“PPAP Automotive Limited

Q4 and FY ‘24 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Q4 and FY '24 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 guarantee of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants' line will be in 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, sir.

Abhishek Jain: Yes. Thank you very much. Good morning, everyone. I'd like to extend a very warm welcome to all the participants joining us on this call. With me is Mr. Sachin Jain, our CFO; along with SGA, our Investor Relations Advisors. I trust you've had an opportunity to review our results and investor presentation, which are available both on the Stock Exchange as well as our company website for easy access.

Before delving into the specifics of our financials and our performance, I'd like to provide a brief overview of some key developments in the industry. The Indian passenger vehicle industry reached a significant milestone by surpassing 4 million sales in FY23-24, reaffirming India's position as the third largest passenger vehicle market globally. This achievement was driven by an 8.4% year-on-year growth, sparked by new SUV launches and improved semiconductor availability. Though this growth rate was lower than the previous year due to the taping out of pent-up demand, but still the industry remains buoyant.

The global context showed promising signs as well, with inflation and interest rates nearing its peak, creating a favorable environment for continued growth. Despite these positives challenges such as fragile emerging market currencies, emetic quality changes and geopolitical uncertainties remain. In the CV sector, sales volume for the FY24 reached 968,000 units. This growth was bought by robust economic expansion and increased substruction activities, leading to enhanced fleet utilization rates and cash flows for fleet operators.

Nonetheless, solid order bookings and positive market sentiment suggests a resilient growth has decreed for the sector. In the broader automotive landscape, the Indian market is poised for sustained growth with expectations of a 7% to 8% annual increase. The upper segment of the demand pyramid is anticipated to expand even more rapidly, supported by rising consumer optimism and premiumization trends.

The EV sector, in particular, saw a 32% growth over the past year with penetration rising to 5.4%. The consumer preference is currently undergoing a change whereas SUVs are becoming more popular across the different ranges. This change has resulted in a shift of market share from the incumbent player, and we see new players contributing to the rapid growth of the market.

While PPAP has a strong relationship with the incumbent manufacturers, we are strongly pursuing development activities with the other leading manufacturer as well. While we have already made strong inroads with Tata Motors, I'm happy to share that we have also started working with Mahindra & Mahindra, however, at the Tier 2 level currently, and we expect to become Tier 1 in the current financial year.

Our relationship with Hyundai and KIA is also strengthening, and we have started exporting our products to Ciaz global operations. We continue to outperform our competition at our customers' end. For the past year, we have received many awards from our customers, including Honda, Maruti Suzuki, Toyota in the areas of overall best performance, quality circle and Kaizen Awards. We are leaving no stone unturned to deliver superior value to our stakeholders.

During the past year, we have continuously informed that this year would be a reckoning for us, and we will deliver superior performance going forward. In line with this spirit and target, we have taken many actions within the company, which has now put us on a strong footing to achieve superior performance.

We have done reforms on our HR structure and are aligning the KRAs of everyone in the company to boost the performance. We have also done internal restructuring, which brings clear focus on unutilized capacity and have aligned ways and means of utilizing that capacity, both for short-term as well as long-term business. Our sales team across the different verticals are now interacting with each other and are supporting each other to develop more opportunities by cross selling the products offered by the company. We have also aligned our engineering team so that they can support the marketing team by developing newer products cost out.

The manufacturing team has been aligned to drastically cut down the wastages and to make the products faster and meet the customers' expectations regarding quality and delivery. The supply chain team is well aligned to strengthen the supply chain sourcing matters to further reduce our cost.

Last year, we had informed that our JV was in trouble. I'm happy to share with you that in the year, we were able to make great strides into reduction of the losses and have been able to cut the losses to a larger extent. I am sure that based on the trends which are available in the past 50 days, the JV company will become profitable this year and will start positive contribution to the group. The company remains focused on the automotive industry.

During the year, we commenced production of parts for Honda's new SUV Elevate, Maruti Jimny, MG Comet, etcetera. In total, we have developed parts for 14 models, which were launched in the FY'24 and are developing parts for 10 models in FY'25 and are discussing on many more projects which are supposed to get decided in FY'25 with all our customers.

The company's capacity utilization is at 75%, even though our products are adaptable to various engines, for long-term liabilities, we have secured contracts with customers planning to launch electric vehicles in the future, with Maruti Suzuki remaining our largest customer in this regard. Stabilizing raw material prices and internal reduction has significantly impacted the company's margins since last year. Our active negotiations with customers to compensate for inflationary costs have yielded favorable results this quarter.

I am pleased to announce that our stand-alone EBITDA margin has increased from 8.8% in Q4FY23 to 9.4% in the Q4FY24, which we always said that in this year, we will be somewhere in the 10% range of EBITDA for this year. Our second pain area for the group was our lithium-ion battery business, which was in a big turmoil last year.

After many discussions and analysis, we have set forth a focus area in this business, and we are confident that this year, we will come out strong in this business as well. The commercial toolroom division has been renamed as Meraki Precision Molds and is getting good traction from the market. I'm happy to inform you that we already have confirmed orders to achieve 50% of our annual targets in this division, and we should be doing good business in this as well.

Our aftermarket division has further expanded their network to 123 distributors across India and is now venturing into international markets. We have added over 550 products this year, bringing our total to more than 1,080 SKUs. I am very confident that the company's efforts over the past few years will result in improved outcome for this new year, which has started recently, thereby strengthening the fundamentals of the company and the group and creating more value for all the stakeholders.

On the sustainability front, we have obtained EcoVadis Certification and have voluntarily complied with BRSR requirements, and we are recognized as a great place to work. We strive to enhance our sustainability reporting process to meet the highest standard and demonstrate our efforts in creating sustainable value for all stakeholders. We will be focusing on our improvement in Scope 1, Scope 2, Scope 3 activities, as well as reducing the water consumption in the company. And our target is that by 2040, we should be a neutral company.

Our latest sustainability report for FY'23 is available on our website, which highlights our CSR activities as well. Let's now discuss the financial performance for the Q4 and FY'24. On a quarterly basis, our top line grew by 4% to INR132 crores in the quarter. However, the EBITDA grew by 11% to INR12.4 crores in Q4FY'24. This trickled down further in our PBT numbers as well, where we saw a 26.7% increment to INR1.9 crores in Q4FY'24.

For full year, on a standalone basis, revenue improved from INR492.3 crores to INR503.9 crores, reflecting a marginal increase of 2.3%. Additionally, gross profit increased year-on-year to INR204.8 crores with gross profit margin improving to 40.6%.

EBITDA for the year stood at INR43.8 crores with a margin of 8.7%. Our loss for the year stood at INR4.7 crores due to a one-time deferred tax of INR7.9 crores, which will be reversed and adjusted in the subsequent years. In terms of consolidated financials, in Q4, the top line has risen by 2.6%, year-on-year. Full year consolidated top line increased from INR511 crores to INR523 crores in FY'24.

In FY'25, we expect a significant improved consolidated financial performance due to the industry growth and due to the efforts, that I have already touched upon. Positive contributions coming through all our new businesses that we have started, our JV company becoming profitable, our lithium-ion business getting more capacity, the tool room significantly getting more orders and aftermarket division expanding their network. All these things put together will put us on a very strong foundation to grow from this new year onwards. Our Capex spending will be aligned with the OEMs' Capex plans.

Thank you for all your attention, and we are open to any questions. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ravi Shah from Apple Securities.

Ravi Shah: I have two questions. The first one is on capacity utilization. So, it is approximately 75% as of now. So, at peak utilization, what are the sales that you can see? And what will be your peak utilization going forward?

Abhishek Jain: Your voice is not clear.

Ravi Shah: Sir, my question was on capacity utilization. So it is currently at 75%. So where do we see the peak utilizations? And what kind of sales can we expect at peak utilizations?

Abhishek Jain: So, you are talking about the capacity utilization for the next year for FY '25?

Ravi Shah: Yes, sir.

Abhishek Jain: Yes. So internally the orders which we have in our hands, so we expect the next year capacity utilization should be more than 80% for the full year basis. .

Ravi Shah: Understood. Sir, previously, there was a discussion on maintaining our EBITDA margins are around 15%, but now there's a mention of 10% in FY '24. So, considering there's a decrease in our commodity costs and potential price increases from our customers why is our EBITDA margin not growing in line with this?

Abhishek Jain: No. If you see, the EBITDA margins improved because in this quarter 1 we have lower sales so that has impacted the certain internal inflationary cost also increased. So overall, gross margin has improved due to the improved realization and improvement in the commodity prices. So that is why are working on.

So, another growth in EBITDA would come from -- we have mentioned the increase in the top line growth. So last year, we grew 2% to 3% only. Next year, we are expecting better growth due to the higher participation on the new models which are coming up and the improved sales in our subsidiaries and better profitability in our JV company. So overall basis, so the next year would be better in comparison with the FY24.

Ravi Shah: Understood sir. Thank you sir and all the best.

Moderator: Thank you. The next question is from the line of Piyush Parag from Nuvama Wealth. Please go ahead.

Piyush Parag: Yes. Good sir and it's good to see that numbers are improving on a quarterly basis. Congratulations for that and thanks for the opportunity. Sir, my question relates to if I have heard right, did you mention that there was some rejection during the quarter? If you can give more colors on that, what kind of the rejection was there? And probably then, I will ask my second question, sir?

Abhishek Jain: About rejection, just about to mention that we are doing continuous improvement on the process of rejection we internally have because every process has certain kind of rejection like we have injection molding assembly process. For each process we have rejection. It is the feature of any manufacturing process and they have mentioned that we are improving on those rejections and we are taking necessary actions to further reduce that.

Piyush Parag: Okay. So, what is the rejection right now if we have to like what percentage of a sales how much it would be?

Abhishek Jain: Yes. It varies product to product. So, we don't disclose that kind of data because that is internal data.

Piyush Parag: Okay. So, my next question is on typically your major client, your key clients; Maruti, Honda, other players as well. There have been extremely strong growth and…

Abhishek Jain: Sorry, can you speak a little louder? It's very difficult for us to understand.

Piyush Parag: So, my question is terms of key clients such as Maruti and...

Moderator: Sorry to interrupt you. There's disturbance from your end. Can you please repeat your question?

Piyush Parag: Okay. Perfect. So, sir, my question is related to your key clients, Maruti and Honda and other players are doing well. They have shown growth in FY'24. Similar numbers are not -- has been seen on your numbers. So why is that? And second question would be like how your new business share would evolve over the next couple of years? If you can throw light on this, these two questions?

Abhishek Jain: So basically, about the top line if you see there are certain models and the LUV concept by the customer. So, they have better top line. So, there are certain models where [inaudible 18:52] was launched by Maruti like new [inaudible 19:00] that is coming up and there are other models also. So that's why we our top line -- that we did not get the engagement business for those models. Our top line has now gone in line with the - as we mentioned about the Maruti.

Honda side we are getting regular orders and we are spending there every model which they are launching in India. So, as we have mentioned in the recent speech in next year we are contributing more than 10 models which is being launched in the next financial year. So, the business which we have lost in the previous year due to the replacement model where we did not get the business. So that will be compensated in the next year. So, we are getting the orders for the new models and for the replacement of old models also in FY '25.

Piyush Parag: Okay. Got it, sir. And the second question was typically on the new business share. How it's going to be, sir? That was the last question from my side.

Abhishek Jain: So the new business share, again we are working on Maruti, it's still our biggest customer. So we are doing everything to get the business from the Maruti also, Honda also. To increase the business with other customers like Tata, initially, [inaudible 20:16] latest increase to 8% and next year also it's been increased. So, we are working with the new customers where we are net present, like Hyundai, Kia and Mahindra.

So, for the next FY25 I think the ratio would be in the similar range because it takes time to get business and get the parts developed for the new customer. On Tata side, it would increase. Honda side, we'll be able to maintain that because we are getting the business from the Honda for every new car which they are launching. So next 2 years to 3 years it would be in the same line. However, it would be increased from the Tata, Mahindra [inaudible 21:00] when it would increase and Hyundai and Kia it would get increase.

Moderator: Sorry to interrupt you, sir. There is a background noise from your end. Can you please come near to the mic and speak?

Abhishek Jain: Yes, I'm near to the mic now.

Moderator: So, there is an airy sound from your background.

Abhishek Jain: I'm more near to the mic now.

Moderator: Okay, sir, now it's loud and clear.

Abhishek Jain: Anything else?

Piyush Parag: No, no. Thanks a lot sir. Best of luck. I will come…

Moderator: Thank you. The next question is from the line of Rohit Mehra from SK Securities. Please go ahead.

Rohit Mehra: Good morning sir. So, I have a couple of questions. And my first one is, how do you see demand in FY25? And do you anticipate any slowdown going forward at an industry level?

Abhishek Jain: The official figures are somewhere in the range of 8% to 9% of growth. But due to elections and due to other factors, there might, the industry may not be able to achieve 8% to 9% growth in this year. There might be certain problems, which will, which may occur. So, that is why for our company, these other divisions which are not dependent on the automotive industry will play a key role in the growth strategy for this year.

Rohit Mehra: Okay. Got it, sir. And my second one, second question is how much percentage of revenue comes from aftermarket business? And have we reached to the 10% of the overall top line from that vertical?

Abhishek Jain: No. Currently, it is about 3% of the total group sales. See, we started this about three to four years back ago. And right now, it's 3%, but we expect this to become at least 10% of the total revenue in the next three to four years.

Rohit Mehra: Okay. Got it, sir. That's it from my side. And all the best. Thank you.

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

Karan Mehra: Hi, hello sir. Thank you for the opportunity. Sir, a couple of questions from my end. How is the pail container business doing in terms of top line in margins?

Abhishek Jain: Sorry, we didn't understand that. Could you repeat it, please?

Karan Mehra: Sir, how is the pail container business doing in terms of top line and margin?

Abhishek Jain: On pail container side, it is very small. I think because of the industrial product division announced with the tail container, we are developing the sealing systems and injection-moulded parts for the industrial surface also. So, our main focus is from, not on the pail container, but on to the sealing or the profiles that can be made for the industrial product side.

Karan Mehra: Okay. And sir, is there any increase in average selling price for our products, especially considering this rise in crude price? Could you throw some light on the same, please?

Abhishek Jain: So, right now, there is no as such impact. We have discussed certain things. So, right now, it is in line with the business, which we need to have in that period.

Karan Mehra: Okay, okay. Sir, and just one to go down the quarter. So, how is Q1 shaping up so far? And do we see any margin improvement as compared to Q4?

Abhishek Jain: Like I mentioned in my opening commentary, in this past 50 days of this year. On the JV, on PPAP standalone company, also, margins are almost intact. On the JV company, margins are getting better because we were able to implement the last year's strategies starting from 1st of April this year. The commercial tool room, I have already said, there already has an order book of 50% of their targets what they've set for this year.

And they're working on fulfilling the best 50% in the next three to four months. We should have a good visibility there. And our aftermarket business has already established 123 distributors, and their monthly run rate of business is increasing now. And in the last quarter of the previous financial year only, we've been able to almost improve it by 10% to 20%.

Karan Mehra: Okay. That answers my question. Thank you. And all the very best.

Moderator: Thank you. The next question is from the line of Kunal Shah from Anova Capital. Please go ahead.

Kunal Shah: My first question is how is the growth in SUVs affected the content per vehicle? Have you seen any improvement in content per vehicle?

Abhishek Jain: For the new business?

Kunal Shah: Yes.

Abhishek Jain: So, for the new business, I mean, we were originally doing about roughly INR3,000 roughly worth of components for any model. So, depending on model-to-model, this contribution was much higher in Honda-related model, somewhere in the range of INR6,000 to INR8,000, and it was a little lower in the Maruti models.

So, Maruti side, now the new EV, which we are going to launch this year, we have our contribution of INR4,600 per vehicle, which generally used to be about INR2,500 to INR3,000. And Tata vehicles, which is going to get launched this year, the new vehicle. In fact, the mass production is going to start next month in June. Our per car contribution is roughly INR6,000, which is, I think, one of the highest ever which we have been able to get from Tata Motors. For Honda, the new vehicle, which is going to launched this year, our per car revenue should be in the range of INR4,500 to INR5,000.

Kunal Shah: Okay. And also, could you shed some light on the margin improvement observed with -- especially in Maruti despite like its 50% plus revenue contribution remaining steady in the previous quarters. What specific factors have led to this margin enhancement, especially considering the historical challenges with negotiations on price run from Maruti?

Abhishek Jain: Yes. Maruti side, it is very difficult to get the cost correction. So it is not that easy. The discussion goes on from one years, one months, one year. For the inflationary cost side, we have settled with the Maruti. So there are certain parts that's also there where we are discussing with Maruti for the price increase side. So it takes time with Maruti because there are certain internal processes to start there that we are continuously discussing with them.

And we are hopeful that like -- that we have got the good response from the Maruti, where we would able to get the cost correction on the inflationary cost side, certain parts side. Like PTI also, that JV company we've been able to get the price increase compensation. So that we -- that year also -- this year also, we'll be able to get compensation from the Maruti we are looking for. It may take time. It will go up to Q2 or Q3. But we are quite confident that we will be able to get those corrections with Maruti.

Moderator: The next question is from the line of Ashish Raut from Geranage

Ashish Raut: I have a couple of questions. As you mentioned, the company had net lost due to higher taxes.

Moderator: Sorry to interrupt you, sir. May I request you to please use your handset?

Ashish Raut: Okay. Okay. The company has witnessed -- so I'm audible now?

Moderator: Yes, sir.

Ashish Raut: So the company has witnessed net loss due to higher taxes. Can you elaborate more on that?

Abhishek Jain: Yes, it is the deferred tax liability impact, and it is non-cash items. So, there are certain alteration suggestion regarding some test, which we are considering. So, there would be no impact on the actual tax liability, it is only the balance sheet item of the non-cash item, which is in compliance with the accounting standard. So, there are certain change in as suggested by the auditor. because this year, we have the different auditor.

So, every auditor has different opinion on the estimations and provisions. So that's why we have accounted it in the quarter 4. And it is purely noncash item. There is no link to the actual tax payment. And that will be adjusted against the future tax expenses, like the defer tax expenses.

Ashish Raut: Okay. Okay. Understood. And the second question is which are the new models that the company had commenced supply mixed parts?

Abhishek Jain: For this financial year?

Ashish Raut: Yes.

Abhishek Jain: So, we started for Maruti Fronx, MG Comet. Suzuki Jimny, Invecto, which was -- I mean, it was the same vehicle as the Toyota. Hyundai, Exter we're supplying parts to. Kia Seltos, Honda Elevate. Nexon, the new refresh Nexon EV and next on and Citroën C3 Aircross, Kia Sonet, Hyundai Creta and Tata Punch EV. All these models were launched in '23, '24 in this PPAP and PTI put together, we have developed parts. Presented almost 93% of the total new models, which were launched in '23, '24.

Moderator: The next question is from the line of Depika Rathi from S K Securities.

Depika Rathi: So, I have a couple of questions. So my first question is how is the order book stacked up currently? And have you secured any new orders for the newest models to be launched during the year?

Abhishek Jain: For the automotive business, which is the primary business for the company, we are working on 28 projects in this financial year. And most of these vehicles will be -- out of these, 10 models will be launched in this financial year, and the balance will be in the subsequent years. So we are working across with different customers like Maruti, Tata, Renault, Nissan, Hyundai and Honda for their new models, which are going to be launched this year.

Depika Rathi: Okay. And my second question is, how do you view this battery pack business in terms of scale and revenue projections for the upcoming year? Additionally, what measures have been taken to address previous challenges? And what are the expectations for the next 4 quarters, sir?

Abhishek Jain: Yes. So in my opening commentary, I have always, in this entire year, mentioned that lithium-ion battery business was in big turmoil for us, and it was a big concern. We have to figure out what direction we need to take in that business. So when we started this business, our focus was basically on EV 2-wheelers and 3-wheelers. And unfortunately, that focus did not play out too well. Two things happened in that business. The EV 2-wheelers, the goods makers, the established organized makers have put up their own assembly -- battery side assembly line in-house. So there is no opportunity of working with the good players.

The other players who, we were working with, unfortunately, after all the AIS implementation and phase 2 revision, they have lost out a lot of business opportunities. On the 3-wheeler side, we developed a couple of battery packs on our customers. But unfortunately, they also did not -- were not able to start mass production, which was supposed to happen.

So now we have shifted our primary focus to the solar and the ESS side. As you know, the government is focusing on solar power in a very big way by providing rooftop solar and on-grid and off-grid solutions to the customers. So that is one big focus in the lithium-ion battery business for us.

And second is the ESS-focused, the energy storage solution. There are many applications for this, inverter required a battery bank. Your mobile tower -- they've have been told they are the second largest consumers of diesel in the country after railways. And they have been mandated to shift some diesel generators to a battery solution, more environment-friendly solution.

So, we are seeing a lot of traction coming through on that front. And things were not so good till last financial year. But since April, I can tell you that we are getting a lot of good inquiries from our customers. And in this month of May especially, we have a very good visibility in that business. So now what we are trying to do is that this -- whoever customer is getting attached to us in May month, we are exploring with them getting to more contract type of a thing so that we can continue with that business over a long period of time with that customer.

But things are moving in that company now, and we are very confident that this new direction is the right way forward. And now it is a matter of time when we have more utilization of assets and more top line and more better bottom line in that business.

Moderator: Thank you. As there are no further questions from the participants, I, now hand the conference over to Mr. Abhishek Jain, MD and CEO of PPAP Automotive Limited, for closing comments.

Abhishek Jain: Thank you very much, everyone, for joining us on this call today. I know the results are not as they were expected. But I can assure you, things are getting better. If you look at the EBITDA margins, operational side, we're getting better. Only because of this tax liability, the company is showing a net loss on its balance sheet. But it is not a cash item and it will get adjusted over the next couple of years.

It was a view taken by our treasury auditor that it should be part of the balance sheet. I can assure you very well that we are working very hard to make sure that things are much brighter for the company. And we are seeing the shoots of it and we expect that this year will be much better for us than last year.

So, thank you very much, everyone, for joining us on this call today. Thank you to the moderator for doing excellent moderation on the call. And thank you very much, Akash, from SGA team for organizing this conference call today. Thank you very much.

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