



PPAP Automotive Limited

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22nd February, 2022

The Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400001
Symbol: 532934

The Listing Department
The National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex,
Bandra (E), Mumbai – 400051
Symbol: PPAP

Sub: Transcript of the earnings conference call held on 11th February, 2022

Dear Sirs,

With reference to our letter dated 9th February, 2022, intimating about the earnings conference call with Analysts/Investors held on 11th February, 2022, please find enclosed the transcript of the aforesaid conference call.

This is for your information & record.

Thanking you,

Yours faithfully,
For **PPAP Automotive Limited**


Shivani Sehgal
Company Secretary



PPAP Automotive Limited
Q3 FY2022 Earnings Conference Call

11th February, 2022



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 & CHIEF EXECUTIVE OFFICER – PPAP AUTOMOTIVE LIMITED**
- **MR. SACHIN JAIN – CHIEF FINANCIAL OFFICER – PPAP AUTOMOTIVE LIMITED**



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Moderator: Ladies and gentlemen good day and welcome to PPAP Automotive Limited Q3 FY2022 earnings conference call. 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 anyone who wishes to ask a question after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Jain – Managing Director & CEO from PPAP Automotive Limited. Thank you and over to you, Sir!

Abhishek Jain: Thank you Tanvi. Good evening, ladies and gentlemen. Welcome to our Q3 and 9M financial year 2022 earnings call. I am Abhishek Jain. Joining me is Mr. Sachin Jain the CFO of the Company and SGA, our Investor Relations Advisor.

I hope that all of you and your loved ones are safe and doing well and taking adequate precautions to limit the spread of the COVID infection. We have uploaded our investor presentation on the exchange and I hope everyone had a chance to go through the same.

Before we start the discussion, I would like to inform you about sustainability efforts being initiated by the Company. We are delighted to announce that the Company has published its first sustainability report for financial year 2019-2020. The report defines the initiatives which the Company has taken in the areas of environment, social and governance.

Following best in class ESG practices is our motto at PPAP and it is also ingrained in our culture, value system as well as day-to-day working. The report has been successfully uploaded on the global reporting initiative GRI portal as well. I am happy to report that this first report has been judged in top eight in Asia for first time reporting by Asia's best sustainability reporting awards.

I will now give you a brief about this report. On the environment side, PPAP has been taking initiatives for reducing energy consumption and GHG emissions by installing rooftop solar and introducing various energy efficient technologies. PPAP is committed



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to improve waste management and water resource management practices at the plant continuously.

The safe and responsible management of hazardous, non-hazardous and high-volume solid waste is crucial for our business. On the social front, PPAP is committed to constantly improve employee development in the skill and talent management cycle from employment growth and retention through training and user-friendly technology.

We are continuously appointing female workforce at the shop floor as well as our corporate office to promote gender diversity and inclusivity. We also focus on human rights hence ensuring safe and healthy working environment for all our employees and stakeholders. The CSR initiatives are done through Vinay and Ajay Jain Foundation in the field of environment, education and healthcare society.

On the governance side, PPAP strongly believes that effective and good corporate governance practices build a strong foundation of trust and confidence attracting human capital leading to sustainable and superior performance.

There are various committees that play a crucial role in the government structure of the Company and have been constituted to deal with specific areas and activities which concern the responsible business practices.

Also, PPAP has a code of conduct for all employees including the board and senior management personnel.

Now I am starting with the operational and financial performance of the Company starting with industry outlook. On the industry front, the auto industry was facing a severe semiconductor shortage which has now started to ease, with our customers now focusing on making more number of vehicles.

There are several policy initiatives announced by the government; the PLI scheme for automobiles and auto components proposes financial incentives to boost domestic manufacturing of advanced automotive technology products and attract investments in the automotive manufacturing value chain.

The government has also proposed a manufacturing of semiconductors in India. The industry appears to be on the verge of an electric revolution. The transition from fossil



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fuels to electric mobility is underway which is quite visible in the two-wheeler and the three-wheeler industry currently.

The government's proposal to implement a battery swapping policy for EVs with interoperability standards will benefit the entire EV ecosystem particularly the two-wheeler and the three-wheeler segments.

The government is supporting the industry and we feel that these policy initiatives are going to act as a booster to the growth of the industry.

Now, I will share with you the brief overview of our company and move towards financial performance. The Company was established in 1978 and entered the automotive component business in 1985 with the start of operations of Maruti Suzuki in the country. Since then, the Company has been expanding its customer base and adding new products to its portfolio. The focus of the Company is to become a global level excellent company which can inspire people to outperform their potential in order to exceed the expectations set forth by customers, society as well as stakeholders.

The Company's state-of-the-art manufacturing facilities are spread over four states UP, Rajasthan, Gujarat and Tamil Nadu. In the past two years, we have restructured ourselves internally and identified five business verticals which will be catalyst for growth going forward.

The first vertical is the automotive part business which is the core business of the Company. PPAP continues to be the leading manufacturer of automotive sealing system, interior and exterior automotive parts in India.

We have a JV with Tokai Kogyo for manufacture of rubber automotive sealing system. The products manufactured by this vertical are engine agnostic and can be easily extended to the electric vehicles as well. This vertical today manufactures over 1000 different SKUs and we ship over 400000 parts every day to our customers which include the major OEM manufacturers in the country like Maruti Suzuki, Toyota Honda, MG Motors, Volkswagen, Hyundai, KIA. TATA Motors, Renault Nissan, Isuzu along with their tier one companies.

The Company also supplies products to Suzuki Motorcycles and tier one companies in the two-wheeler segment. We have always believed that latest technology plays a



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pivotal role in the overall business and with this underlying thought we have a technical collaboration with Tokai Kogyo Group since 1989 for development and manufacturing of automotive body sealing system and with Nissan Chemitec Cooperation since 2007 for development and manufacture of interior and exterior injection molding parts.

We have also tied up with Tokai Kogyo Seiki to manufacture tools and dies complementing the automotive part business. We are continuously scouting for new customers and increasing our per car value for the existing customers, we are investing in new technologies both on the part side as well as the process side to further develop technology prowess for the Company . We are developing approximately 400 parts for our customers which will be in production in the next two years.

During the quarter under review due to the ongoing semiconductor shortage, the sales for this vertical was impacted due to reduction of production by the OEM customers. The performance also has been impacted on the back of uptick in the commodity prices coupled with supply chain logistics cost. The chip shortage has also called inventory pile up with the OEMs. We believe the chip shortage issue is easing out gradually which will enable the industry to deliver higher sales going forward. Compared to last year, the quarterly production volume of the industry is almost down by 12.5%. During this quarter, we have started delivering parts for the newly launched Maruti Celerio as well as for Skoda Slavia.

The second vertical is the aftermarket business. This is a new area of growth for the Company which is being rolled out in Elpis Components Distributors Private Limited, which is 100% subsidiary of PPAP. The focus for this vertical continues to develop and supply spare parts as well as premium car accessories and cleaning products for the customers. Currently, the Company offers 250 plus products as spare parts and 50 plus products for accessories.

We have already established a dealership network of 60 odd dealers in 35 cities and we have already setup a warehouse for catering to these dealers. The Company has also established its online shopping portal, shopelpis.com and we are also selling our products through other e-commerce ventures like Amazon etc. If you are an Instagram user, please like and follow our page and press auto.



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The third vertical for the Company's growth is pail container business. This business was born out of identification of products for which we can utilize the spare capacity of our injection molding machines. We started supplying these containers to the agriculture industry. We already have five products to offer and are developing 15 more to expand to adhesive paints, FMCG, and lubricant industries.

The fourth vertical for the Company's exponential growth is the electrical vehicle industry as we have been discussing in the opening remarks also. We have established a new subsidiary known as PPAP Technology Limited to focus on this enormous opportunity. As you all know the two-wheeler industry is going through a massive transformation the government policies are also supporting it. The expectation is that more than 50% of the industry may be switching over to electric vehicles in the next four to five years.

We have made some headway in developing battery packs. Our in-house design and development team is currently working on 11 battery packs for our customers. We have already developed a portfolio of 34 products which are under various stages with the customers. We have established one assembly line with a capacity of 125-megawatt hour per year for making 20,000 plus packs and the second assembly line is under installation currently. This subsidiary will also focus on development of battery packs for storage applications.

During this quarter we have added three new customers in the EV two-wheeler segment and one new customer for storage solution. We are seeing a lot of traction in this vertical and lot of interests from the customers. We are very confident that this vertical will show promising growth going forward. Since this is a new initiative and a new company, the break even is expected to reach within this quarter

Apart from the battery side solutions, we have started getting active interest from customers for plastic parts development as well as tooling development. We are also working on the plastic parts for the chargers. You can see the complete portfolio of our offerings in the presentation which has already been shared with you and is available on our website as well as the stock exchanges.

The fifth vertical for growth is the commercial tool room to manufacture plastic injection molds. Currently, this vertical can design and develop molds up to 1.8 meters. This vertical has the capacity to manufacture 80 plus molds per year. Currently, they make molds for



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our automotive part business besides that we are continuously adding customers from outside industries.

In the quarter under review, we have added four new customers from various industries. Due to global logistic problems, we are seeing a lot of traction in this vertical from customers in automotive segment, white goods, electric goods, medical goods etc.

Most of the companies who are buying exclusively from China have changed their policy to China Plus One to de-risk themselves and this is what is driving this business and is creating a huge opportunity for us now.

Now let me throw some light on the financial performance and key developments for Q3 and nine months for financial year 2022. For the standalone results, the revenue grew by 7.1% from Rs.103.8 Crores to Rs.111.2 Crores in Q3 on a quarter-on-quarter basis. Revenue witnessed a strong growth of 41% in nine months financial year 2022 against the previous year financial year 2021.

EBITDA remained flat at Rs.11.7 Crores on a quarter-on-quarter basis with company achieving a double-digit EBITDA margin of 10.5% in Q3 financial year 2022. EBITDA grew by 62.8% to Rs 27 Crores in nine months of financial year 2022 on a year-on-year basis. The margins are under pressure due to higher commodity prices which have persisted during the quarter under review.

Profit after tax witnessed a de-growth of 9.2% in Q3 and stood at Rs 2.3 Crores compared to Rs 2.6 Crores in quarter two of financial year 2022, 86% of the revenue of the Company is derived from sales of parts whereas balance is derived from sale of tools and others. Maruti Suzuki continues to be the largest customer for us and it contributes 34% to the overall revenues. If you include Suzuki Motor Gujarat also in this number, then the total contribution goes up to 50%.

PPAP as I have shared with you earlier, have started supplying parts for the newly launched Maruti Celerio and Skoda Slavia. During this quarter we have received zero PPM award from our customer Toyota as well as from Hyundai. We have also been short-listed for Quality Circle Competition and Kaizen competition which is going to happen on a national level by our customer Honda Suppliers Club.

The capacity utilization has improved and it stood at 65% in the current quarter. Our aim is to improve capacity utilization levels going forward and achieve operational efficiencies.



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Our consolidated results, our aftermarket subsidiary has grown profitable and contributes positively. The EV component subsidiary as I just said being a new company is expected to contribute positively this quarter.

Just to summarize, we anticipate that industry tailwinds, the development of favorable policies and a vision for long-term and sustainable growth will provide us with numerous opportunities in the coming years. All these opportunities are technologically and strategically ready for us to capitalize on. Also, we perceive significant improvement in the performance of the individual business verticals which will enable our company to scale new heights in future.

Thank you everyone for your patience listening and now Tanvi we can open the floor for question and answers.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Amit Shah from Ace Securities. Please go ahead.

Amit Shah: Thank you for taking my question. Sir firstly Sir the company's capacity utilization is maintained at 65% in Q3 FY2022 like previous quarter. When can we expect an uptick in capacity utilization?

Abhishek Jain: Thank you Mr. Shah for your question. See capacity utilization is a factor of how many cars are getting produced by the OEMs. So now, since the semiconductor shortage situation is improving and our customers are building more cars, we see this number now getting improved in the current quarter.

Amit Shah: Understood Sir. Sir on EV front do we have tie ups with any two-wheeler OEM?

Abhishek Jain: What do you mean by tie ups Mr. Shah? Do you mean like technology tie up?

Amit Shah: Yes, Sir technology tie ups?

Abhishek Jain: We do not have any technology tie up but based on certain commitments from the EV makers we are developing battery packs for them by ourselves and we have either this is being done by our in-house development team or it is being developed by our tie up with the academia.

Amit Shah: Sir any other products that we are developing on EV front?



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Abhishek Jain: Like I said apart from this battery pack system, currently we are extending our existing portfolio which is plastic parts and tools through all these EV two-wheeler makers so, right now we have RFQs from two of such makers for developing their complete plastic parts and tools also.

Amit Shah: Understood. Thank you.

Moderator: Thank you. The next question is from the line of Anil Kumar Sharma an Individual Investor. Please go ahead. As there is no response, we will move to the next question, which is from the line of Nisha Desai from Raga Securities. Please go ahead.

Nisha Desai: Good afternoon, Sir. I have a couple of questions. I wanted to understand we are witnessing a pressure on EBITDA margins on sequential as well as on a year-on-year basis so what are the reasons for the drop in the margin?

Abhishek Jain: It is primarily due to the commodity prices, which have unprecedentedly gone up in the last nine months so, operation side we are quite efficient. We continue to be efficient but this nine-month sudden and unprecedented prices going up for all the commodities that has hit us quite badly and we are in talks with the customers to find out some mutually acceptable solution to this whole problem.

Nisha Desai: On a steady state basis what kind of EBITDA margins can the Company achieve going forward?

Abhishek Jain: Historically also if you see these are quite comfortable. Maximum what we have achieved is about 21% but honestly, we are quite comfortable between 15% and 16% margins.

Nisha Desai: Sir secondly as you mentioned this commodity prices have been on a rising trend, I mean they have been increasing so Sir how do you manage the rise in the raw material prices? I mean what steps do we take?

Abhishek Jain: First, this is an unprecedented increase which we are witnessing first time in the industry. Previously, we had contracts with the customer for foreign exchange price increase and all so we were quite insulated from that point of view, but this sudden and unprecedented price increase in the last nine months, this has hit us very badly and this is now forcing us to have again discussions with the customer on how we can arrive at a mutually beneficial situation for both the customer also and for the Company as well.



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Nisha Desai: Sir like how much percentage of rise in the raw material price have you passed through to the customer in this quarter Q3?

Sachin Jain: In this quarter because if you see the major increase was in the Q2 in the raw material prices so because there is a quarter lag on the part so that was passed on to the customer because there is 50%:50% of the agreement with the customer and 50% part we are able to pass on the materials increased cost to the customer so in this quarter the prices has been literally a bit stable; however, the impact which has come due to Q1 and Q2 that is reflecting in the Q3.

Nisha Desai: Sir, then on the industry front can you guide us through this current issue of the semiconductor chip shortage which is going on? I believe that issue is easing out right now so can we expect a normal scenario for the same?

Abhishek Jain: For the semiconductor shortage.

Nisha Desai: Yes, I mean if you could give us some update on that what was your view on that?

Abhishek Jain: There were a couple of issues why this semiconductor shortage happened. First, we need to know that global automotive industry is just a 5% customer of the entire semiconductors which are produced in the world so, 95% of these semiconductors are used in non-automotive applications like white goods or cell phones, laptops, computers, etc. In the past one and a half years, one factory which was supplying semiconductors to the automotive industry in Japan, unfortunately they had an untoward incident because of which they lost out on some production equipments and to meet the requirements of the automotive industry, they had actually ordered new equipment. That new equipment instead of adding to the capacity got utilized in replacing the capacity, which got burnt out in this whole incident. Then during this whole first wave and second wave the whole pandemic there have been lot of restrictions in Malaysia, which could not produce that many chips for the industry and Taiwan side also a lot of restrictions were there but now that all these restrictions are being removed, things are now getting back to normal. Production of semiconductors is now coming back on track. In the meantime, a lot of customers have also been able to secure these semiconductors so now things are getting much better but if we cannot say that we are completely out of this semiconductor problem. For this quarter, the customers have assured us that they have enough semiconductors to manufacture vehicles, but situation still remains uncertain, and it is only expected to ease out maybe by the end of this calendar year or by end of the next



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financial year when some more new capacities are expected to come up in Taiwan basically.

Nisha Desai: Sir my last question, Maruti Suzuki is expecting Q4 to be the best quarter in this fiscal year are you witnessing a similar scenario?

Abhishek Jain: Well, Maruti Suzuki contributes 50% to our sales so I think you can extrapolate that information with what Maruti is saying.

Nisha Desai: Sir, this was very helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Dipti Kothari from Kothari Securities. Please go ahead.

Dipti Kothari: Sir, I have a few questions. In the non-auto segment how is the pail container business shaping up and new development in this space?

Sachin Jain: For the pail container side, initially we have started with agriculture industries, so we have developed a certain product for the Pail industry and further we are developing more products for this lubricant side and the chemical industry.

Dipti Kothari: Can you tell us about the overall strategy at a group level and what is the top line growth expected in next three to five years?

Abhishek Jain: Ms. Kothari we have already shared with you that these five areas of growth which we have identified so each area has a significant potential of growth and lot of opportunities for us to grow. Putting a number towards this will be a little difficult for us because we do not want to give any guidance or something, but we are working hard and we are quite positive in finding new opportunities in all these five verticals that we have been talking about till now.

Dipti Kothari: Sir one last question coming to ESG initiatives, I believe PPAP has been doing great work on ESG part? Can you elaborate on more on how the entire ESG ecosystem works?

Abhishek Jain: How the entire ESG ecosystem works. I think we will connect with you one-on-one. That is a very long topic and we will be happy to explain all the details to you.

Dipti Kothari: Thank you so much.



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- Abhishek Jain:** You can also access this report on our website the report which we have published.
- Dipti Kothari:** Thank you.
- Moderator:** Thank you. The next question is from the line of Manish Arya from ICICI Bank. Please go ahead.
- Manish Arya:** Good afternoon, Sir. my question is on the capacity. We have seen there has been lot of significant capex done in the last four years by the Company. It is almost like more than Rs.150 Crores that have been spent already and there has been additional capacity initiative Rs.105 Crores more in the Company coming year 2022 and 2023 and considering there has been not much traction I do understand because of the fact that there has been slowdown in financial prudence and there was COVID impacted year 2021 predominantly; however, we just want to know how traction in the coming two years can be because I think there has been a lot of capacity available to the Company and also the second question was since there has been significant increases in the debt level of the Company from Rs.12 Crores in financial year FY2020, it has gone down coming to be around Rs.80 Crores by financial year FY2022 so how the margins will be treated more with more debt coming in the Company and also considering the fact that there has been an investment in the PPA technology which I am sure is going to be higher in the coming two years as well so how the Company is going to cope up with these just want to have an idea of that?
- Sachin Jain:** Thank you Manish for your questions. Regarding the capex if you see the capex is mostly done in line with the customer requirements so if you have followed our company in the last five to seven years, seven years we were mostly present in the north area primarily in the UP area. Then 2014-2015 and 2015-2016 we extended in Pathredi, Rajasthan area because for Honda and Maruti there was a new further requirement for that. Then we have set up one assembly facility in Chennai and then we expanded to Gujarat so after that, that assembly and then we created our own facility in Gujarat also and the Chennai side also, so that way the capex was planned and done based on the customer requirements and as we also shared that there are five more initiatives, which we have started in the last two years. There was a commercial tool room. There was an investment in that business also however due to this COVID situation you are right that traction was not there. The capacity utilization was not up to that level; however, considering the future requirement and the customer business in hand, the capex is being done. Regarding the debt level, the debt is as per the our business plan and we will review the situation and



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that will turn accordingly to meet our requirements. Our debt equity ratio is quite comfortable. It is around 0.2.

Manish Arya: Sir, it to leverage the investment that the Company has been making in the group company as well? Is it like that or how much?

Sachin Jain: Yes, there are some investments in the PAPP Technology also. There is a good prospect in that company so there is investment in that company also.

Manish Arya: So how much is the more investment that you are taking in the coming two years in this PAPP Technology?

Sachin Jain: Yes, when we mentioned that there is futurist requirement so we are making internal business plan and accordingly we take that decision based on the plan of respective vertical.

Manish Arya: Margin will be like under pressure probably in the next year?

Sachin Jain: Yes, from the margin side as already mentioned that there is a pressure we have presented an increase in the commodity side and we are taking it with the customer how customer can support us in this way so we understand from the next year's Q1 there should be improvement in our margins.

Manish Arya: Thank you.

Moderator: Thank you. The next question is from the line of Viraj Sona from NM Securities. Please go ahead.

Viraj Sona: Sir, what is the content per vehicle for our top three customers?

Sachin Jain: Content per vehicle varies across customer to customer. For example, in markets of Maruti along with SMG it is around Rs.2500 to Rs.3000. If it is a Honda, it is approximately Rs.8000, MGI, it is Rs.4500, and Tata it is around Rs.1400.

Viraj Sona: Are we taking any steps for increasing the content per vehicle?

Sachin Jain: . We regularly chase the customer to give more products which we are part of our portfolio and we are not supplying to the particular customer so this is the regular activity



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of our BD department to take up with the customers and showcase our capability and the product which we make for all the customers to get more business and increase the value per car.

Viraj Sona: Sir, as you mentioned in your speech, we have started supplying our parts to new models like Slavia and Celerio what is the content per vehicle in both models?

Sachin Jain: It is difficult to share the model wise content per vehicle.

Viraj Sona: Sir, apart from Slavia and Celerio, have we begun supplying products to any other models?

Sachin Jain: These are the no other SOPS, or the new model launches by our existing customers.

Viraj Sona: Thank you Sir.

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

Abhishek Jain: Thank you, Tanvi. I thank everyone for taking time out of their busy schedules to attend this conference call today. Please feel free to get in touch with us or SGA, our Investor Relation Advisors with any questions that you may have. We will also be more than happy to show you around our excellent facilities that have been created to service the customer. Thank you everyone. Stay safe and a good evening to everyone. 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.