"PPAP Automotive Limited Q3 FY24 Earnings Conference Call"

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MANAGEMENT: **MR. ABHISHEK JAIN – MD & CEO, PPAP AUTOMOTIVE LIMITED**
MR. SACHIN JAIN - CFO, PPAP AUTOMOTIVE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to PPAP Automotive Limited Q3 and 9 months FY24 Earnings Conference Call.

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

Abhishek Jain: Thank you, Nirav. Good afternoon, everyone. I would like to extend a very warm welcome to all the participants joining us on this call.

Here with me is Mr. Sachin Jain - our CFO, along with our Investor Relation Advisors from SGA. I trust you had an opportunity to review our results and investor presentation, which are available on both the Stock Exchange and our company's website for easy access.

Before delving into the specifics of our financials, I would like to provide a succinct overview of some key developments in the industry. India's is one of the largest automotive market globally and is expected to conclude Financial Year '24 with 4.1 million passenger vehicles positioning itself as one of the fastest growing markets worldwide in the coming years. Consequently, numerous global OEM's have established manufacturing plants over the past decade or so to tap into this significant market. To expedite their expansions, many global OEM's have now finalized plans to designate India as their global hub for certain models. In the PV segment, there was notable demand for SUVs.

Passenger vehicle production volumes for Q3 Financial Year '24 reached about 1.14 million units, marking a 5% year-on-year increase. Noteworthy sales were recorded during the quarter totaling 1.01 million units, driven by factors such as the festive season, year-end promotions and the introduction of new products. However, sales volume experienced a slight dip compared to quarter 2, primarily due to the Kharmas period characterized by the subdued demand from December 15th to January 15th.

In the commercial vehicle sector, sales volume for the quarter ending December 23 reached 2,40,000 units, up from 230,000 units in the same quarter previous year. The growth was spurred by robust economic expansion and increased construction activities, leading to enhanced fleet utilization rates and cash flows for fleet operators. Conversely, the tractor segment witnessed a 5% decline in sales volume during the same period, largely attributed to subdued demand from a delayed harvest season. Nonetheless, solid auto bookings and positive market sentiment suggest a resilient growth trajectory for the sector.

The two-wheeler segment saw significant recovery driven by the festive demand in the previous quarter. The positive momentum continued in December 23 quarter as well with sales volume reaching 4.7 million units, indicating a robust year-on-year growth of 23%. Increased demand was influenced by various factors, including festive favor, heightened rural sentiments, the wedding season, intensified marketing efforts and anticipation of price hikes in January 24.

We have emphasized that Financial Year ’24 marks a fresh start for our group and so far it is shaping up accordingly. To enhance profitability, we have communicated price hikes to the customers. Many have already committed to it, diligently worked on reducing internal costs with suppliers and we are still progressing towards internalizing manufacturing efficiencies. The investments made in the JV company are proving fruitful. Our aftermarket division has established a strong network across India and is now exploring international markets, I am confident that the company’s effort over the past couple of years will yield improved results in the remainder of this year and the next year going forward strengthening the fundamentals of the company and the growth, thereby creating greater value for all the stakeholders.

Now let me briefly update you on our business segments. The company remains focused on the automotive industry. While witnessing strong demand and sales in this segment, we are continuously developing new products for our customers. The company’s capacity utilization stands at 70% in Quarter 3 due to seasonal factors and annual maintenance at the OEM level. Despite our products being adaptable to various engines**,** for long-term viability, we have managed to secure contracts with customers planning to launch electric vehicles in the future, led by Maruti Suzuki and by Tata Motors. We are actively negotiating with customers regarding composition for inflationary costs and we have encountered favorable outcomes within this quarter. As we have been mentioning for a few quarters now, our margins are expected to improve once all the costs are brought under control.

Our second vertical for growth, the commercial tool room has a strong order book. This year, we have an order book of 65 tools. We are also participating in the Die & Mold India Exhibition, which is organized by TAGMA from 14th to 17th February in the Mumbai Exhibition Center in Goregaon. I would request you if you have spare time, please visit our stall, we will be happy to show you our capabilities. We have recently rebranded this vertical under a new name, Meraki Precision Molds to bring about more focus on making the molds.

In our third vertical, as announced to you in the last meeting, we have started supplies for an export customer, which is the first for the company. In this segment, we are focusing on application engineering solutions in the areas of plastic extrusion, rubber extrusion as well as plastic injection molding. Our product portfolio includes more than 50 plus products in this segment, which are being well accepted by the customer.

In our Aftermarket vertical, which is done under a group company called Elpis, our subsidiary, we have our Pan India distribution network, which is spread over 125 plus distributors and in line with adding new SKUs to our product offering for our customers, we have added 200 plus products during this quarter, bringing the total to 900 plus SKUs being offered to the customers. This segment continues to grow at a rate of 50% this year and I am quite hopeful that this growth will continue in the future as well. I am happy to share with you that we have also started exports to UAE and GCC during the last quarter from this company and we are actively looking at exploring options to leverage the export market for this vertical as well. Our lithium-ion battery vertical is facing some challenges, though we aim to build a strong order book and provide solutions to our customers in the future, but it is still taking some time to shape up. We are making all efforts to resolve all the performance parameters so that it starts positive contribution to the growth sooner than later.

On the sustainability front, we have obtained certification from Eco Vadis, voluntarily complier with BRSR requirements and we are also recognized as a great place to work. We strive to enhance our sustainability reporting process to meet the highest standards and to demonstrate our efforts in creating a sustainable value for all the stakeholders. Our latest sustainability report for financial year 23 is available on our website where we highlight our CSR activities also which are focused on environment, education and health.

Now, let me throw some light on the financial performance of quarter three Financial Year '24. At a standalone level, the revenue dropped from Rs. 124.8 crores to Rs. 119.7 crores on a quarter-on-quarter basis. EBITDA has risen by 15% to Rs. 10.9 crores on year-on-year basis. Also, the EBITDA margin improved by 160 basis points on a year-to-year basis from 7.5% to 9.1%. The company registered a PAT of Rs. 0.2 crores, a slight decline from Rs. 0.3 crores year-on-year basis.

Coming to the consolidated financials, revenue decreased from Rs. 127.1 crore in Quarter 3 to Rs. 122.4 crores in Quarter 3, indicating a decline of 3.7%. While EBITDA stood at Rs. 9.8 crores, indicating a growth of 7.9%. On a consolidated basis, the EBITDA margin improved by 90 basis points from 7.1% to 8%. However, the company suffered a net loss of Rs. 2.7 crores on a consolidated basis, primarily contributed by the lithium-ion battery business. Looking ahead in financial year 25, we expect the volume surge in addition to our improved product mix, lower input prices, and cost efficiency measures should really improve our top line and our bottom line. Our CAPEX spending will be aligned with the customer's requirements, increased capacity utilization and tariff revisions from customers will surely put us in a strong position for growth and profitability in the coming years. Thank you all for your attention and we are open to any questions. Over to you, Nirav.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rohit Mehra from SK Securities. Please go ahead.

Rohit Mehra: My first question is, could you provide details on the order book for Honda Elevate and the content per vehicle for this model?

sachin Jain: Honda side basically is the domestic volume is approximately 4000 to 5000 vehicles per month and we are also getting the export volume from the customer. So, in December month, we have started the export and it is expected to go around 3000 vehicle by end of this March and regarding the content per vehicle, the value is Rs. 6,000 for the car.

Rohit Mehra: And my second question is, are we exploring any export opportunities, and do we anticipate a moderation in raw material costs going forward?

Abhishek Jain: All the macro indexes for the raw materials are showing a softening trend., So, we do expect raw material prices to come down. Apart from that, we have been working on de-risking our supply chain system as well. So, both of them should result in reduced raw material prices for sure.

Rohit Mehra: Are we exploring any export opportunities?

Abhishek Jain: Yes, export is a very important focus for us going forward. Like I said in my explanation, our Aftermarket business, we have already exported one shipment to UAE in the month of December and we will be developing more such shipments in this quarter. In the main company, in our industrial product business, we have already sent two shipments for our export customer to the US and more shipments are supposed to happen during this quarter.

Moderator: Thank you. Next question is from the line of Nishi Shah from Star Wealth Advisors. Please go ahead.

Nishi Shah: So, my question is, are there any considerations or discussions regarding adopting a cost-plus model with OEM's to mitigate the impact of raw material cost fluctuations on margins?

Abhishek Jain: Nishi, some of our products that we make, they are basically under the indexing system of our customer wherein the raw material prices are adequately compensated. So, basically we have three business divisions in the company for automotive business, plastic extrusion, rubber extrusion and injection molding. So, whatever materials we use in injection molding process which contributes about 40% of the total business of the company. Those are indexed with the customer and we don't have an impact of raw material price movement. That is adequately compensated by the customer maybe on quarter lag. So, that is one problem. This quarter lag we are trying to remove with the same arrangement with our suppliers as well, so that the company doesn't have any impact on it. The second, plastic extrusion, we are trying to get maximum indexing done from all the customers for all the materials so that going forward in future we are able to limit the impact of these unprecedented raw material price changes which have happened in our case in the last 2-3 years, especially after COVID. So, we are trying our efforts to get all the prices indexed with the customers. So, some customers have agreed to it, some materials they have agreed to it. Overall, we are not there 100% yet. Rubber side, we are already indexed with the customer. So, whatever rubber prices change happens, we are adequately compensated from the customer.

Nishi Shah: Are we in partnership with the most major players in the industry?

Abhishek Jain: We are supplying to most of the major OEM's in the country. Is that what you are asking?

Nishi Shah: Yes, right and what are our plans for the margin expansion?

Abhishek Jain: Like I have been saying in all the previous meetings as well, we are working on three pronged approach. First is getting certain inflationary cost increases from the customer, raw material prices correction, all those things from the customer. Second is of course internal manufacturing efficiency, wastages and all of that making the operations more leaner, less with the wastages and all. And third of course is the de-risking of the supply chain, trying to get a better material at better prices and localize to the maximum possible extent.

Moderator: Thank you. Next question is from the line of Rajvi Shah from Bright Securities. Please go ahead.

Rajvi Shah: I just had a couple of questions. The first one is, what is the status of commercial tool room business? Have we secured any significant orders?

sachin Jain: Regarding commercial tool room, as we have mentioned that we have the order book of around 65 plus tools for this financial year and commercial tool room is very specialized business. So, in that you got the repeat order, but it is not like the commodity business, you developed one tool then you start getting the ten-tool order for same particular tool. So, we are gradually getting traction from our customer and continuously we are getting the order from our customer in this segment. So, I would not say that any significant value of order we have received. However, in line with the investment and the infrastructure which we have created, we are getting the orders.

Rajvi Shah: I just had one more question, what percentage of our topline revenue comes from the aftermarket vertical and what are associated margins in that segment?

Sachin Jain: Aftermarket side, we are getting around 3% of the topline and if we talk about the full year margin, so here we are expecting around 9% to 10% this financial year in the aftermarket.

Moderator: Thank you. Next question is from the line of Ranodeep from MAS Capital. Please go ahead.

Ranodeep: Wanted to check, have you seen any scale up in our battery business?

Sachin Jain: The battery side, we are still facing challenges and we have developed 50 plus batteries, and we are working with certain customer with that segment. However, for the customer for whom we have developed the batteries, their end product is under certification stage. So, that is why we could not scale up in this Quarter 3, so that is the area we are working on where, how to improve our order book in that segment and for the financial performance of that company. So, in lithium-ion battery segment, there are still challenges.

Ranodeep: My second question was, we have seen a big premiumization trend happening in India, like are we getting benefit from this trend? Has our ARPU in each of these clients that we have, has it gone up?

Abhishek Jain: In line with this premiumization trend, we are ready with our products. If you see this, you must have heard about Tata Curvv, which is supposed to be launched in the market soon by Tata, which was on display in the Bharat Mobility Expo and there has been a whole buzz about it. So, this product, this vehicle will have lot of our premium products which we are introducing for the market for the first time. Our basic philosophy is that whatever customer wants from us, we are proactively ready with that kind of a solution before the customer requires. So, in line with that, we have developed a lot of premium products for the customers and when you see this Tata curvv, you will definitely notice all the premium products which are being made by us.

Ranodeep: Are you in a state to disclose, what are these products?

Abhishek Jain: These are all similar product range what we do for Tata Motors. So, the outer belt, the A pillar, the C pillar.

Ranodeep: And what kind of revenue recognition will be having per car, tentatively?

Abhishek Jain: So, Tata is planning to make, I think 40,000 vehicles per year. And I think per car value is about I think 4,500 or something.

Moderator: Thank you. Next question is from the line of Karan Mehta from Mehta Investments. Please go ahead.

Karan Mehta: Couple of questions from my end. Sir, I just wanted to understand how we foresee the demand shaping up in FY25 if you can provide some insights here?

Abhishek Jain: I think next year is going to be a little challenging for the Auto industry because it is the year after elections, so of course, growth will happen for sure, but I think growth will not be as similar as what it was in this financial year, so maybe little less than this here. But for us, we are launching a lot of new products. So, that will definitely boost our topline.

Karan Mehta: And one point on a debt level, so we have seen that our debt has been rising in the past few half yearly statements if we go through that. So, how should we look at debt levels going forward like for FY24 and beyond?

Sachin Jain: On the debt side, also last concall we have informed that on the long-term basis, we tried to maintain debt level only, not to increase substantially. So, there could be minor changes based on the quarterly requirement or half-yearly requirement. So, on the overall basis, we will try to maintain at Rs. 150 crores kind of debt level only, until and unless we have some big project where we need substantial funding to fund that project. Otherwise, we will try to keep it that level only.

Moderator: Thank you. Next question is from the line of Aditya Sen from Robo Capital. Please go ahead.

Aditya Sen: Probably, I missed the CAPEX point, do we have any CAPEX plan for next 2 or 3 years in line?

Sachin Jain: So, right now, we don't have any major CAPEX plan. So, mostly it could be in line with the customer requirement, and we are evaluating the customer projects and the concerned capacity which we have at the current location. First, we will try to align that capacity by shifting the machine if there is any requirement at particular location like in Pathredi side or Chennai side or Gujarat side, across the India we have the plant. So, first of all we will try to align our capacity among the plant and after that we will think of any large CAPEX if some customer project comes up.

Aditya Sen: So, can you please share the present capacity utilization?

Abhishek Jain: Yes, for the Q3 it was 70%.

Aditya Sen: So, I believe there is room for growth, do we have any aspirational number in terms of revenue and EBITDA for coming, let us say, 3-4 years?

Abhishek Jain: Yes, EBITDA side we have also informed earlier. Also, 12% kind of EBITDA margin we always look for and topline also. So, our first focus is to improve the current capacity utilization to that and later on we can also in the aftermarket segment, we want to grow at this pace only every year and try to achieve 50% plus growth like industrial product where we have ventured into. So, these are 2-3 areas where growth will come up.

Moderator: Thank you. Next question is from land of Ravi Shah from Opal Securities. Please go ahead.

Ravi Shah: I had a few questions. So, previously there was a discussion that we will be maintaining an EBITDA margin of around 15%, now it is at 9% for the current period. So, I was just thinking like, how are we going to manage that and considering the decrease in commodity costs and potential price increase from our customers, why is the EBITDA not going in line with our price increases?

Sachin Jain: There are 2-3 reasons for that. So, there as we mentioned that 40% of our product is already compensated or indexed with the customer prices. And secondly on the inflationary cost side, we are working with our customers, so some success we have received. So, if you compare with the last year-on-year basis, our margin has improved by 160 basis points despite there is a drop in topline and increase in the fixed expenses also, like employee cost has increased and certain other expenses also increased because you need to maintain your manpower and you need to do certain expenses to maintain the facility. So, in spite of that our margin has improved. So, it has come due to both reason, first one is the price improvement from our customer side and softening of the raw material prices. So, for the margin side, I would say that we have bottomed out for the margin side and now it would be only the upward trend.

Ravi Shah: I have another question, sir. What will be our strategy to increase the content for vehicle especially for key OEM's like Maruti and Tata as you mentioned, so what is our strategy over there?

Sachin Jain: Strategy basically is to increase our per car value business, so parts are limited to us, we can offer them higher value-added products. So, premiumization of products is one strategy we are focusing on with all these customers, introducing new technologies. To get more business from them, we are regularly conducting technology shows at our customer ends so that we can explain to them about good manufacturing practices, our good products, our good technology, everything so that they get attracted to us and give us more business. For all these OEM's, I think initially we started with only plastic extrusion, then we started injection, then we started rubber molding. We will continue to investigate more options, but as of now product category remains the same. What we are trying to do is with all the existing customers get more premium products in place and also wherever we are not present, try to get business from them. So, there are two customers mainly which we are focusing on, first is Mahindra, which is completely missing from our portfolio. So, from last one year, we have been trying to engage with them. I am pretty hopeful that during this quarter some good news should come through and we start doing Mahindra business. Tata Motors, we are continuously engaging with them for all their new platforms so that we are present across their platforms. Hyundai, Kia, we are doing some small business for them from our Chennai plant, but we are in talks with them. You must have heard Hyundai has already acquired the Talegaon plant of General Motors and they will be soon customizing that plant according to their requirements. So, we are actively in discussion with them to get business for that plant in Pune.

Ravi Shah: Sir, one last question would be on the capacity utilization. I saw in the presentation is mentioned that there was an annual maintenance, I think in the call I must have missed it, just wanted to have you returned to normalized capacity utilization as for this quarter?

Abhishek Jain: So, the annual maintenance was at the customer's end. We cannot afford to do maintenance once a year. We do it on a daily or a weekly basis. So, there is no capacity break for us. We have our machines running at all times it is only that because customers had maintenance shut down, they didn't produce that many vehicles and that is why we had non-production days at our end because of that.

Ravi Shah: So, this is one off event?

Sachin Jain: Yes.

Moderator: Thank you. Next question is from the line of Sonu Harsana, Individual Investor. Please go ahead.

Sonu Harsana: So, my question is like, if you look at the passenger vehicle industry that has grown by 7% for Q3 FY24 year-on-year basis and also for 9-month basis industry has grown to 6 to 7%, but our revenue has just grown by 1.5%, almost flat, like what is the reason for this. Are we losing some market sale or what?

Sachin Jain: No, it is not about losing the market share, so there are two reasons. One is, in the initial 9 months we have had tool sales last year, this year we have less tool sales and as we mentioned that we are doing automotive business within two companies, the PTI, our JV company and PPAP. So, if we combine both the company's automotive toplines, then we have grown by around 10% higher than the market. In PPAP, we have grown only by 2% because there are certain product of value, production was started from our JV company. That is why it is looking that our automotive business topline has grown lesser than the market. If we console both companies' topline then we have grown by around 10% in the automotive segment.

Sonu Harsana: But, sir, let us say the consolidated result in 9 months basis?

Sachin Jain: Yes, because the JV side, the revenue is not consolidated, only PAT we consolidate. So, in topline that effect does not reflect.

Sonu Harsana: So, that means that begins with the other JV that is like if we are consolidating only stack and that is basically loss-making business because our profit after tax is also getting, we are getting lost from there till now?

Sachin Jain: Yes, for that company also up to the queue, last year there were losses in, we have settled the price with the customer. So, the price has been corrected. In this quarter, the loss, as now we have the contract with the customer for the price indexation. If there is any price reduction in the raw material prices, so customer will reduce the sale prices, so for the 9-month impact has come in this quarter, one-time impact in this JV company. So, that is why in this quarter it was in loss. Previous quarter, it was in profit in Q2 and Q1.

Sonu Harsana: Like by when we can expect there will be permanent profitable growth from that JV company?

Sachin Jain: So, next year onwards, because as we mentioned that we are also doing certain activities in the raw material side regarding the source changing and the operation efficiency side. So, from next year onwards there will be significant improvement in the margins especially in our JV company.

Sonu Harsana: And my next question is on this battery business, battery pack business, like we are saying that we are facing some challenges for last 2-3 quarters, so like to which customer we are talking so that we can get some business because if you look at two-wheeler player, they are all big players now remaining in the market, all small player has lost their loss. So, like how can we turn around this battery business?

Sachin Jain: So, here we are talking to basically three-wheeler manufacturer. Their product is under certification stage like we are also discussing with some solar energy customer where there is a requirement of battery. Further, we also had been discussing with the customer who needs the energy storage system and also for the other application also like golf cart and other where the battery is being used in the off-road vehicle, we use the battery. So, that kind of customer we are focusing because we also know that the two-wheeler customers who are quite big and they are doing their own operations or manufacturing their own battery. So, we have identified our customers and now we are working with them to scale up the operation.

Sonu Harsana: One more question I have. So, let us say if you look at the profitability of our business, consolidated level, we are having, let us say yearly basis EBITDA of Rs. 50 crores based upon last three quarters and if you look at like maybe your maintenance CAPEX of Rs. 10-Rs. 15 crores after that, we are remaining just Rs. 20 to Rs. 25 crores of cash. And if you look at balancing of capital employment is somewhere close to Rs. 400 to Rs. 450 crore, so very less profitability. So, what is the reason behind this, and this is continuing for the last approximate 1-1/2 years. Can you give something so that this profitability will improve?

Sachin Jain: Profitability, we are at improving trend. If you compare it with the previous year also there was a 7.5%, 9.1% EBITDA margin has been improved. So, it is not that you can turnaround in one quarter or two quarter. It takes time. When you go to the customer Maruti or in automotive specially all the customer is quite cost conscious and cost competitive. So, getting the price increases from the customer is not that easy. So, from the last financial year, we are very diligently working on that and we are also getting some favorable answer from our customer like PTI and JV company we are able to get the price compensation and in PPAP also we are able to get some price compensation on the price side and also the commodity price is also softening. So, all those activity would result in the margin improvement in the coming year.

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

Abhishek Jain: Thank you everyone for joining today's call and taking time out of your busy schedules to listen to us. Thank you to our Investor Relation Advisor SGA for organizing this call. As I requested in my opening remarks, we have our Tooling Exhibition from 14th to 17th February at Bombay Exhibition Center, which is called NESCO in Goregaon. Our tool facility rebranded as Meraki Precision Molds is showcasing there. I request everyone to kindly take out time and visit there. If you have any more questions, we will be more than happy to answer you. You have our e-mail address, you have our Investor Relations e-mail address as well, so please feel free to reach out to us, in case you have any queries. Thank you very much.

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