome you all to the conference call to discuss the performance for Q1FY20 of our company, PPAP Automotive Limited.

Firstly, I would like to give you a short brief about our company. Then, I will talk about the financial performance of the company in the June quarter and then we can take up questions. I also have with me our Chief Financial Officer, Mr. Anurag Saxena who has recently joined us.

Now, we should start with the brief overview of the automotive industry during the quarter under review. During the quarter, the passenger vehicles segment witnessed a production de-growth of 11.97% year-on-year in the quarter under review. A total of 0.9 million passenger vehicles were produced



against 1.02 million in the same period last year. The commercial vehicle production growth also fell by 14.47% whereas the two-wheeler production was at 5.81 million which witnessed a de-growth of 10.10% compared to the previous year. Our industry is witnessing an unprecedented drop in demand which has seen an impact on the performance of our company for the quarter under review. As you all know, the liquidity crunch in the market coupled with increase in insurance premium and registration rates has contributed to the reduction in demand. Today, there is confusion in the buyer's mind regarding the treatment and effect of BS-IV vehicles post BS-VI implementation. There is also confusion regarding implementation of the vehicles. The overall negative sentiment has resulted in the reduction of demand. Our industry bodies have represented certain demand boosting measures to the government like reduction of GST as well as scrapping policy etc. but there have not been any decisions yet. We hope that soon government steps in and takes prudent actions in order to boost the consumer sentiments.

Just a small recap of what PPAP is about. We are into manufacturing of polymer extrusion based automotive sealing systems, interior and exterior injection molded products. With our 7 facilities spread across the key automotive hubs in India, the company manufactures over 1,000 different SKUs and shifts over 2,00,000 parts every day to our customers which include the Japanese OEMs 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 its per car contribution. In 2014, for this purpose we have established a new joint venture for making rubber parts to increase our per car contribution in the passenger vehicle segment. The company is able to attract new opportunities in both sealing systems as well as injection products. Post the establishment of our facilities which are closer to the customer now, we continue to focus to build on our core competency and on achieving excellence throughout the gambit of our organization.

Now, I will talk about financial performance for the quarter ended 30th June 2019. Overall, it was a very challenging quarter not only for us, but for the



overall auto ancillary sector as well as the auto OEMs. In Q1FY20, revenue from operations on a standalone basis stands at Rs. 92.05 crore as compared to Rs. 99.69 crore, witnessing a de-growth of 7.7% on a year-on-year basis. Out of this revenue, part sales amounted to Rs. 88.44 crore, registering a fall of 7.9% from the same quarter last year. Tool sales contributed Rs. 2.83 crore and Rs. 0.79 crore was the other operating income which is the subsidies which we received every quarter from the government of Rajasthan.

The company reported an EBITDA of Rs. 15.24 crore as against Rs. 19.88 crore in the same quarter last year. The EBITDA margin for Q1FY20 stood at 16.6% as compared to 19.9% in the same quarter previous year due to reduced spread of fixed cost mainly employee cost as well as inventory cost. Profit after tax for Q1FY20 stood at Rs. 5.76 crore compared to Rs. 8.85 crore previous year same quarter. The PAT margin stood at 6.3% compared to 8.9%. The EPS for the quarter is at Rs. 4.11 compared to Rs. 6.32 in the same quarter last year. The consolidated EPS for Q1FY20 stood at Rs. 4.15 compared to Rs. 6.50 in the same period last year. During this phase of demand reduction, we have intensified our focus on reviewing each and every operation of the company and we are trying our best to make the company leaner in all aspects. I am sure that when the demand returns, we would be able to exhibit a better performance.

I am also happy to report to you that we have won the Machinist Super Shop floor Awards in 2018 in the category of productivity for the SME category. This brings me to the end of my opening commentary. Now, I would like to leave the floor open for questions and suggestions that you may have. I and Mr. Saxena will try our best to answer all of them. Over to you, Stephen.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Suvarna Joshi from Axis Securities. Please go ahead.

Suvarna Joshi:

I missed the initial part of your commentary. So, sir one request I had if you could just kind of repeat that, that was one. And second while we are hearing



that across the OEMs, there has been slowdown and the concerns continue. Can you just highlight to us as to how much more pain is going to be there in the system and how soon do you expect the OEMs to come back? Are you getting any indication from your customers? Is there any sign of demand coming back because we are just at the start of the festive season from the next month onwards? So that was the second question. And third question would be on the margin front clearly because of the slowdown, we have seen that impact on our margins as well and we have probably come to the 16.6 kind of a level as against the earlier 20% kind of range. So what is your expectations, how do you intend to manage this particular year in terms of the margins as well sir, some thoughts on that could be really helpful.

Abhishek Jain: What do you want to hear again?

Suvarna Joshi: Sir you mentioned about the industry in terms of the passenger vehicle production units and normally which you give those numbers?

Abhishek Jain: So, what we basically said that the passenger vehicle segment basically had a de-growth of about 11.97% and 0.9 million passenger vehicles were produced against 1.02 million in the same period last year and the commercial vehicle production fell by 14.47% and two-wheeler production was reduced by 10.10%. So, these are the basic statistics what we have learned from the first quarter. Your second question, how much more pain? We just hope that the pain goes away quickly and right now, none of the customers have indicated that they are going to increase their production by whole lot. September, since the festive season is going to start, we should see an upside in the vehicle sales, but the inventory which is being created in the downturn by the OEMs, I think first focus will be to push that inventory out to all the consumers. So that comes to production of vehicles we may have to wait a little longer and this pain basically can go away much faster if the government steps in and takes prudent actions especially like reduction of GST or having some scrappage policy and even reducing this insurance amount which now if anyone who is buying a vehicle has to buy 3 years of insurance in the beginning. So, it is costing the consumer almost 3 times the money which he



used to pay earlier. So all these things, we are basically hoping that the government steps in and takes some prudent actions to basically boost the sentiments of people and that would really drive the demand going forward. For us, our EBITDA margin being reduced from 19% to 16.6%, so that effect has primarily come due to, if you see the detailed presentation that we have shared with you, so if you see in pure numbers, our expenses have either remained same or they have become better. But in percentage terms, we have not been able to maintain the margins. Primarily, it is due to the fixed cost which is there and as I said in the commentary also, now we started reviewing all the aspects of operations in the company, again very intensely and we are trying to further find ways of reducing all the waste that is there in the system, trying to find out new ways of improving our bottomline. So, for example when you look at material cost, we are looking at all that material cost, what is landed cost to us, what is ex-works price for our suppliers if transportation cost when we merged, clubbed into one or some benefit can come from there. Consumption side, we are looking at what kind of design wastages are there in the system, if those can be improved. Employee side, we are also doing rationalization of people, doing analysis of what each and every person is doing in the company. So, there is a whole lot of measures which we are trying to re-evaluate and trying to find the ways of doing them in a better way going forward. So, we are quite hopeful that once all these countermeasures are taken by us, when the demand comes, we should be in a position to exhibit either the same performance as what we shown before or maybe even better performance than before.

Suvarna Joshi:

And if you could just highlight on this new launch Glanza and you also mentioned some Suzuki Motor Gixxer. So, how is that the new part sales has contributed to the total revenues because typically we have been sharing about new part sales contribution, the newer ones that contribute to our revenues. So, if you could just highlight something on that front as well.

Abhishek Jain:

In this quarter, we did not have any major new model launches. So, Glanza what has been launched is basically made by SMG in Gujarat and rebranded



as Toyota Glanza. So, this production started last quarter itself. So this quarter, we have not seen any new model contribution in our sales.

Suvarna Joshi: And sir any update on the partnership with Hyundai Motors because already we have started supplying some parts to them and MG Hector also, we read from news report that the bookings for 2019 has been fully over. So, what is the response you are getting from the new customers per se?

Abhishek Jain: We have already got business for MG Hector and now we have started discussing for future projects as well. And I think MG has got a good response. I think one year inventory is already in books. One year production volume has completely been booked. With Hyundai also, it is a same status as we spoke about last time. So, we are continuously developing parts for them and we will be in touch with them for new business as well.

Moderator: Thank you. The next question is from the line of Nandita Relia from Prabhudas Lilladher. Please go ahead.

Nandita Relia: Could you please give the segmental revenue breakup as in you had given it earlier, but I missed a part of it.

Abhishek Jain: So, out of the Rs. 92.05 crore, Rs. 88.44 crore is part sales and Rs. 2.83 crore is tool sales and Rs. 0.79 crore is other operating income which is the subsidy received from the Rajasthan government every quarter.

Moderator: Thank you. The next question is from the line of Mitul Shah from Reliance Securities. Please go ahead.

Mitul Shah: Can you give some detail on the new products and what is the plan for increasing revenue from molding side/molded products?

Abhishek Jain: New product means what sir, what do you want to know?

Mitul Shah: Like in last discussion we expressed that we want to increase the revenue from the molded parts?



Abhishek Jain: Yes.

Mitul Shah: So, any development on the new product or addition into the product pipeline with the existing customer on the molded side?

Abhishek Jain: Like we have explained this Gujarat facility and the Pathredi facility; so after launching these two facilities, we are getting lot of enquiries from Maruti and SMG regarding molding components. Earlier, our basic business for molding parts was with Honda, so I can give you one example of our new product that we have launched from Gujarat plant, this was basically the front grill of the new Baleno as well as this Toyota Glama. So, those are some new products that we have launched from that plant. From Pathredi plant, we will be starting interior components like centre console for Maruti and may be parts like Radiator Grill so we are getting all these parts from customers now for our molding.

Mitul Shah: And can you give some details on our indirect export side, how is it ramping up or through existing customer we export right, we give it to the domestic player and then they export it to their counterparts in a global, so how that is ramping up? Or those business is also in a downturn?

Abhishek Jain: Downturn, it is stable because that doesn't depend on the Indian market, so those supplies are still going on and basically our Chennai plant is busy in catering to those demands and with Nissan it is going on and Renault also, now we have started supplying to Brazil, now Renault, they are making some strategy for exporting the same parts to Russia also, but that is still not confirmed when it was going to start and for Toyota, we are already exporting to all the South American countries, so that business is quite stable.

Mitul Shah: And my last question is on, any major strategic change considering the current slowdown, any change in the business strategy or capacity expansion side on the new launches?

Abhishek Jain: From the customer side, we have not received any information yet about any model being delayed or discontinued or stocked or anything, so what we are



doing is, if there was any money to be spend on internal capacity expansion or investment that we are reviewing every day and that we are taking a prudent action of whether to get ahead or not but in case that any investment is linked to a customer project that we are going ahead with, so that is the basic policy which we are adopting for investments in this period that for any customer linked project which are the customer deadline that we are going ahead with, but in case any CAPEX was required for internal purpose that we are reviewing and in case it is absolutely required and it gives an immediate ROI of less than one year that we are implementing, but long-term improvements are which we are not implementing right now.

Moderator: Thank you. The next question is from the line of Pankaj Bobade from Axis Securities. Please go ahead.

Pankaj Bobade: Just wanted to understand given the presence we have with OEMs, where do you see our company going forward, may be 2 to 3 years down the line and then when the fortunes of auto industry revive?

Abhishek Jain: Pankaj, in past also we have always commented that we will be growing faster than the industry, our growth rate will be faster than the industry growth rate, so that is what we will basically continue to focus on.

Pankaj Bobade: So, do you want to limit ourselves to these three product lines, I mean plastic extrusion, rubber and injection molding or would you like to invest into any more verticals?

Abhishek Jain: No, we are evaluating the couple of more options of what we have to do, but basically it has to be in sync with what our current competence is.

Pankaj Bobade: And any plans for export, currently?

Abhishek Jain: Not direct exports, but we are discussing with Nissan Japan and Renault like as we have said for Russia business, so those things are in pipeline.



Pankaj Bobade: So, by when can we see the real fruits of the developments which you are carrying out?

Abhishek Jain: We are engaging in dialogues with them right now, but they have not come up with any concrete plan of a new model or something which we will have an opportunity, so currently we don't have anything in pipeline except for this Renault Russia export.

Pankaj Bobade: And lastly, what is the current capacity utilization?

Abhishek Jain: Utilization would be somewhat in the range of 65 to 70%.

Pankaj Bobade: I mean to say, currently we are 65 to 70% utilized, so in future if the fortunes of auto industry revive, so by when do you see our capacity utilized at optimum level and we have to look out for a fresh CAPEX?

Abhishek Jain: See, originally this year was supposed to be, the volumes were supposed to increase by almost 10 to 12% but instead of increasing from 10 to 12% we are witnessing a decrease of 10 to 15%, so that kind of capacity is already available in the company. So, if like from a downside of 15% market goes up to, we will have a room of about 30% increase right now, in case the volume comes back without investing in additional capacities.

Pankaj Bobade: And optimum capacity utilization run rate around to achieve the revenue of nearly Rs. 380 to Rs. 400 odd crore, right?

Abhishek Jain: Yes, I think you can interpret very easily.

Moderator: Thank you. The next question is from the line of Romil Jain from Systematix Shares. Please go ahead.

Romil Jain: Just wanted to understand, how is the content per vehicle, how that is looking over the next 2 to 3 years, so what is the strategy from your side to increase the content per vehicle?



Abhishek Jain: To increase the content per vehicle, so initially if you look at our product range, the PPAP was primarily the plastic sealing system, so that was about Rs. 1,100 per car, then we added this joint venture PTI, so that is additional around Rs. 1,400 to Rs. 2,000 per car and along with this, we are focusing on development of the injection products primarily for Honda. For Honda, the injection products what we do they are about almost Rs. 4,000 to Rs. 4,500 per car but because we were not present close to Maruti facility, we did not have much business of injection molding with them that ranged to about Rs. 250 or Rs. 300 per car with one or two different products, so for increasing this per car business, now we are focusing on developing more injection molding products for Maruti as well as for SMG.

Romil Jain: So, for Maruti and SMG, we have started getting incremental orders for the injection molding, right?

Abhishek Jain: Yes.

Romil Jain: And, secondly on the content addition on the sealing system that you mentioned from Rs. 1,100 to Rs. 2,000, how much portion of our revenues would be now in the Rs. 1,400 bracket? So, just wanted to understand how much is still left to increase in terms of content?

Abhishek Jain: See, for plastic sealing system, we already have a lion's market share when it comes to our existing products. So for that, our simple strategy is to get into new customers like Hyundai and like I told you in the previous conference call also, we have started doing business with Volkswagen and other customers, so we have to add more customers to that kind of business. For the joint venture, we are still in very nascent stage, it has only been 3 to 4 years since we started it. So, we are present only in Maruti and Honda that also I think about 20% of their total volume, so that is the huge scope there as well for us to grow and injection molding area, you are already aware you got a very low market share right now in Maruti and the headroom is quite large, so there is a lot of scope and lot of opportunities for injection molding products when it comes to Maruti and SMG.



Moderator: Thank you. The next question is from the line of Mitul Shah from Reliance Securities. Please go ahead.

Mitul Shah: Sir, I have question on the non-auto side, so any plan to increase the non-auto revenue in terms of diversification, doing a cyclical and now it is going under cyclical downturn, so any scope for molded parts for non-auto space?

Abhishek Jain: We had evaluated non-auto side about one year back but the investment and the returns were not lucrative at all and PPAP basically we don't want to do any commodity business at all.

Mitul Shah: Yes, on the engineering side, I am asking?

Abhishek Jain: Topline and doesn't add anything to the bottom line.

Mitul Shah: Sir, plastic components used in the engineering machineries and engineering parts which are not considered as a commodity where the margins are also high, then the plastics used is also specialty plastics?

Abhishek Jain: No, we have never focused on all these parts.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Abhishek Jain: Thank you Stephen, thank you Gaurav for organizing this conference call. I would like to pay my sincere gratitude to all my analyst and investor friends for taking time out of their busy schedule to listen to us today. These are challenging times and a lot of uncertainty and disruption is expected, but I am sure that the efforts that we are doing will come out with flying colors. Please feel free to contact Concept or our company in case you have any further questions. If you happen to be in the NCR region, do give us an opportunity for you to show around our world class operations. Thank you.

Moderator: Thank you. Ladies and gentlemen, thank you for being a part of this conference call. If you need any further information or clarification, please email at gaurav.g@conceptpr.com or irfan@conceptpr.com. Ladies and



PPAP Automotive Limited
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Gentlemen, this concludes the conference for today. Thank you for using Chorus Call Conferencing Service. You may now disconnect your lines. Have a pleasant day.