“PPAP Automotive Limited

Q4 FY ‘23 Earnings Conference Call”

May 23, 2023

Disclaimer:
This document is subject to errors and may or may not contain words which have been included / omitted due to human error while transcribing the conference call. Any and all information should be verified with the company by the reader

MANAGEMENT: **MR. ABHISHEK JAIN – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – PPAP AUTOMOTIVE LIMITED**
MR. SACHIN JAIN – CHIEF FINANCIAL OFFICER – PPAP AUTOMOTIVE LIMITED

SGA – INVESTOR RELATIONS ADVISOR – PPAP AUTOMOTIVE LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY '23 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 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 Moderator: by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Jain, MD and CEO at PPAP Automotive Limited. Thank you, and over to you, sir.

Abhishek Jain: Yes. Thank you, . Good morning, everyone, and welcome to our Quarter 4 and Financial Year '23 Earnings Call. I'm accompanied by our CFO, Mr. Sachin Jain; and SGA, our Investor Relations Advisor on this call today. I hope everyone has had a chance to go through the investor presentation already shared. Let me start with a brief overview on the industry.

Indian passenger vehicle industry has surpassed Japanese industry to become the third largest auto market globally preceded by China and U.S. In spite of becoming number 3, the difference between India and its nearest competitor runs into millions of vehicles, which gives us enough headroom to grow in future.

The penetration still continues to be in single digit in India. With rising incomes and higher penetration, the industry is at the cusp of an explosive growth. The passenger vehicle industry is expected to reach 6 million vehicles by 2030 provided that our GDP per capita reaches to a level of $5,000.

India's $222 billion automotive industry will grow to $300 billion industry by 2026 on the account of increase of the vehicle industry. 2-wheelers and passenger cars dominate the market, accounting for 76% and 17.4% of the market share, respectively. The overall automotive industry registered a growth of 21% in financial year '23 on a year-on-year basis, out of which the passenger vehicle grew somewhere at the rate of 25% to 27% in financial year '23 as compared to 13% in financial year '22 on the basis of a low base.

The growth is driven by increase in disposable incomes, coupled with lease and financing options. The industry is slowly moving towards premiumization, wherein we are witnessing a shift of demand from entry-level A segment cars to SUVs. The SUV segment command a staggering 43% market share today. This change is being driven by our young Gen Z population, who have a global mindset and prefer innovative and safer products.

The passenger vehicle segment is expected to grow from 5% to 7% in financial year '24 on the back of gradual improvement in semiconductor supplies, coupled with new model launches. On the component side, the industry body ACMA estimates the industry growth at 23% to $56.5 billion in financial year '22. The double-digit growth in the upcoming financial year is expected on the back of demand from both local and overseas markets despite fears of recession in major markets of U.S. and Europe.

Now let me briefly reiterate our business model, which we have curated in the last 2 years and give you the latest updates on each segment. Our company was established in 1978 for manufacturing custom-made extrusion products. The company started its journey of achieving global level excellence in 1985 with the start of the automotive business. The company's core competence 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 plastic injection tooling.

I am delighted to share that all our products are engine agnostic, which enables PPAP to cater to all the OEMs and all of their models. The automotive business is the core business of the company. We are continuously focusing on enhancing our per car contribution as well as adding new customers, including their Tier 1 makers as part of our strategy to grow the business.

In this segment, Maruti Suzuki continues to be our biggest customer, followed by Honda, Tata Motors, Toyota, Renault Nissan, MG Motors, Volkswagen, Hyundai and Kia and many of the Tier 1 companies associated with these OEMs, like Asahi, Saint-Gobain, Kaizen etcetera.

During the quarter under review, we have started manufacturing parts for the new Hyundai Verna as well as we've added a new -- 2 new products for Tata Safari as well as Honda City. In the current quarter, which is going on, we will be starting our supplies for the much anticipated Suzuki Jimny as well as the new McCormack which is an electric vehicle.

During the quarter, the parts business grew by 10%, which is in line with the inventory growth. During the full year, the parts business grew by 25%. We are in the process of developing premium technology, which will demand higher revenues and margins going forward. In this segment, although we are able to see robust demand and sales coming through. However, the margins have taken a hit. This has happened primarily due to the unprecedented rise in raw material prices over the past 2 years, which have stabilized now.

Our bottom line has also been hit due to rise in inflationary costs like power costs, diesel costs and labour costs. We are in the process of discussions with all our customers for fair compensation for these unprecedented increases. We are hopeful that sooner than later we should be able to settle all the claims and restore our bottom line to a greater extent.

In our joint venture company, which was the worst hit, we have received some partial relief due to which the losses are reduced in the quarter under review. I'm happy to report that the company has been awarded for its superior performance from various customers. From Maruti Suzuki, we have been awarded for overall performance as well as manufacturing excellence. From Honda Motors, we were recognized for achieving their quality targets. Toyota recognized our efforts for building cost awareness, and systems throughout the company. We also received Best Kaizen Award and Gold Award in Quality Circle competition from them.

Coming to the second area of a growth, which is the commercial tool room. This commercial tool room develops plastic injection tools. The company established the tooling facility back in 2008 as part of its Atmanirbhar initiative. But as part of our growth strategy, we have made this as a profit center and expanded the capacities. Part of this tooling facility is utilized for in-house demand, and part of it is utilized to manufacture and supply tools as a product.

This year, we have an order book for 55 tools already and are discussing business on another 40 tools on a capacity of roughly 100 tools per year. We are quite excited that this business will start its positive contribution to the company from this year onwards. Apart from PPAP, this facility will cater to customers from Tier 1 makers of automotive component industry as well as electric industries.

Very strong traction in the Industrial Products segment. This year, we will start supplies for an export customer, which will be our first for the company. In this segment, we are focusing on application engineering solutions in areas of plastic extrusion, rubber extrusion as well as plastic injection molding. We have also set our strong foothold in the aftermarket business, the development and sale of spare parts and accessories business.

This business is done in the 100% subsidiary company called Elpis components. The focus is on pan-India distribution with offline and online models. We have increased our product offering to 550 different SKUs and are planning to add more and more products over a period of time. Our pan-India distribution network now encompasses more than 100 distributors present across the country. We have also started our footprint in neighbouring countries like Nepal, Bangladesh and Sri Lanka.

This year, we will be developing our strategy for exporting our products to the GCC countries. The business grew by more than 50% this year, and we expect the traction to continue. With the advent of electrification of the automotive industry, we've started developing battery pack solutions for our customers. This business is done in 100% subsidiary company, PPAP Technology Limited.

In this business, there were certain assumptions which have not worked in our payroll. Therefore, the sales of this company took a hit, and there is a pressure on the bottom line. However, we have been able to successfully do course correction and move to segments in which we can flourish.

In the quarter and year under review, the majority of loss at consolidated levels was due to this business. The new products for new customers are under development and approval from the regulatory bodies. As soon as the production of these new products begin, which is expected by the end of the first quarter of financial year '24, we should be able to see positive contribution coming through.

Overall, for all the businesses, all the companies, in everything, we are pursuing sustainability goals. Our second report for the mother company is already available on the company's website. I request you guys to please have a look at it and let us know how we can make it even better.

The group status of SDG goals for financial year '23 will be reported before the end of second quarter. Through the company's CSR activities, there is a constant focus on enriching people's lives in areas of environment, education and health. The group supports biodiversity parks by planting and sustaining native trees to improve the environmental conditions. Now let me throw some light on the financial performance of quarter 4 and financial year '23.

For quarter 4 at a standalone level, the revenue increased from INR 124.8 crores to INR 127.1 crores, indicating a nominal growth of 2% year-on-year. However, as explained earlier, the parts business grew by 11%, which is in line with the industry growth.

EBITDA increased by 19% to INR 11.2 crores versus INR 9.4 crores quarter-on-quarter. EBITDA margin was at 8.8% in quarter 4. PAT continues to grow sequentially from INR 30 lakhs to INR 1.2 crores, primarily due to higher utilization of assets.

For financial year '23, on a standalone basis, the revenue grew by 20.4% to INR 492.3 crores from INR 409 crores a year earlier. This growth is 25%, which is in line with the industry growth. EBITDA increased to INR 45.6 crores versus INR 39 crores, registering a growth of 16.7%. As we've seen in the quarter, PAT continues to grow to INR 6.8 crores for the entire year.

On the consolidated level, the revenue increased from INR 421 crores to INR 511 crores, ticketing a growth of 21%. EBITDA increased by 14% to INR 43.9 crores versus INR 38.6 crores in financial year '22. The margins stood at 8.6%. At the PAT level, as explained to you earlier, there was a challenge due to tariff increase claims, still pending with the customers as well as the loss from the battery business.

The company reported a PAT loss of INR 5.9 crores. During this quarter, we are expecting certain increases to come through, which should make our joint venture company sustainable. The battery business, as explained by me earlier, is expected to become sustainable in the next quarter.

Overall, we anticipate financial year '24 to be a year of reckoning for the group and for all the companies due to multiple tailwinds in the automotive industry as well as the positive additions from all the new initiatives that have been started by us in the past 2 years.

The increase in capacity utilization, coupled with the tariff revision from the customers will put the company on a very sound footing to grow further in the coming years.

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

Moderator: Thank you very much. Our first question is from the line of Riya Soni from Soni Investments. Please go ahead.

Riya Soni: I'd like to ask 2 questions. So firstly, the capacity utilization has...

Moderator: Riya Soni, sorry to interrupt. May we request you to use the handset.

Riya Soni: Sorry. Yes, so basically, the capacity utilization is at 80% in Q2 FY '23. What's the peak utilization that economy can achieve going forward?

Sachin Jain: Yes. About the capacity utilization. So the next year, we are looking to have the capacity utilization in the range of 80% to 85% on the full year basis.

Riya Soni: Okay. And secondly, the short-term debt has increased from INR 19 crores to INR 55 crores in FY '23. So why has just debt been taken for? And also what's the current debt to equity ratio?

Sachin Jain: Sorry, could you repeat the first question?

Riya Soni: So the short-term debt has increased from INR19 crores to INR55 crores. What is the purpose for which the debt has been taken? And also can you say the debt-to-equity ratio?

Sachin Jain: Yes. For the debt to equity ratio is 0.39 for this financial year. Regarding the increase in the short-term debt, it also includes the repayment that is due in the next 1 year of around INR 25 crores. So that is part of debt. Where there is no debt has been taken, the only -- the utilization of the limit has increased as per the business assignment.

Moderator: Thank you. Our next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Sir just wanted to check. So this is the best of the margins that we can do? Or is there any scope for improvement from here on?

Abhishek Jain: Shashank, like we were explaining that we are still waiting for the tariff increases from customers. So as and when the tariff increases start coming in, the margins would automatically start improving.

Shashank Kanodia: Sir, it's been 3 quarters that you have been running this commentary that you are in talks with OEMs, right? So we have been tracking this as well. So, I see none of the auto ancillary are at so much mercy at the OEM level and not witness margin improvement. So what's specialize in that case? Is it something like at the OEM level, we had a neglected lot. There's a lot of peers who are available to supply the similar kind of products? Or what exactly is the trigger -- it's the -- or are you comfortable with such kind of a margin trajectory?

Abhishek Jain: We are not at all comfortable with such margin trajectory. We are discussing with the customers. It is getting us a little time because it's a very complicated process. So a lot of documentation, a lot of proof of actual conditions had to be shown to the customers. So most of it is done now. And sooner or later, all these things should be coming through now.

Shashank Kanodia: Okay. So sir, what is the sustainable level of margins that you should guide us for your base business?

Abhishek Jain: We have been saying in the past also to 13% to 15% is what we think will be sustainable for us.

Shashank Kanodia: Okay. And how soon can we attain that?

Abhishek Jain: As soon as we get the tariff increases from customers, we should be able to come back to those same levels.

Shashank Kanodia: Sir, like, tariff increase will have the compensation from the past loss as well, right, for last 3 quarters that you've been suffering for?

Sachin Jain: Most recently, some cases would be from the last financial year. And in some cases, it would be applicable from the 1st of April 2023.

Shashank Kanodia: Okay. So sir, do we expect these talks to conclude this quarter or another quarter is what I think by Q2 or Q1, should we have these talks being complete?

Abhishek Jain: A lot of it will be done within this quarter, and some will take some more time, maybe 1 more quarter.

Shashank Kanodia: Okay. Second, sir, I have 1 question on the balance sheet front. So in your cash flow statement, you mentioned some cash release from your trade other receivables. There is none of your line items in current assets shows a decrease. So if your CFO can really guide from where is he getting a positive cash on cash flow from operations?

Shashank Kanodia: Yes. So sir, in your current assets on the consol balance sheet, there is no line item which mentions the decrease, right? So if a current asset decrease, that is when you release some cash in your cash flow statement, right? Whereas if you see your cash flow statement in terms of working capital adjustment, the second line item, you have thrown some INR 10 crores as positive cash flow. So my real question is that on which side of your current assets, are you really using cash?

Sachin Jain: You were talking about the consolidated cash flow?

Shashank Kanodia: Yes.

Sachin Jain: Yes. As you see, in line with the increase in the trade receivable and the inventory. So the trade tables has also increased. And we also has some analogies from the customers for our tooling businesses also. So that's why there is still an increase and the positive cash flow from that side.

Shashank Kanodia: Sir, my question is only on trade receivables. So, for me, in your balance sheet, it goes up from INR 56 crores to INR 65 crores. That is a minus INR 9 crores kind of figure, right? Whereas in your cash flow, you're showing plus INR 10 crores. And in a similar amount, in our opinion, you are overstating your operating cash flows and understating your financial cash flows because the debt has gone to INR 40 crores on a Y-on-Y basis, whereas your financing cash flow shows us INR 30-odd crores of increase or INR 20 crores of increase.

Sachin Jain: I think let me check

Shashank Kanodia: Sure. And sir, did we hear it right that you're guiding 23% growth for the auto components industry next year, next fiscal year? And what is the rate at which we should be growing?

Abhishek Jain: Industry is expected to grow by 7% to 9%. But our growth should be higher than that because we've got a lot of new business starting up this year.

Shashank Kanodia: Okay. Sir lastly, the passenger vehicle industry grew 25%, whereas the standalone business, we grew just 22%. So is there anything that we're missing?

Abhishek Jain: Nothing. We're not missing anything.

Shashank Kanodia: So we have underperformed the industry last fiscal year then? Because ASPs might be on the rise given that the crude was up, right?

Abhishek Jain: Sorry?

Shashank Kanodia: Sir, the ASPs were on the rise, right, given that the crude was on an uptick. So we have lost some market share in the passenger vehicle space then?

Abhishek Jain: No, no. It's not -- we've not lost any market share in the industry. I mean the difference might be because of a particular model or something doing better than the other, and our share might be a little less in that particular business. But we have not lost any market share to competitor or anything like that. Nothing like that has happened.

Shashank Kanodia: Okay, okay. And sir, lastly, what kind of schedule are we getting for Maruti? As for this entire fiscal year, what is the volumes that they have targeted? .

Abhishek Jain: I think Shashank, we can discuss all these things offline.

Moderator: We move to our next question. Our next question is from the line of Sonu Arsana, Individual Investor.

Sonu Arsana: Sir, my question is regarding debt levels. Our debt level has been increased since FY '20 to FY '23 from INR 22 crores to INR 151 crores. So this debt level increase more? Or what is your guideline on the debt level?

Sachin Jain: Yes. Regarding the debt level, basically, as we mentioned, the 2 initiatives, which we have taken in the last 3 to 4 years. So to meet those requirements, the debt level has increased. And regarding -- about the long-term guidance, we'll try to maintain the debt level at the same level only.

Sonu Arsana: Sir, my next question is regarding the contribution from PPAP Technology, the electric vehicle business. So I think all this debt goes to this business, and this business is not producing any positive contribution to the company. So any guideline that when will this business contribute positively?

Sachin Jain: As already explained in the initial speech by Mr. Abhishek Jain: regarding the initiative which we are taking and we are hopeful by the end of this quarter, we will be seeing visibility and the situation will improve in this company also and would be self-sustainable. And about the debt is out of INR 150 crores, the total borrowing in the Ptech is INR 28 crores. Rest is related to PPAP.

Sonu Arsana: And then the remaining is from the core company, core business?

Sachin Jain: PPAP is the main company.

Sonu Arsana: Okay, and sir, next question is from like the -- Honda is planning to launch new SUV, Elevate. I think they disclosed the name as well. So anything from Honda because Honda is your second largest customer? So any kind of inquiry from them for this new SUV? And I think it's going to be premium SUV, Creta rival. So there may be very more revenue contribution per vehicle.

Abhishek Jain: We're already developing parts for this vehicle. So I think next month, Honda will start the production for these -- this particular model. And we have seen the vehicle. It's a very promising model from Honda. It a first time that Honda will be exporting this product outside of the country back to Japan. it's a very premium product. And you are right. It is -- the market -- it will be marketed somewhere on the lines of Creta.

Sonu Arsana: Yes. So there will be more per vehicle contribution, like maybe INR 7,000 to INR 8,000. Because in the case of Honda City, we are contributing almost INR 7,000 to INR 6,000, I think, if I am right?

Abhishek Jain: General contribution to Honda is about INR 7,000 to INR 8,000.

Sonu Arsana: And sir, 1 question from cash flow statement. .

Abhishek Jain: Yes.

Sonu Arsana: So cash flow from operation like our trade receivable is increased. But in the cash flow statement, there is an increase in cash flow, positive cash flow contribution. So this is like we are not able to understand how it is getting done?

Sachin Jain: Yes, yes. For that, I will get back to you, as also answer to the previous speaker that I will get back to you that part.

Sonu Arsana: For this you will do explanation offline?

Abhishek Jain: Yes, yes, you can mail it to our investor services and I would give a reply to you on that.

Moderator: Thank you. Our next question is from the line of Nehal Jain from SK Securities. Please go ahead.

Nehal Jain: I had 2 questions, sir. First 1 being how is our market business performing, like aftermarket business? Also, could you highlight some metrics for that vertical in terms of the margin? And currently, what is the dealer network and any new products that we have launched?

Abhishek Jain: For this aftermarket business, we are doing it in the 100% owned subsidiary called Elpis Automotive Limited, Elpis Component Distributors Limited. Last year, in financial year '23, we did a sales of INR 16-odd crores and our EBITDA margin was somewhere in the range of 9%.

We have almost 500 SKUs now under -- as part of this business. And this year, we should be able to grow further. And our dealers, we have around 110 dealer and distributors spread across the country. So we've started this initiative only 2 years back. And in 2 years, we've been able to grow it to about INR 16-odd crores, and this momentum should continue further.

The parts which you're referring to, these are basically all the spare parts. One is the spare parts like whatever we do in the company. Then recently, this month, we've introduced certain vipers, which are high-selling items. Third area, which we are doing is the interior accessories. Again, that is all premium accessories for the vehicle. Both are done offline and online models.

Nehal Jain: Okay, sir, got it. So, second question, given that we are supplying products to almost all the new models, what is our content per vehicle for Maruti, Honda and Toyota.

Abhishek Jain: So, for Maruti, our per car contribution is somewhere between INR 2,500 to INR 3,000. For Honda, it goes up to INR 7,000 to INR 8,000. For Toyota, it is roughly about INR 2,000.

Moderator: Thank you. Our next question is from the line of Khushang Mehra, Individual Investor. Please go ahead.

Khushang Mehra: Sir, my question is with regards to our margins at consol level. So our EBITDA margin has seen a decline from 9.9% in Q4 last year to 6.7% in this Q4 of FY '23. So can you just explain like what is -- why such a steep decline here? And where do you see the EBITDA margin going ahead?

Sachin Jain: Basically, the decline in the consolidated EBITDA margin is primarily drop in Ptech. There is a significant drop in Ptech sales and the EBITDA margin, so that had resulted in overall margin reduction under consolidated in Q4.

Khushang Mehra: And what do you expect the -- what will be the sustainable margin for us?

Sachin Jain: Both sustainable margins on a standalone basis, we have mentioned around 13% to 15% kind of margin, which we would like to have on a sustainable basis.

Khushang Mehra: Okay. And similarly, on the consol level, our loss has widened now from INR 80 lakhs in FY '22 to around INR 6 crores in this financial year. Any specific reason for the same?

Sachin Jain: Yes. First is about the Ptech we have mentioned. Second is the JV company where we have significant losses in earlier 9 months. And on Ptech, we have already reached to some discussion with our customers. So from the going forward, there should be a reduction in the losses on the consol level. And next year onwards, we'll be hopeful that we have the positive profit on the consol basis also.

Moderator: Thank you. Our next question is from the line of Anurag Jain: from AART Ventures. Please go ahead.

Anurag Jain: Sir, can you provide more details on the battery pack business. You mentioned that there were certain assumptions which went wrong and you have taken certain measures to correct that. Maybe can you just highlight a bit more in detail what is like that we are doing now to better our business? And what is your estimate for the next 4 quarters for this business? Some details on that would be very helpful.

Abhishek Jain: Yes. So first of all, when we started this business, our focus was primarily on 2 areas. One is the solar battery pack and the other was the 2-wheeler battery packs. Solar side business is still stable. But 2-wheeler side, the business is not working out for us because whoever customers we had, they are not able to produce battery vehicles as they had committed to. So they have a lot of inventory.

And because of that unsold inventory, they're not buying the products from us. So that is one assumption, which has not worked for us. We are focusing primarily on the 2-wheeler industry. As part of our course correction, now we're developing -- we've identified some customers, not a whole lot of customers, and we are developing products for them.

One promising customer is a 3-wheeler customer. His battery pack is under the final approval from this iCAT for AIS standards. Once that approval comes through, we will be starting supplies to them. Another thing what we've realized is that we can do a lot of application engineering for these kind of battery packs. So we have developed one battery pack for golf cart, which is under testing.

The moment it completes its testing, we should start getting orders. We've also made battery packs for this -- in industry, you have automated guided vehicles for material supplies. So we've made battery pack for that application. We've made battery packs for the drone applications. So there are different, different kind of applications, which we have developed for. And whoever we are in touch with, all the customers look quite promising.

Anurag Jain: Sure. And what kind of competition do we have? I mean, in terms of technology, is it a very high technology product or something like a lot of other players can also do? Just your thoughts on that.

Abhishek Jain: See, making a battery pack is -- I mean it is something of a very upper technology item. But unfortunately, in India, it has become garage setup. So anybody who has 1 machine has started making these battery packs. For us, because we have so much of experience in the automotive industry, and we have that kind of an organized industry mindset. We have set up the plant in a completely different way, right from our incoming raw material testing to in-process, proper -- we are following the basic -- the good process of doing the assemblies, testing all these packs which you're doing and only then delivering a good product to the customer. Designing also, we are doing ourselves.

In battery packs, one of the critical areas is this, the basic welding technology. So mostly people who have -- they have the basic technology available, but we have some different technologies like laser welding, wire bonding. So all these things are -- is what makes us attractive to the customer. And if somebody is looking for a long-term reliable, then -- supplier, then that company comes to us.

Anurag Jain: Sure. And how do you -- I mean what can be the size of this business? And what kind of ramp-up do you see this year? Because like you mentioned, you are still under development phase with a lot of customers. So I mean, what kind of numbers can you do this year? Because this business currently will drain on the consol level, so...

Abhishek Jain: Yes. So, if we want to remove the drain part, our calculations show that if we do a business of about INR 5 crores a month, then this business will start contributing positively beyond this level. So that makes it about INR 60 crores a year.

And based on current investment, what we've done, this company can do a business of about INR 150 crores. So even if we achieve 60% utilization in 1 year, it should be breakeven condition and anything beyond that will start positive contribution to the -- on the consolidated level.

Anurag Jain: Sure. How much can we do this year, I mean, in terms of estimates? Just a ballpark number, given this stage you are with your customers under development phase?

Abhishek Jain: No, this year, we are not planning to do any new capex in this -- in the Ptech company. Whatever we have done is done.

Anurag Jain: I mean in terms of revenue, how much can you do? What is the visibility that you have on this business?

Abhishek Jain: For all the customers that we have right now?

Anurag Jain: Yes. Customers and potential customers for this year or maybe the next 6 quarters. Just trying to estimate how much of a drain will continue going forward from the Ptech business.

Abhishek Jain: By end of this quarter, what our estimate is that we should be doing about INR 6 crores of revenue per month.

Anurag Jain: From Q2 onwards?

Abhishek Jain: Yes, provided all these approvals and all come through.

Anurag Jain: Okay. So at that stage, you will break even and there will be no losses as such on the consolidated?

Abhishek Jain: Correct.

Moderator: Thank you. Our next question is from the line of Lavanya Tomar, Individual Investor. Please go ahead.

Lavanya Tomar: Yes. So my first question is that in the presentation, you mentioned that the EBITDA declined by 7.5% due to high employee cost owing to increase in manpower as part of ongoing reorganization activity. And in the last quarter presentation also, these were the same lines. So that mean from last half year, this reorganization thing is happening. So can you just explain what are these reorganization activity that you've been talking about, how is it of help to us, to our company? How long is this reorganization going to last further? And are we going to read these same lines in the next quarter's presentation as well?

Additionally, last time, you had high employee costs, which you had also attributed to giving gifts to employees on the festive season. So now as you mentioned that the man power will increase, so do we expect even more employee costs going further because just a quarter ahead festive season is going to come again. And like are these employee costs going to last like as you have seen in the current and past quarter? That is my first question.

Sachin Jain: Yes. As far as the employee cost is concerned and reorganizing around manpower, it is basically about the new businesses and new locations which we have and further, the new model coming up, so according to that, we have to realign our requirements based on the project management side, or the shop floor side, or the -- to train our manpower, to keep the manpower in pipeline for the further requirement of the company. So that is a continuing activity.

And every quarter and every 6 months as per the business requirement, we need to do that. It is not the -- we are not living in the static environment, and the things are moving every day. So we have to respond according to that, and we are doing that way.

But further, about the employee cost, it is reviewed very critically. And based on the business requirement only, the manpower -- and we also keep in mind the market situation and to compensate our employees in line with the market requirement to retain the skilled manpower to meet the customer requirements. So this is we are doing, and about the line it would -- the communications from the management side, what was the major implication on the result so that we are giving -- in the next quarter also, if the same thing would be there, then we will definitely communicate in that way only.

Lavanya Tomar: Okay. And my second question is that in the last quarter's corporate presentation, you had mentioned that the fall in your margin was due to high raw material costs. However, costs have come down in the quarter gone by, and how will -- this is not reflected in our gross margins in this quarter? I mean it's almost the same, just an increase of 1-odd percent. So is it because of high cost of inventory that we have utilized in this quarter? Like what is it? Because if we see, our inventory days are hardly 70 to 80 days. So is it like that it was just because in this quarter, we were utilizing the goods which we are purchasing during high price time so that we are expecting our cost of goods sold to go down further or how is it going to be?

Abhishek Jain: If you compare with the last quarter, the gross margin has improved by 2% on the material front side. So there are -- both things is there. One is the utilization of the inventory, which we have purchased in the previous quarter. So that is there, and a little bit in the pulling of the raw material prices that has resulted in the reduction in raw material cost this quarter.

Lavanya Tomar: No, sir, but like I want to understand that if you see the results of auto industry like all across, i.e. the manufacturers have posted bumper results, there has been increase in margin, increase in profit, and I'm sure all of us were also expecting our company to do very well. But these kind of margins, which our company is posting, I think, we have only seen these kind of margins in 2012, '13 period.

Otherwise, we have not seen these kind of margins. So like it is obvious to see that the jump in profitability and margins of these companies is coming at the cost of our margins, like the margins of the suppliers. So like, I want to know that what is the scenario among the suppliers. Like is it a very competitive business? Is it a kind of rivalry scenario where we have come down to cost cutting, and we are just trying to sell our products at such low margin? Is this situation going to prevail further? What is happening?

Because we are barely able to breakeven at overall level, like it has become a challenge for us to break even at consolidated level. And even at standalone level, our performance has been very subpar considering the overall industry. So can you give some guidance upon this?

Abhishek Jain: See, at standalone basis, I think, we've already mentioned this many times, the only problem is that we need to get these price increases done from the customer. Unfortunately, it's taking much more time than what we had expected. We expected all this to finish earlier. But hopefully, by this quarter, most of it should come in place.

At consolidated level, the problem is different. It's not related to the industry. It's related to only 1 of the lithium-ion battery business, which we started, which has not done well. And the second is consolidated, is basically from the joint venture point of view.

Again, the joint venture loss is primarily because of the prices not being revised by the customer. So some of it has already been done. Some of it will be done in this quarter. So things should start getting better.

Even we realize that standalone basis margins, where we were at before COVID levels, they have taken a hit. But our internal direction is that we should be -- that this year, we will make all our efforts to come back to the maximum possible extent to those levels of operations which was there -- before COVID hit us.

Lavanya Tomar: Okay. And with regard to manufacturing, I wanted to understand, which is that particular raw material on which our life depends? Like I read it to be crude, but like what is the major raw material which goes into our production?

Abhishek Jain: So these are called plastic materials, thermoplastic. In the standalone company, primarily, it is PVC and thermoplastics called TPOs. In the joint venture company, primary material is EPDM rubber, so...

And then in both the companies in stand-alone also, in JV company also, we use various type of steels as well, stainless steel and CRC steel both.

Lavanya Tomar: Okay, sir. And like how are these prices of thermoplastics been like since past year, have they come down reasonably or like what is the situation in the market?

Abhishek Jain: Last 2 years, all these prices have gone up by almost 25% to 30%. But now from 1st April onwards, we are seeing the indexes coming down. So hopefully, all these prices will become stable or become better now.

Moderator: Due to time constraint, that was the last question of our question-and-answer session. I now hand the conference over to Mr. Abhishek Jain: for closing comments.

Abhishek Jain: Thank you, Zico, I thank everyone for taking time out of their busy schedules to attend the conference call today. I think you guys have a lot of questions still remain unanswered. You can get in touch with us any time and through our e-mail and we will be more than happy to answer all these questions to you.

I thank SGA Advisors for organizing this call. Thank you, everyone, for attending today. Thank you.

Sachin Jain: Thank you.

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