



“PPAP Automotive Limited  
Q2 FY ‘23 Earnings Conference Call”  
November 16, 2022

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**Moderator:** Ladies and gentlemen, good day, and welcome to the Q2FY23 Earnings Conference Call of PPAP Automotive Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

**Abhishek Jain:** Yes. Thank you, Steven. Good afternoon, everyone, and welcome to our quarter 2 financial year '23 earnings call. I am joined by my colleague, Mr. Sachin Jain, who is the CFO for the company; and SGA, our Investor Relations Advisor. I hope everyone has had a chance to through our investor presentation, which includes the strategy for making the company and its subsidiaries stronger, resulting in higher growth going forward, along with the financial performance for the quarter and half year ended September 30, 2022.

The global economy is still witnessing multiple headwinds such as elevated crude oil prices, inflationary pressures on the raw material front, higher interest rates etcetera. Despite such challenging macroeconomic scenario, the Indian economy is resilient and growing steadily. The automobile industry recorded healthy sales in financial year 2023 so far. The Passenger Vehicle segment reported a sales growth of 37% on a year-on-year basis from 17.5 lakh vehicles to 24.07 lakh vehicles between April to October 2022.

The industry has witnessed a strong festive season. However, longer waiting period for cars and semiconductor issues still prevail in the sector. The demand for vehicles will continue to gain momentum and will lead to industry growth in the second half of the financial year as well. The Indian auto component industry is in a sweet spot and will grow on account of the increase in vehicle production and exports. There has been a significant thrust by the government in terms of battery swapping policy, PLI scheme and promoting semiconductor manufacturing in Asia.

The adoption of EV is proven to be a catalyst for the automotive industry growth, both in two-wheelers segments and passenger vehicles. I'm delighted to share that all our products are engine agnostic, which enables PPAP to cater to all the OEMs and all of their models. Apart from the routine products, we are also taking up special projects for electric vehicles and are doing development on the charger side for these OEMs.

Now let me throw some light on our businesses. PPAP was established in 1978 for manufacturing customer made extrusion products. Today, the company, along with its subsidiaries and joint venture companies delivers value-added products to various customers in



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automotive and ancillary industries. The company's core confidence is in developing plastic and rubber-based extrusion systems as well as plastic injection molding systems for various industries.

The company also focuses on developing high-precision injection tooling. The company started its journey of achieving global-level excellence in 1985 with the start of the automotive business. Over the years, the company strives to delight with customers in the automotive industry as well as in the industrial products industry. PPAP growth is poised to establish itself as a leading product solutions company in the area of its core competence.

We are also a solution provider of designing and manufacturing of plastic injection mold. These mold cater to the requirements of various industries such as automotive, white goods, medical, electrical and related industries. This business has a huge potential of growth because every company is now facing global logistics challenges and everybody is focusing on derisking their operations and adopting China One Plus policy.

The company has also started industrial product division, which is an extension of the core competence of plastic and rubber processing to neighboring industries other than automotive. We are developing application engineering products for various industries. With the advent of electrification of the industry, PPAP has established itself as one of the leading manufacturers of lithium ion-based battery packs solution provider for mobility, two-wheeler and three-wheeler and storage applications.

We have also set our foothold in the aftermarket business with development and sales of spare parts and accessories business. The business is done in 100% owned subsidiary of Elpis Componens. The focus is on developing a pan-India distribution network with both offline and online models.

We have received a robust traction for our products and our endeavor is to achieve 10% of total revenue going forward from this business segment. We already have a network of 100-plus dealer distributors, which are being spread out all throughout the length and the breadth of the country. The group has started its journey for achieving ESG standards with the objective of running the operations sustainably and responsibly. Through the company CSR initiatives, there is a constant focus on enriching people banks in areas of environment, education and health. The group supports various biodiversity parts by planting and sustaining native trees to improve the environmental conditions.

Now let me throw some light on the financial performance and key developments for quarter 2 and half year of financial year '23. For the standalone PPAP, our revenue grew by 19.6% from INR 103.8 crores to INR 124 crores on a year-on-year basis. The company clocked a sales growth of 31.8% in the first six months of financial year '23 as compared to the same period last year. EBITDA grew by 6.3% from INR 11.7 crores to INR 12.5 crores in the quarter. Similarly, it witnessed a sharp uptick from INR 15.2 crores to INR 25 crores resulted in a growth of 63.7%



in the first half. EBITDA margins improved from 8.4% to 10.4% in the first half of this financial year.

PAT stood at INR 5.3 crores in the first half against a loss of INR 0.7 crores in the previous year first half. 90% of our revenue is derived from part sales and the balance is drive from tools and others. Maruti Suzuki continues to be the largest customer of PPAP. During this period, we've been awarded by excellence and best quality by one of our customers Asahi India private limited. Our capacity utilization for the quarter under review stood at 80%. This capacity utilization has seen an improvement trend quarter-on-quarter basis, and we aim to achieve higher operational efficiencies with this utilization getting improved.

The Board of Directors has announced a dividend of INR 1 per share that is 10% of the face value of INR 10 to all the shareholders during the Board meeting held for quarter 2 results. For the consolidated PPAP, our aftermarket business is now profitable and continuously adding value to the top line and the bottom line.

For consolidated results, we recorded a revenue growth of 36.3% from INR 184.7 crores in the first half of last year compared to INR 251 crores in the first half of this year. EBITDA has increased from INR 13.4 crores in the first half last year to INR 21.4 crores in first half of this year.

Just to give you an overall summary, the five business segments noted above and explained about will act as growth levers for the company. The semiconductor issue has been easing out now and will take some more time to be completely normal. Going forward, the macroeconomic factors will be favorable, coupled with the industry growth, that will enable us to take the best sreide forward in capturing the market and catering to new models of all the OEMs.

Thank you, ladies and gentlemen, for your kind listening. We will be happy to answer any questions that you may have. Over to you Stephen.

**Moderator:** The first question is from the line of Akash Mehta from Capaz Investments.

**Akash Mehta:** I mainly have two questions. The first one on the EV business. So what is the current order book for our EV business? And what is our progress with major OEMs in the two-wheeler segment?

**Abhishek Jain:** Sorry, could you repeat the second question, please?

**Akash Mehta:** So what is the progress that we made towards tie-up major OEMs in the two-wheeler segment? That would be the second one.

**Abhishek Jain:** Thank you, Akash. For the EV business, apart from focusing on the plastic parts for our basic focus for EV business is, first, we want to extend our product range, which is existing products to all the EV makers. So passenger vehicle side, we already are doing business with Tata Motors and MG for their electric vehicles. And these products are our plastic extrusion system and some of injection-molding products. For EV, we've also done one project for developing the charger



body for Tata Motors. Apart from this, now we are focusing on developing special part for EV makers. So soon, we will be starting our business with Okinawa.

**Moderator:** Mr. Mehta, sir, may we request to keep the phone a little away from your mouth so we can hear your breathing sound.

**Abhishek Jain:** For the second focus on EV, we are developing the lithium-ion battery packs for two-wheeler and three-wheeler segments. So in this segment, as you know, that now government has introduced new rules and regulations out of which, Phase I is going to start implement, rolling out from December '22 onwards. So currently, we are developing products according to those regulations and getting them certified from iCAT so that we can be ready for all these according to the new regulations. Currently, we are doing business with one customer on the three-wheeler side. And we are doing business with three customers on the two-wheeler side, which we are making lithium-ion battery packs.

**Akash Mehta:** And what would be the current order book for the overall EV business?

**Abhishek Jain:** Current order book, very difficult to say right now because this market is still going under transformation. So I think next quarter, we'll be having a much more better visibility.

**Akash Mehta:** And if I may just ask one last one. What is the percentage share of the revenue that we derive from the core passenger vehicle vertical? And what would be that for the other vertical?

**Sachin Jain:** Passenger vehicle contribute around 90% of our total revenue.

**Akash Mehta:** 90%. Okay. That's it from my side. Thank you.

**Moderator:** The next question is from the line of Anupama Bhoota from Arihant Capital.

**Anupama Bhoota:** Just wanted to understand if you can give us business breakup for aftermarket and other businesses.

**Sachin Jain:** On the consolidated basis in this quarter, so the automotive contribute around 92%. And aftermarket is 3%. And the rest 5% is our business in commercial tool room industrial product and the batteries

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

**Biraj Shah:** So I have a couple of questions. The consolidated inventory has jumped from INR 56 crores in March 22 to INR 78 crores in September '22, can you explain the reason for the same?

**Sachin Jain:** Basically, the inventory is -- there are two reasons for increasing the inventories the material because the EV division is under, we can see that the development phase, so we have bought some material in advance requirement on the customer demand. So that's why the inventory has gone up in that unit.



Further in PPAP also case as we know, we are also in the commercial cooling business and the maturation period is quite high and we also need to buy that tool for our customer also. So we develop the tool for the customer also and that's the timing of sales depend on the SOP of the particular model. So that why inventory has gone up if you compare with the March timing.

**Biraj Shah:** And sir, could you throw some light on any new product that has been developed by the company in the automotive segment?

**Abhishek Jain:** New products is Toyota hyryder, which has been launched or Maruti, Vitara, Brezza is there, new Alto, which has been launched. We are supplying parts for that vote. And MG, we are already supplying for all the models.

**Moderator:** The next question is from the line of Raghvendra Goyal from ICICI Securities. Please go ahead.

**Raghvendra Goyal:** So, I just want to ask on the lithium-ion battery pack. So, are we importing cells from outside the market in India and just assembling and providing to the OEMs or we have manufacturing them in-house?

**Abhishek Jain:** No, this is lithium-ion battery pack business, which we are in. So lithium-ion battery is not available in India right now. So we have to import it from outside. And then we are doing the design and validation part of the battery back and manufacturing it according to the customer specification.

**Raghvendra Goyal:** Okay. So basically, we are just importing and providing under our brand name, the quality testing only if I get it right.

**Abhishek Jain:** The complete designing of the pacific is being done by us for our customer. It is not just we are buying and selling it in the market, but we designed it along with our customers.

**Raghvendra Goyal:** Second would be with respect to targeted products like motor controllers. So will you be looking for any partners for developing these products or we have the capability of manufacturing the same within the requirement of our customers?

**Abhishek Jain:** Currently, we are focusing primarily on lithium-ion battery packs because this is our huge opportunity in front of us. We intend to develop all the other parts as well. But right now, our primary priority is to become a leader for lithium-ion battery packs in the country. So we want to establish ourselves as one of the top players of this industry and give good quality and reliable product to the customer.

**Moderator:** The next question is from the line of Anuj Jain from Globe Capital.

**Anuj Jain:** I just want to understand results from on the consolidated basis side because on the consolidated basis, our operating margin has gone down on Y-on-Y and month-on-month basis also and there's just the share of the JV profit of JV that has -- that loss has increased to 2.5 crores. Could you please just explain this portion?



**Abhishek Jain:** Sorry, what is your question Mr. Jain?

**Anuj Jain:** I want to understand results on the consolidated basis because on the consolidated basis, our margins have gone down and this share of the profit of JV, the loss has been increased Y-on-Y and quarter-on-quarter. We have posted some minus INR 2.5 crores figures. So I just want to understand on the consolidated basis, if I look at it.

**Abhishek Jain:** Okay. So consolidation is basically happening of three companies in PPAP. One is our aftermarket subsidiary, Elpis component, which is already positive contribution. Second is PPAP Technology Limited, which is the lithium-ion battery pack company. This company is still not positive, but negative 4% issues are there. This is primarily because of the market changing and the regulation is coming about, and we expect that from next quarter onwards, January onwards when the regulations are in place, things will get much better.

Third, consolidation, which happens is of our joint venture company, which is PTI, it is a 50-50 joint venture between PPAP and Tokai Kogyo. This company established in 2012 for rubber products. Now issue with this company is we've done all the tread wear analysis. And in last one year, the rubber prices have unexpectedly gone up. And because of that, this company has come in loss. So as countermeasures, we are discussing with our customers now to give us price increase. We've already had several meetings with them. 85% of the sales of this company is for Maruti. And the rest is for Honda, Toyota, Isuzu, et cetera. So we are discussing with Maruti about price increase.

We represented to them, we've had a couple of meetings about establishing what the gain and everything is. So now I think sooner than later, we should be getting this price increase. As soon as this price increase comes, this company should again become in green. Apart from this, there are other two focuses, which we are doing to make this company more profitable. One is improving our internal material yield ratio. And second is we are doing alternate development of material sources. So both -- all these three counter measures put together, they will make sure that this company remains in green going forward.

All these actions are already initiated. It is just a matter of time now but once these actions get implemented and then we'll start seeing effects coming in on the balance sheet side. But now I think are 100% here, our action plan to make this company profitable is also quite clear. We see the direction. The only thing is the timing of implementation, which is pending now.

**Moderator:** Next question is from the line of Anirudh Singhi from Dalal & Broacha.

**Anirudh Singhi:** So my question is regarding the lithium-ion business. So who are customers right now?

**Abhishek Jain:** So we have two customers for 3-wheeler business and three customers for the 2-wheeler business. And a couple of customers for the solar side as well.

**Anirudh Singhi:** Okay. And what revenue are we doing right now? What is the potential at capacity?



- Abhishek Jain:** Total potential at capacity would be about INR 80 crores to INR 100 crores. We have three lines set up already. Two for making cylindrical cell assembly and one for prismatic cells. Right now, we are doing a revenue of INR 3 crores in this quarter, but things should start improving from next quarter onwards when this new regulation starts coming in, and we are giving iCAT-certified products to the customer.
- Anirudh Singhi:** So did any of our products face any issues in terms of fire?
- Abhishek Jain:** No, not really. Our complete processes has enough checkpoints from incoming quality to in-process quality check to final testing of products. We're doing a lot of testing before we sell this product to the customer.
- Anirudh Singhi:** Okay. And could you give us some sense of the pricing per megawatt hour?
- Abhishek Jain:** Pricing in what sense?
- Anirudh Singhi:** Pricing versus direct imports.
- Abhishek Jain:** No, I didn't understand your question.
- Anirudh Singhi:** I as an OEM, if I were to buy from PPAP versus importing directly from China Korea.
- Abhishek Jain:** No, I think our customers, they're not really comparing our cost to such systems of importing from China or somewhere because if they want to take benefit under the same scheme, then they have to localize this product. So the costing and everything, of course, the cell costing is transparent. So people have idea about it. But they don't compare generally the cost of the complete battery pack imported or broken. And it's not that they have an option of buying imported battery pack. If they do that, then they won't get sales subsidy.
- Anirudh Singhi:** Okay. So what -- so would it be about \$100 per megawatt pricing?
- Abhishek Jain:** I'm sorry, I don't have that data point right now with me. So we can get back to you on that.
- Anirudh Singhi:** Okay. So just for example, for this quarter, it's INR 3 crore of revenue, what was the volume in terms of megawatt-hour?
- Abhishek Jain:** I'm sorry, I don't have that data as well. We will get back to you on that specific point.
- Anirudh Singhi:** Sure. And apart from the current clients, what are the other clients that we're looking at?
- Abhishek Jain:** We are developing five more products for our customers, which should come into mass production for next year onwards, next quarter actually.
- Moderator:** The next question is from the line of Anuj Shah from Sreenath Securities.
- Anuj Shah:** So now that we have reached 80% capacity utilization level, what is the peak utilization we should expect in this financial year?





- Sachin Jain:** On the full-year basis, we are expecting to achieve around 80% capacity utilization as we are expecting a demand in H2 in that as well capacity utilization of 72% in first quarter. So full-year basis, we are expecting somewhere between 80% to 85%.
- Anuj Shah:** And sir, what is our current debt-to-equity ratio? And what will it be by the end of FY '23?
- Abhishek Jain:** Sorry, can you repeat?
- Anuj Shah:** Debt equity ratio, Current debt-equity ratio at the end of the year
- Sachin Jain:** So the current debt-equity ratio on the stand-alone basis is 0.38 and end of the year, we are expecting somewhere around 0.35.
- Moderator:** The next question is from the line of Prachi Sharma from ACE Capital.
- Prachi Sharma** I just have a very small question. What is the per-car contribution from Maruti and others? If you could just give me the data.
- Abhishek Jain:** First, our contribution for Maruti, it ranges from INR 2,500 to INR 3,000. For Honda, it is INR 6,000 to INR 7,000. Similarly for MG also, there are models which we've gone up to INR 6,500. And currently, Tata is about INR 1,400. Next year, this INR 1,400 will go up to INR 3,000 per vehicle.
- Moderator:** The next question is from the line of Shashank Kanodia from ICICI Securities.
- Shashank Kanodia:** Just wanted to get a sense what is the production schedule you're getting from Maruti per se for November, December and going forward.
- Abhishek Jain:** Maruti still continues to be strong. We do not have any revision or something from them. Demand is quite strong for them.
- Shashank Kanodia:** Are producing at the rate of... Line specific numbers or... So they have been produced at the rate of 1.7 lakh per month. So do you see an uptick from here on or the steady-state number which will be retained for the rest of the year?
- Abhishek Jain:** Yes, in October, they did about 1.65 lakhs. November, we are planning, including SMG is 1.72 lakh. And INR 1.72 lakh, I think includes the vehicles which we are producing in Toyota plant as well. So just one for maximum for this year, any monthly volume which we got from Maruti was about 1.94 lakhs per month. But I think they had a hard time in achieving that volume. I think somewhere between 1.7 to 1.8 per month.
- Shashank Kanodia:** Onto a path of profitability, you've been guiding that you'll be reaching with the OEMs. So this was a time when you used to go of double-digit return ratios, healthy margin profiles. So now going forward, how do you see -- so next year, 24, we have a double-digit return ratios, 14%, 15% EBITDA margin profile or you feel that, that is not the case anymore with PPAP



Automotive because our performance of the profitability continues to be and it's been quite some time that has not improved.

**Abhishek Jain:** Yes. We understand that it's taking time for us to come back to higher profit levels than compared to the previous level. But we understand what all others problems behind it, and we are taking countermeasures and actions to overcome all those. Our basic problem has been that this unprecedented rise of commodity prices caught us unguarded. That was the major problem for us. But on a stand-alone basis, we are seeing softening of all these prices happening.

So profitability is going to rise as a result of that. On a consolidated basis, our main problem was this joint venture company getting into a loss situation. As I explained to the previous speaker, there are three areas which we identified very clearly now. And all three areas, we are taking strong actions. So I personally believe that it is just a matter of time. Maybe by next quarter onwards, we should start getting better results because the effect of all these actions, which we have taken over the last six months, they are going to start giving us results.

On the margin side 21% and all what we achieved, I think that is a little difficult to achieve. If we were on a smaller scale something, maybe that would have been possible. But as we are growing the business, at least in the short term, 21% looks quite difficult, but we are quite comfortable in maintaining margins of about 14% to 15% going forward.

**Shashank Kanodia:** So sir, for the next of the full fiscal year in FY '24, can we expect PPAP Automotive to clock 15% EBITDA margin?

**Abhishek Jain:** Financial year '24, we should start seeing this kind of performance coming through

**Shashank Kanodia:** So you said that you start seeing for next quarter, is that right? Or even if it takes six more months to witness the issue.

**Sachin Jain:** Yes. It will take at least one or two quarters to take the company shift as mentioned that we will start seeing the effect of the actions which we are taking. So it is not that the next quarter itself, we will be able to achieve 14% kind of thing.

**Shashank Kanodia:** So directionally will move to that range. So we'll have...

**Abhishek Jain:** Yes. It will move to that direction.

**Moderator:** The next question is from the line of Akshay, individual Investor.

**Akshay:** Okay. I have a few questions. One is regarding the lithium ion battery business. So we have a few customers already, but are we also reaching out to the bigger automotive players on that?

**Abhishek Jain:** Currently, we are trying to reach out, but they already have their supply chain systems already full. So it is going to be a slow process in getting hold of the big players. Most of them have their own R&D in-house and they set up this facility in-house by themselves.



- Akshay:** All right. And the second, that you just talked about you have a talk with Maruti and other players for the increase in price. But if I'm not mistaken, I'm just hearing this from the last three quarters. So what is the issue in that? They are not willing to raise the price?
- Abhishek Jain:** They require a lot of documents and proof and all that. So it took a lot of time to have all the documents or everything organized according to how they require, what they required. All that information comparison took a lot of time. Now, all that thing as clear completely. Now they are just waiting for their approval to happen from top management, which will get implemented. We are strongly pursuing them now.
- Akshay:** So even if the approval happens, so we started talking from last three quarters. So will there be like a one-time compensation for that or they will start raising the price for maybe...
- Sachin Jain:** Yes, we are with customers about the one-time compensation from April onwards
- Akshay:** Alright. Okay. Just a last question on that. I was just going through the balance sheet, and I saw one of the borrowing to buy one of the assets. I cannot pinpoint right now, but can you just elaborate on that? What is the asset that we bought it from the borrowing?
- Abhishek Jain:** Borrowing for buying asset?
- Akshay:** One of the assets I see we have done a borrowing for this quarter.
- Abhishek Jain:** I don't understand what assets are you saying, what is that asset?
- Akshay:** Okay. I'll do one thing. I can pitch it with you on the offline. I think I can take a screenshot and you can reply.
- Moderator:** The next question is from the line of Anika Kothari from Kothari Securities.
- Anika Kothari** Just one question. I wanted to know how are things going on with respect to the semiconductor chip supply?
- Abhishek Jain:** Things are getting better. It's not 100% resolved and it's not as bad as what it was last year. Still a few of our customers like MG Motors and Volkswagen, they are finding it difficult to achieve that production volume just because of semiconductor issues. Even our other customers, they are unable to make high-end vehicles because of this issue. So it's not completely overlay, but availability is getting eased out. And maybe by next quarter, things should stabilize down...
- Moderator:** Ms. Kotari, you have any other questions?
- Anika Kothari:** And wanted to ask one more thing. How long do you think it's going to take for this to get back to normalcy?
- Abhishek Jain:** The semiconductor problem?
- Anika Kothari:** Yes.



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**Abhishek Jain:** Our original expectation was, I think by quarter 1 of next year. So let's hope that happens.

**Moderator:** As there are no further questions, I now hand the conference over to Mr. Abhishek Jain: for closing remarks. Over to you, sir.

**Abhishek Jain:** Thank you, Steven. I thank everyone for taking time out of their busy schedules to attend the conference call today. Please feel free to approach us with any questions that you may have. We be more than happy to show you around the facilities that have been created to service the customer. Last but not the least, I thank SGA Advisor for organizing this call and my team for a PPAP for supporting this call. Thank you very much, everyone. Have a good evening. Thank you all.

**Moderator:** Ladies and gentlemen, on behalf of PPAP Automotive Limited, that concludes this conference. We thank you all for joining us, and you may now disconnect your lines.