



PPAP AUTOMOTIVE LIMITED
"PPAP Automotive Limited Q2 & H1FY20 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 afternoon, Ladies and Gentlemen. I am Janis, the moderator for this conference. Welcome to the conference call of PPAP Automotive Limited arranged by Concept Investor Relations to discuss its Q2 & H1 FY20 results for the quarter ended September 30th, 2019. We have with us today Mr. Abhishek Jain – Chief Executive Officer and 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 then 1 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the floor over to Mr. Gaurav Girdhar. Thank you and over to you, sir.

Gaurav Girdhar: Good afternoon everyone. Thank you for taking time out for the Q2 & H1FY20 conference call of PPAP Automotive Limited. We have with us today, Mr. Abhishek Jain – Chief Executive Officer and Managing Director and Mr. Anurag Saxena – Chief Financial Officer. We will begin the call with opening remarks by Abhishek sir and then we will have the question and answer session. I would just like to point out that certain statements in today's call may be forward looking and we have already put out a disclaimer to that effect at the end of the presentation. So, I would now like to hand over the conference call to Abhishek sir. Over to you sir.

Abhishek Jain: Thank you, Gaurav. Thank you, Janis. Ladies and Gentlemen, a very good afternoon to all of you. I am Abhishek Jain. I welcome you all to the conference call to discuss our financial performance for the second quarter and half year ended 30th September 2019.

Firstly, I would like to give a short brief about the industry and the company. Then, I will talk about the financial performance and then we can take up any questions which you may have. The passenger vehicle sales registered a double digit de-growth on a year-on-year basis. Commercial vehicle sales have fallen more than 50% on a yearly basis during the quarter under review. The sector has been suffering due to factors such as transition from BS-IV to



BS-VI, liquidity crisis, credit crunch, high insurance and registration charges and of course higher axle load norms. Overall, the inventory levels in this period were high at the dealer's end. OEMs have either taken a price cut or have increased the discounts in order to boost the demand. Availability of finance still remained the concern for the industry. On a better note, the monsoon season has been better than expected at 110% of the long period average this season. It was well distributed with 31 out of 36 meteorological subdivisions receiving normal to excess rainfall which has aided the rural income to a significant extent. Coupled with this, the income tax reforms have come as a relief to the industry ahead of the festive season. We believe this has partially offset the revenue and margin pressures which have been there for long time. I believe everybody heard about the good news on Dhanteras. There was a very strong demand for the automotive industry and a lot of vehicles were sold that day. Considering these situations, we strongly believe that the downtrend in OEM sales is kind of bottoming out now and we should soon witness an uptick in demand post the improvement in market sentiments.

Just a small recap of what our company is about, so we are into manufacturing of polymer extrusion based automotive sealing systems, interior and exterior injection molding products. We have 7 facilities spread across the key automotive hubs in India and we manufacture over 1000 different SKUs and we ship over 200,000 parts every day to our customers which include the Japanese OEMs as well as the other major OEMs operating in the passenger vehicle segment as well as the commercial and the two-wheeler segment. The company continues to focus on enhancing its per car contribution. We are able to attract new opportunities in both sealing systems as well as injection products. Post the establishment of our facilities which are now closer to the customer, we continue to build on our core competency and on achieving excellence throughout the gambit of our organization.

Now to give you a brief take on the financial performance for the 30th September 2019. Overall, it was a very challenging quarter for the entire auto as well as the auto ancillary sector. In the quarter under review, our revenue



from operations on a standalone basis stood at Rs. 85.29 crore compared to Rs. 92.05 crore witnessing a de-growth of 7.3% on a quarter-on-quarter basis. Our parts sale for the quarter stands at Rs. 80.51 crore as against Rs. 88.44 crore. The industry continued to face demand challenges which have impacted the company's topline as well. The company's EBITDA stands at Rs. 10.86 crore compared to Rs. 15.24 crore in the last quarter, de-growth of 28.7%. The EBITDA margin for the Q2FY20 stood at 12.73% compared to 16.56% in quarter Q1FY20 due to dip in sales resulting into reduced spread of fixed cost mainly the employee cost as well as inventory cost. We are making our best efforts to make the company lean and more adaptable to changing environment. We are positive that no sooner the demand returns, the company shall bounce back to its financial performance.

PAT for Q2FY20 stood at Rs. 4.32 crore compared to Rs. 5.76 crore in the previous quarter. PAT margin stood at 5.08%. The EPS for the quarter stood at Rs. 3.09 compared to Rs. 4.11 in the last quarter. There are visible green shoots for the OEMs as well as auto industry. I strongly believe that the auto and auto component industry has a lot of headroom for growth. As soon as the macroeconomic conditions are favorable and the market sentiments turn positive, the sector will be performing much better than before. So, that is all from the introduction side.

Now, I would like to hand over to Janis to take the call forward.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Mittal Sanghvi, Individual Investor. Please go ahead.

Mittal Sanghvi:

I just wanted to understand on the breakup of the revenue side, so Abhishek ji has mentioned that the part sale constitutes around Rs. 80 crore which was around Rs. 88 crore same quarter last year; however, the mold basically has gone substantially down, can you just give us more picture on the kind of the molds in the next two quarters in FY20?



- Abhishek Jain:** Basically, this tool sale is only happening when there are new models being made by the customer, so these are not part of our business currently and as soon as there is a new model which is being launched by our customer, that time this tool sales takes place, so these are basically just one-time activity which happens.
- Mittal Sanghvi:** Can you give a little bit more picture on your expectation in the next 2 quarters for the tool sales based on the pipeline that you may have?
- Abhishek Jain:** All those information are linked with customer projects, so it will be very difficult for me to disclose that information.
- Mittal Sanghvi:** Sure, would it be on a similar level or you think there is a significant change, if you can give a little bit of a picture on that?
- Abhishek Jain:** In Q4FY20, we are expecting new model, some sort of increased tool sale to happen because of launch of some new model which is going to happen.
- Moderator:** Thank you. We take the next question from the line of Romil Jain from Systematix PMS. Please go ahead.
- Romil Jain:** Sir, I just had two questions. One on the demand from the OEM going ahead, so how is the production schedule looking like may be from next two to three months from here and how likely that can be sustained, and second question is on the value addition trend in terms of our products?
- Abhishek Jain:** Mr. Jain, as far as the demand from the OEMs are concerned, I think we all read that during the festive period especially Dhanteras to Diwali, lot of vehicles got sold, so lot of inventories are cleared now and today in fact, it is the first day after this Diwali break that all the companies will be operating, so I am sure either this week or next week, we should be able to get a clear picture of how the next two months are going to go based on what has happened in the last week, but as of now, we don't see any demand, we have not got any revised schedules from our customers, so whatever is expected in this quarter is we are expecting a vary y growth to come out in this quarter. As far as value addition is concerned, we are trying to find more opportunities



where we can increase the value of the product that we are selling to the customer, supposing all these are example like in our sealing system we make black type of leather straps and now we started making steel straps exports types, so the difference in price in both these variants is about 20% to 30%. So, we are trying to get into more of these products. On the injection side, instead of doing only mold to sold parts which are very competitive in the market and we can't add much value. Now, we are getting into sub-assemblies. So sub-assemblies like, we did a project about one and a half year ago when commercial vehicle make an external additional look, we developed the complete instrument panel with them. We have been doing all door linings for all Honda cars that are manufactured in India, then for Maruti, instead of just focusing on mold to sold parts, now we are getting into these center console assemblies and other assemblies, so this is the kind of value addition that we are getting into with all our customers.

Romil Jain:

Just a related question to this because we are getting into so many different product lines, how is the competitive scenario in those lines?

Abhishek Jain:

Competition is always there in whatever we do but our competitive advantage is, we don't just go to the customer and tell them that just give us this product and we will make it for you, so we have our whole study which happens before that and we have got our own design team who is already working on these part developments, making the product designs, making tooling design. Then, we have our in-house tool room which manufactures all the tools and dies and equipment's that are required. We have got our in-house validation facility. So, when we go to the customer, the customer gets complete one-stop solution from us and everything we can do by ourselves also and we can do it in-house and we are very competitive for the customer and very attractive for them and now that we have got facilities for Pathredi which is just about 30 kilometers from Maruti Manesar and we have got a facility in Gujarat which is about 28 kilometers from SMG. So, these two facilities are also quite attractive for the customer to source products from. So, this whole ecosystem that we have developed in the last couple of years, so this in itself is a very competitive package for the customer.



- Romil Jain:** And CAPEX number if you can tell for the year? How much we have done in the first half and for the full year?
- Anurag Saxena:** This particular H1, we have incurred around more than Rs. 10 crores in the CAPEX.
- Romil Jain:** And full year?
- Anurag Saxena:** It depends on basically right now only we are doing the renewable CAPEX which is required for our customer side only, otherwise all the CAPEX is on hold and if it is required, then only we will be allowing that.
- Moderator:** Thank you. We take the next question from the line of Ankit Suchanti from Axis Securities. Please go ahead.
- Ankit Suchanti:** My question is related to the margins, it is historically going around 18% to 20%, upwards of 20% in the last year but this year we have seen a steady decline, so what is the contribution of pricing pressure that you are facing on the declines of margin and what is the contribution of the fixed cost, can you throw some light on that?
- Abhishek Jain:** Mr. Ankit, we can confirm to you that we are not facing any pricing pressure on our products, so during this downturn we have not given any special discount or reduce our prices or anything, so we are continuing with the same prices that we were giving to the customer and whatever change contracts are there with the customers, those are still effective like foreign exchange contract and all that. When it comes to product pricing, pricing is same and if you look at our numbers, raw material cost and employees benefit expenses, everything, value wise they are all coming down or is that because of the lower amount of sales as a percentage of sales those are reflecting in a lower number.
- Ankit Suchanti:** But your raw material cost has also not decreased in line with the decrease in revenue if I see, so that is why I was asking in terms of pricing, have you taken any cuts or is it the fixed cost that is increasing the raw material consumed as a percentage of your revenue?



- Anurag Saxena:** Basically, it depends on the product mix, right now the product mix that you are looking that this raw material cost is not from that side, otherwise you will see around 51% or 52% on that part.
- Ankit Suchanti:** Closer to 53% this quarter which was around 51%?
- Anurag Saxena:** We are into the two-three injection molding part. It depends on the number of products and what type of products we have been doing.
- Ankit Suchanti:** So, should I assume that this product mix will continue the same in the next two quarters or we will go back to the previous product mix?
- Abhishek Jain:** It changes every quarter depending on the demand from the customer.
- Ankit Suchanti:** And Q3FY20 you have not had change in demand what was said earlier, right in this call itself? You have not received any fresh demand till now for Q3FY20?
- Abhishek Jain:** No, not really.
- Moderator:** Thank you. We take the next question from the line of Manan Shah from Moneybee. Please go ahead.
- Manan Shah:** Sir, I wanted to know that in last couple of days, there has been news that Honda is planning to shut down at Greater Noida plant, sir wanted to know how would that affect us?
- Abhishek Jain:** Mr. Manan, we have got our facility close to Honda which is about two kilometers away, so we have been discussing with Honda since a long time about this issue and as far as we are concerned, we are operating from two plants for Honda, one is our Pathredi plant which caters to the Tapukara Honda plant and one is our Kasna plant which caters to the Greater Noida plant. So, as of now whatever line, we have confirmed to them for the next model which is supposed to launch next year, we will still produce in our Kasna plant and we will shift all the parts from here to their Tapukara plant.



So, as far as we are concerned, right now we don't have any impact of Honda shutting down this plant.

Manan Shah: But, in the future like we do see that only from them will slow down or?

Abhishek Jain: No, they have lot of extra capacity in Tapukara plant, so I think Tapukara plant installed capacity is about 3.5 lakh cars, so right now they 140-160 levels, so they have a lot of headroom over there.

Manan Shah: I believe in the last con-call you had mentioned that you were trying for exports, so if you can just throw some light on how is that progressing?

Abhishek Jain: Currently, we are exporting our parts to Japan and South American countries and Mexico through our customers. So in this business, Nissan is our biggest customer and Nissan meaning Renault Nissan. So, even on the Renault side, discussions are still on with the customer and right now, they are discussing this overseas development of KWID model, they are planning to launch it in one another country and as soon as they finalize that business, they will start buying from us.

Manan Shah: Can you let us know what the capacity utilization is across our plant?

Anurag Saxena: Around 70%.

Manan Shah: And what would this be last year?

Anurag Saxena: Around 85% to 90%.

Manan Shah: And as we all are aware that the OEM can't sell BS-IV model post April, so is the production for those model expected to remain subdued for the next two quarters?

Abhishek Jain: See, a lot of OEMs have already stopped producing BS-IV vehicles, they have already started producing BS-VI vehicles. So, I think by end of this calendar year, I think all BS-IV vehicles will anyways the production will be stopped because nobody wants to have any inventory in the last quarter because



anything which is left post April 2020, it will basically be junk. That transition has already started.

Manan Shah: But, the fuel for BS-VI will be available only for first season, is it right?

Abhishek Jain: See, BS-IV vehicles can run on BS-VI fuel but the emission norms of the BS-VI standards will not be achieved if you use BS-VI fuel in a BS-IV vehicle, but BS-IV vehicles will still keep on running on BS-VI fuel even if the fuel changes in April or may be in January or something.

Manan Shah: No, what my question is that since BS-VI fuel only be available post 1st April, even if company start producing BS-VI vehicles, the sales will actually not pick up that pretty since the fuel would not be available or I think the BS-IV fuel is harmful if I am not wrong?

Abhishek Jain: Yes, but I think government has given indication that BS-VI fuel will be ready in time and I think if there is any problem in the availability of fuel, the government will take some suitable actions on it.

Moderator: Thank you. We take the next question from the line of Dhiral Shah from Phillip Capital. Please go ahead.

Dhiral Shah: Sir, what is our progress in terms of Hyundai sir?

Abhishek Jain: In Hyundai, we started supplies for their Creta model and now we are developing two more models with them, not directly with Hyundai but two with their tier 1 suppliers and we are developing one more new part for Hyundai, which will be sold across most of their models and may be that part will go to Kia also. So, whatever cars are there with this sunroof, so we are developing some part for that application, sunroof application.

Dhiral Shah: And sir, are we targeting MG Hector?

Abhishek Jain: Yes, MG Hector is already our customer, so we are already supplying to MG from our Gujarat facility. So, currently I think we are supplying them 2 or 3



parts only on the injection side but now discussions have started with MG on the sealing system also.

Dhiral Shah: And sir, in this two-wheeler space of Suzuki motorcycle, what we are supplying sir?

Abhishek Jain: For Suzuki motorcycle, we are supplying basic plastic parts like cover, shield and other injection parts for Suzuki motorcycle.

Dhiral Shah: Are we targeting any other two-wheeler sir?

Abhishek Jain: We are doing some business for Honda motorcycle but that is tier 1 business. We are not supplying directly to Honda motorcycle, but we are supplying to their tier 1 vendor.

Dhiral Shah: And sir, any new product in pipeline?

Abhishek Jain: We are trying to develop our tool room as a commercial tool room, so that is one area which we are trying and then we are exploring opportunities in this electric space also, so we are currently studying couple of projects of what value addition we can do there.

Dhiral Shah: Sir, whatever part we are developing, it is EV immune, right, so what we are developing for EV sir?

Abhishek Jain: I am sorry, at this time I cannot confirm to you, but we are doing feasibility of certain things and I think whenever those things are confirmed, we will inform you.

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

Shreya Siwan: Mr. Jain, just wanted to ask you one thing, so we have Maruti as our biggest customer and then we have Honda, so just wanted to know what is the nature of our duration of our contracts with them? Is it a short-term contract like it is reviewed every year or it is a long-term contract for say, it is 3 or 5 years?



- Abhishek Jain:** We have one general purchasing contract with both these companies, it is a basic contract and for every model that we supply parts to them, then that entire life cycle of that particular vehicle becomes a contract for us. If Honda launches new models and we have some parts to supply for it, so we supply OEM parts for the life cycle, may be 4 to 5 years in OEM and then another 10 to 11 years we have to maintain for the aftermarket and for the spare parts business for them, so it is actually about 15-year cycle that every part we must keep, we have to make. Same thing goes for all the customers.
- Shreya Siwan:** So, usually once we get into a model, we stay in the model for say 10-15 years so question would be then how do you enter existing model, is there any way that we can enter existing models or you can just apply for new model that comes?
- Abhishek Jain:** Mainly, the business is for new models. That is where we work on and that is why if you look at our product cycles, they are generally two years in length, so we basically get business for new models for the OEMs.
- Moderator:** Thank you. The next question is from the line of Manan Shah from Moneybee. Please go ahead.
- Manan Shah:** Sir, if you can give us an idea what is our content per vehicle for say Maruti vis-a-vis Honda, Toyota, Nissan like if you can give us an idea upon that? And is it expected to go up with BS-VI or it will remain the same?
- Abhishek Jain:** No, our product range neither depends on the kind of fuel which is there in the car nor it depends on the power train which is there, so it may be a petrol engine or diesel engine or electric car, our product range does not get impacted by it.
- Manan Shah:** And what is that content per vehicle for say, Maruti versus Honda?
- Abhishek Jain:** Content per vehicles, it varies from customer to customer. So, primarily in the North area, like for Honda and Maruti, our per car content is better than the South customers, so Honda we generally have about Rs. 6500 to Rs. 7000 per



car and for Maruti, it ranges somewhere between Rs. 1000 to about Rs. 1800 to Rs. 2000 depending on the kind of products that we get from them.

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

Sunil Shah: Sir, in the new products, the new launches, the new models, the new variants which will come from the auto company, how are we positioned in terms of our business with the new launches which are going to come, so we have some commitment, let us say like we have for MG Hector, it was already there, it is in place now. Likewise, I believe something like Kia Motors we are doing some business there as well, so in terms of the new products?

Abhishek Jain: Basically, for all the Japanese OEMs that are there in the country, so any new model which they launch we are present with them like recently Maruti launched this Ertiga variant, so we are present in that model. Then they recently launched this S-Presso, so we are present in that as well. Kia Motors unfortunately is not our customer right now, so we don't have any models with them. Honda is planning to launch a new model next year, so we are developing lot of parts for them. For Maruti also, I think there are couple of models under development, so we are working with them. Whoever is our existing customer, so we get business for all the new models repeatedly from them and whoever is not our customer right now, so Volkswagen is one customer who is not there with us today, but we have already secured business for them for their future new model and Hyundai, we have already started working with. Kia, unfortunately we don't have any business right now. MG is already our customer. Our effort is to basically develop all. Tata is also very important customer for us, the new vehicles that they are launching, we are developing parts for them as well.

Sunil Shah: So, majority of the Tata product launches which are going to come in the next year we are there?

Abhishek Jain: On the passenger vehicle side, not on the commercial vehicle side.



- Sunil Shah:** Yes, absolutely on the passenger vehicles.
- Abhishek Jain:** On the passenger vehicle side, we have got all the businesses. We are working with them.
- Sunil Shah:** Like you mentioned that our content per vehicle for Maruti is ranging from Rs. 1000 to about Rs. 1800, what is the content per vehicle for Tata Motors?
- Abhishek Jain:** Tata Motors, it is about Rs. 900 to Rs. 1100, something in the Rs. 1000 range because in Tata Motors, we don't have a facility in Pune, so we have a facility in Gujarat and in Chennai, so logistically getting injection business for them is very difficult and they have their internal Tata auto component and all those companies which are doing business with them. So, with Tata Motors, our relationship is primarily for the sealing system.
- Moderator:** Thank you. Next question is from the line of Manan Shah from Moneybee. Please go ahead.
- Manan Shah:** Last question from my side, wanted to know that for the parts we supply to the various OEMs, would you be the single source supplier or would the OEM normally have like more than one suppliers for specific parts?
- Abhishek Jain:** Unless and until we give them a headache every day, they don't look for a second source for the existing parts that we are supplying to them. So, right now our best effort is to give them 100% quality and 100% delivery, so there is no issue of them going for a second sourcing for the existing parts that are supplied by us.
- Manan Shah:** But who would be our competitor for say sealing system?
- Abhishek Jain:** For sealing system, there are various companies like Ryan Nishikawa is there, Mayur Ingress is there, Cooper-Standard is there, and then GoldSeal SaarGummi is there, TG Minda is there, there are lot of companies focusing.
- Moderator:** Thank you. We take the next question from the line of Shreya Siwan, individual investor. Please go ahead.



Shreya Siwan: Do you see any disruptions or potential threats to our business or industry in the next 10 years from competition or from the industry itself?

Abhishek Jain: Frankly, from the industry point of view, because whatever products that we are making, these are basically engine neutral, so it doesn't matter if tomorrow there is a switch from gasoline engine to the electrification or even hydrogen base or something, so our products are basically immune from that and from the technology point of view, we are already developing parts using the latest material available today and we made this shift back in 2004 when we introduced thermoplastic sealing system in the Indian market. Earlier, that it was PVC based, so we already have the technology available in the company and every day we are upgrading our facility, our capability to lead the technology changes whatever is happening, so we are working hard for all these changes that are going on in the industry and we are continuously in touch with our customers and aligning our strategy based on what the customer wants to do in the next 5 to 10 years.

Shreya Sivan: In terms of competition do you see any price disruption happening?

Abhishek Jain: Competition is something which is not in our hands and obviously if the market is becoming bigger, more and more international players are going to get attracted to this industry and specifically to our products because everybody knows that PPAP today is in a leadership position, so we can't avoid any competition to come in. What we are trying to do is, we are trying to make our internal systems, processes, and sourcing especially and our capability is such stronger that it is basically impossible for the competition to catch up with us. That is the only thing which is there in our hands and that is what we are focusing on.

Moderator: Thank you. Next question is from the line of Mittal Sanghvi, individual Investor. Please go ahead.

Mittal Sanghvi: Last year in one of the con-call, management was saying that they are open for an inorganic kind of growth as well, is there anything on cards right now?



Abhishek Jain: No, right now. There is nothing right now.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. Members of the management, do you have some closing remarks?

Abhishek Jain: Yes. Thank you Janis and thank you, Gaurav from Concept PR for organizing this conference call. I would like to pay my sincere gratitude to all my analyst and investor friends who have taken time out of their busy schedule to listen to us today. We believe there are lot of questions that are being left answered and we would be more than happy if you can engage with Concept or you can engage with us to get these questions answered. In case, you need any more clarification, we would be very happy to welcome you to our facilities in the NCR or any other region. We are very keen on showing you the kind of efforts that are being done behind the scenes. So please engage with us, in case you have any further query and thank you so much for today.

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 gentlemen, that concludes this conference for today. Thank you for using Chorus Call Conferencing Service. You may now disconnect your lines.