23rd November, 2023

The Listing Department	The Listing Department
BSE Limited	The National Stock Exchange of India Limited
Phiroze Jeejeebhoy Towers,	Exchange Plaza,
Dalal Street,	Bandra Kurla Complex,
Mumbai – 400001	Bandra (E), Mumbai - 400051
Symbol: 532934	Symbol: PPAP

Subject: Transcript of earning conference call for the quarter and half year ended 30th September, 2023

Dear Sir,

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 enclosing herewith transcript of earnings conference call held on Friday 17th November, 2023 to discuss financial results for the quarter and half year ended 30th September, 2023.

The transcripts are also available on Company's website at:
https://www.ppapco.in/assets/pdf/quarterly_reports/PPAP_Q2FY24_earnings_call_transcript.pdf

This is for your information and records.

Thanking you,

Yours Faithfully,
for **PPAP Automotive Limited**

PANKHURI AGARWAL

Digitally signed by PANKHURI AGARWAL
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Pankhuri Agarwal
Company Secretary and Compliance Officer

"PPAP Automotive Limited Q2 FY24 Earnings Conference Call"

November 17, 2023

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

Moderator: Ladies and Gentlemen, Good day and welcome to Q2 FY24 Earnings Conference Call of PPAP Automotive Limited.

This conference call may contain forward-looking statements about the Company which are based on 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 this conference call, you may press '*' then '0' 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. Thank you and over to you, sir.

Abhishek Jain: Thank you, Sagar. Good morning, everyone and welcome to our quarter 2 Financial Year '24 earnings call. I am accompanied by our CFO – Mr. Sachin Jain and SGA our Investor Relation Advisor on this call today. I hope everyone has had a chance to go through our revised presentation, which gives you the snapshot of the group as well as updates of how the businesses are being developed.

Let me start with a brief overview on the industry:

The automobile industry witnessed a marginal sales growth of 1% on a year-on-year basis from 1.42 crore units to 1.44 crore units during April to September 2023. During the first half of the fiscal year, the passenger vehicle segment grew from 22.76 lakh units to 24.18 lakh units, indicating a growth of 6% over last year.

There is a silver lining with Maruti Suzuki, the India's largest car manufacturer registered highest ever monthly sales in September and cumulatively crossed 1 million mark in the first 6 months of Financial Year '24.

This growth can be attributed towards the new model launches, coupled with an increasing premiumization trend. The two-wheeler sales were flattish during H1 Financial Year '24 whereas 3 wheelers recorded a growth of 22% to 4.97 lakh units from 4.09 lakh units in H1 financial year 23. The overall commercial vehicle vertical witnessed growth of 4% to 5.26 lakh units from 5.08 lakh units.

Medium and heavy commercial vehicles have registered a steady growth of 8% to 1.85 lakh units. The first half of this fiscal year witnessed a lot of challenges in terms of inflation at elevated levels, geopolitical issues, subdued industry growth, etcetera. However, we have been able to demonstrate a resilient performance especially during the second quarter of Financial Year '24 and have been successful in wavering some challenges to some extent.

We have been saying that Financial Year '24 will be a year of beginning for the group and it is playing out so far. To improve our profitability, we have represented price increases to our customers worked very hard on reducing our internal costs with our suppliers and we are still working on making the operations in house.

The investments made by the Company in the JV Company are yielding results. The aftermarket Company has already developed a strong Pan India network and started looking at markets outside the country. I am confident that all the hard work done by the Company in the past two to three years will start yielding better results for the remainder of this year and we should be back on making the fundamentals of the Company and the group strong and rock solid so that we can continue to build greater value for all the stakeholders.

Now let me briefly give you an update on the business segments. The Company's core focus continues to be on the automotive industry. During the quarter under review, we started manufacturing parts for Honda's new SUV called Elevate. In this segment, although we can see robust demand and sales coming through, we've developed a couple of premium products for our customers and these products have been well accepted by them and will come into mass production in the Quarter 4 of this financial year.

The capacity utilizations stood at 80%, although the products being made by the Company are engine agnostic. However, for business sustainability we have been able to secure business with customers who are planning to launch electric vehicles in the future. Maruti Suzuki continues to be the biggest customer for us in this segment. Raw material prices continue to stabilize which caused a major hit on the margins of the Company since the last year.

We are continuously discussing about compensation of inflammatory costs from the customers, and we are hopeful that within this quarter we will be having some favorable judgment. Since few quarters, we have been saying that our margins will improve once costs are under control. I am pleased to share that EBITDA margin especially on a sequential basis, has improved from 6.6% in quarter 1 of Financial Year '24 to 9.4% in quarter 2 Financial Year '24 at a standalone level.

As the material compensation was settled in first quarter in our JV Company it has started positive contribution in the consolidated results. Our second vertical for growth, the commercial tool room has a strong order book now. This year we have an order book of 65 tools already and are discussing business for another 53 tools. We are quite excited that this business will start with positive contribution to the Company from this financial year onwards.

Apart from PPAP this facility will cater to customers from Tier-1 makers of automotive component industry as well as electrical industry. There is traction coming in the industrial product segment as well. This year as announced to you in the last meeting we will start supplies for an export customer, which will be the first for the Company. In this segment, we are focusing on application engineering solutions in the areas of plastic extrusion, rubber extrusion as well as plastic injection molding.

For the aftermarket verticals, which is done by the subsidiary Company Elpis, our Pan India distribution network has a distribution network of 120 distributors in the country. We are continuously adding SKUs for our customers. Our current offering is for 700 different products and will continue to enhance it every quarter. We're developing our strategy for exporting our products to geographies outside of the country.

This business grew by more than 50% this year and we expect the traction to continue. The lithium-ion battery vertical continues to remain slightly under pressure, which has led to impact in the profitability.

However, going forward, we are hopeful that we will be able to develop a strong order book and start supplying solutions to the customers. Our team was successful in getting the AIS 156 approvals from its factory for two wheelers and three-wheeler applications. We were also successful in developing solutions for other mobility applications as well as ESS and robotics applications.

On sustainability front, we have gone certified from EcoVadis. We are already complying with BRSR requirements on a voluntary level. We are a great place to work certified organization. We want to improve our sustainability reporting process continuously to ensure that we meet the highest reporting standards and expectations of all our stakeholders as well as increased visibility of our efforts in creating sustainable value for all stakeholders.

Our latest sustainability report for financial year 23 is available on the Company's website. This is a new report which reports on the group level sustainability status. I urge everyone to kindly go to the Company's website and have a look at it. 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 various biodiversity parks by planting and sustaining native trees to improve the environmental conditions, especially during these times when Delhi is severely polluted and is considered as the most polluted city in the world.

Now let me throw some light on the financial performance of quarter 2 Financial Year ‘24. At a standalone level, revenue increased from Rs.124.2 crores to Rs.140.5 crores in the quarter indicating a growth of 13.1% year-on-year. Revenue also increased by 26% on a quarter-on-quarter basis. EBITDA has risen by 5.5% to Rs.13.2 crores on year-on-year basis, whereas it has surged by 78.4% on a sequential basis. The Company registered a PAT of Rs.2.7 crores a growth of 7.5% compared to corresponding period last year.

Coming to the consolidated financials revenue increased from Rs.128.5 crores in quarter 2 financial year 23 to Rs.148.4 crores indicating a rise of 15.5% year-on-year. The top line grew by 27.4% on a quarter-on-quarter basis. While EBITDA stood at Rs.12.2 crores whereas on quarterly basis there was a sharp rise by 94.6%, PAT stood at Rs.0.5 crores.

As I've said earlier, we anticipate Financial Year '24 to be a year of reckoning due to multiple tailwinds in the automobile industry as well as the positive additions from new initiatives started by the Company. Higher realization on account of better product mix, moderation in input prices and cost efficiency measures will support profitability. The CAPEX spending will be in line with the CAPEX of OEM's.

The increase in capacity utilization coupled with the tariff revisions from the customers will put the Company on a sound footing to grow in the coming years. Thank you all for your kind listening, we will be more than happy to answer any questions that you may have. Over to you, Sagar.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Piyush Parag from Nuvama Wealth. Please go ahead.

Piyush Parag: So, sir I would like to have two questions. The first question is If you give some more color on the Maruti because that still holds to be 52% and if we look at from the quarter 2 to this quarter it's almost revenue contribution is the similar to 52% and so given that there are two questions. The first if you look out on the revenue side, SUV is the major key growth driver for Maruti, but how it has actually played out for you in terms of content per vehicle. So, if you can give some light on that.

And the second question as we understand throughout your discussions, the margins are not relatively with other customers is not that great with Maruti, but being on the similar side, we see a good improvement in the margin. So, what has been the key contributor for the margin? So, it will be really great if you can just throw light on these two questions?

Abhishek Jain: On the revenue side, Maruti continues to be our biggest customer and our average content per vehicle for Maruti is roughly between Rs. 2,500 toRs. 3,000 per vehicle. What else did you want to know about Maruti on the revenue side?

Piyush Parag: So, my question was like for Maruti as overall the scheme if we look at SUV has been the key growth driver. For you in terms of your content per vehicle, let's say suppose 3 quarters previously like three quarters, four quarters. Do you see the improvement happening for you with Maruti's content per vehicle and in future how do you see is to improve further or it could be on the similar trend as you said that even Maruti held by the premiumization trade. So, how this is actually playing out for you?

Abhishek Jain: We are continuously getting business from Maruti for all Maruti models. Even SUVs like Jimny wherein we say this Rs.2500 to Rs.3,000, when it comes to Jimny, it is slightly higher than Rs. 3,000. I think it's somewhere around Rs. 5,000 or something.

We are present on the Vitara Brezza platform as well. We are present on the Grand Vitara platform as well. Our Chennai plant supplies those parts to the Toyota facility where all these cars are getting manufactured and now, we're discussing with Maruti for their new models which will be launched in the Kharkhoda plant.

So, we are targeting not only SUVs, but every model which is being launched by the customers and for your SUVs specifically your question like Tata Motors is leading the segment right now with their range of SUVs. So, we are already present on all the platforms for them, and they are planning to launch a new SUV. You must have heard about this CURVV which is supposed to come out in the Quarter 4 of this financial year.

So, in that model we have a higher business with the Tata Motors, I think it's roughly in the range of Rs.6,000 to Rs. 7,000 and in that model, we are going to learn a lot of premium products that we've developed by our own efforts in the Company and Elevate you already know that Elevate is also launched from Honda side and as informed while earlier our per car contribution is somewhere around Rs. 6,000 for that.

Piyush Parag: So, it is 6k or 8k you said that 8 K is also there for Elevator?

Abhishek Jain: It is around Rs. 6,000.

Piyush Parag: I just wanted to understand also from the perspective of the margins from your customer profile, if what I have understood till now is that Maruti has not been that great for that in terms of the margin your contributions revenue share from Maruti is 52% again in the Q2 as it was in Q1, but there's a sharp jump in the Q2. So, can you give the specifics for the margin improvement probably from the customer side, what has led to that?

Abhishek Jain: Primarily we got price increase from the customer for few of our parts that has been taken into account. There were some old issues with the Maruti that has come into place now and few are more pending, which should get implemented within this quarter. So, that should help the margins now going forward.

Moderator: Thank you. The next question is from the line of Rajvi Shah from Bright Securities. Please go ahead.

Rajvi Shah: I just had two questions. The first is how is the EV business shaping up? Can you throw some light as we haven't seen much progress there and the second question is Maruti is going to launch phase lift of S-Cross and Ciaz, have we received any order flows from the same? If yes, then what will be the content per vehicle?

Abhishek Jain: Sorry which model did you say S-Cross and Ciaz?

Rajvi Shah: Yes, S-Cross and Ciaz?

Abhishek Jain: Actually, whatever parts we supply they are not affected by any minor model changes that the customers makes. So, our business per vehicle will continue to be the same as it was earlier and I'm sorry, but I don't have specific information right now about these particular models how much is the content per vehicle?

As far as EV business goes on the passenger vehicle side, we are already doing business with lot of customers like Tata Motors and MG. We have overall about 10 electric vehicle customers whom we are working with. Maruti also you must have heard they're launching a new vehicle in next year an EV. So, we are present on that as well.

So, it's a conscious focus for us to get into all the electric vehicles that are getting produced in the country. Technology side, our products are engine agnostic, so it really doesn't matter for us if it is an ICE engine, or an EV engine product technology is very similar and in case there is some difference our Company is very well equipped to deal with it by ourselves in house. We have a RTDC team which focuses on new projects, technology development and all and they are continuously launching new products to meet the customers requirement.

As far as our subsidiary Company P Tech is concerned wherein, we are doing the lithium-ion battery business for electric vehicles there is still some pain left in that Company. We were expecting two models to start in during this quarter, but unfortunately the customer has delayed the launches. So, we will have to wait for more time to get good results out of that Company.

But on the other side, we have developed solutions for the ESS application, and we are currently contacting all the people who do these energy storage solution and trying to get our products into their portfolio.

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

Karan Mehra: I have a couple of questions from my end first is like the margins are improving sequentially, so congratulations on that front, just wanted to understand like at what levels can we see the margins on a sustainable basis if you can throw some light here?

Abhishek Jain: For this particular current year, because there was some impact on the margins due to lower sales. So, this year it should be in the range of 10%. However, going forward in FY25, there should be improvement in the margin in that range of around 12% to 13%.

Karan Mehra: The other question just wanted to understand the order book for Honda Elevate and if you can throw some light on what is the content per vehicle for the same model?

Abhishek Jain: It's about Rs. 6,000 per vehicle.

Karan Mehra: And the order book for the same?

Abhishek Jain: Honda, I think is planning about 35,000 vehicles in this financial year in the balance 5 months and they are going to start exporting this vehicle to Japan next month. They've already started exporting to South Africa and in December most probably they will be starting export to Japan, and this Elevate is going to be called WR-V in Japan.

Moderator: Thank you. The next question is from the line of Yug Mehta from AP Capital. Please go ahead.

Yug Mehta: How is the commercial tool room business performing, have you received any large orders there?

Abhishek Jain: As I explained in my opening commentary, we already have an order book of 55 tools which we are going to do this year. We have a total capacity of making about 100 tools. So, in the first 6 months we have a order book of almost you can say 55%. The balance is about 45, but I think apart from 55 we should be able to get orders for another 10 to 15 tools more. So, this year we should be making around 70 odd tools in our tool room. So, that will be almost a capacity utilization of 70 odd percent.

Yug Mehta: Lastly sir where do we stand in terms of exporting our products, is there any update on that front?

Abhishek Jain: So, this month we are going to send our first order to U.S for our industrial product divisions and it's not a very big order, it's a small order, but this month we are starting deliveries. So, it's a cycle. So, once these parts are received by the customer they are inspected, put to use confidence and trust building happens, then we'll start getting more orders.

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

Preeti Mehta: So, my question is how much of the top line comes from aftermarket vertical and what are the margins in that segment?

Abhishek Jain: So, top line from the aftermarket is roughly 3% of our total turnover and margins are currently in the range of 9% to 10% of EBITDA.

Preeti Mehta: And I have one more question how do you see the demand in H2 of the financial year and FY25?

Sachin Jain: So, demand side currently the market is robust, and we are getting good production demand from the customer or the predicted volume from the coming quarter. So, we are hopeful that likewise in the H1 there was a automobile growth of around 6% and we are hopeful that that should be maintained in the H2 also.

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

Piyush Parag: Can you throw some more light on the EV business more in terms of the revenue contribution for the last two quarters, three quarters and how do we expect in FY25 and FY26 that contribution to be improving?

Abhishek Jain: Sorry we didn't understand your question could you repeat it please?

Piyush Parag: My question is the share revenue contribution from the EV business currently in the last two quarters how it has been improving and how do we expect in by the end of FY25 and FY26 to be the trend to be and where do you expect things to be like in a kind of a balanced growth for the EV business. So that would be helpful?

Abhishek Jain: Piyush ji as I said this passenger vehicle EV business for this automotive business, we are targeting all the customers and we got business from Tata Motors as well and MG as well, and Suzuki new model which is planning to come that also business we have been able to successfully get and the other biggest customer for passenger vehicle is Mahindra whom with we are discussing.

So, I think this business will pan out as the market grows. We don't have a separate projection or something for the EV business. Our basic parameter is that whoever is making the EV today we should be present with that customer that's the parameter which we are measuring and as I have already explained for the lithium-ion battery business, we still have to wait and watch.

Two customers were supposed to start production during this quarter, but unfortunately, they could not start production and it's gotten delayed, so we have to wait and watch to see how things plan out.

Moderator: Thank you. The next question is from the line of Sonu Harsana who's an Individual Investor. Please go ahead.

Sonu Harsana: So, my question regarding since Tata Motors contribute our third largest customer and they have launched Tata Nexon and there is no mention in the presentation that you are supplying to Nexon or Harrier or Safari. So, any clarification on that?

Sachin Jain: In presentations, we don't mention all the models which we are supplying. So, we are supplying I think the n number of model for each customer. So, we mentioned the model where we started the supply of the new model coming up from the customer side. So, we don't mention all the models, we are supplying in the Harrier also and Nexon also and other two, three models also we are supplying to the Tata Motors.

Sonu Harsana: One more question since like last financial year, you are telling us that the EBITDA margin will be somewhere around 15%, can you reduce it to let's say 12%, 13% and now you are saying that 10% EBITDA margin for this Financial Year '24. Since all the commodity cost is going down. So, why we are downgrading the EBITDA margin, and we are also talking about like some price appreciation for our customer. So, like why downgrading the EBITDA margin?

Sachin Jain: So, about that EBITDA margin so we have not already mentioned that you will able to do 15% kind of thing in the next financial year and it is based on the particular situation and expectation of the commodity prices and how they will move for the particular item which we are using and the negotiation with their customer which is the dynamic thing. So, based on that it depends. So, based on the current situation and how the prices are there, and the negotiation is going on with the customers, based on that we are EBITDA margin.

Sonu Harsana: One more further question like let us say in the first 6 months or first half of Financial '24, we produced somewhere around 20 crores to 22 crore of cash from operations and like we invested almost 16 crore to 18 crore of cash in plant and equipment and all that. So, my question is, is this a growth CAPEX or just maintenance CAPEX?

Sachin Jain: So, it is the combined CAPEX. So, if you see because when any new model comes up there would always be requirement of the balancing CAPEX. So, it combines both sometimes you need to invest in that tooling also for the same model where this amortization is there. So, it is combination of both some of the maintenance CAPEX and some of the I would not say exactly the increase in the capacity, but to the balance CAPEX requirement or the special purpose machine requirement for the customer new models or the new part which we have developed.

Sonu Harsana: My question is there is still some gross debt is somewhere around 150 crores and like three years, four years back it used to be 20 crores to 30 crores. Obviously, we started some new business, and they are not contributing as of now as they should be. So, like my question is like the debt level where we're going to maintain because we already have 150 crores of debt, that is almost 50% of our equity and that is a lot of debt, and we haven't invested anything in our part business that contributes 90% to 95% of our revenue. So, like these new businesses have all the debt and they are not contributing at all. So, how do you like going ahead where should be the debt?

Sachin Jain: Yes, on the debt side, we are also quite watchful. It is not like that the whole money is invested in the other initiative which Company has taken. So, there are certain requirements in the automotive business also like in the Gujarat area or the Chennai area or there is a current plant also to meet the customer requirements and about debt level we are quite watchful we will try to maintain the debt at current levels only.

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 Sagar. I thank everyone for taking time out of your busy schedules to attend the conference call today. Please feel free to approach us with any questions that you may have. We'll be more than happy to show you around the excellent facilities that have been created to service the customers. I thank SGA Advisors for organizing this call last but not the least, a big thank you to the team at PPAP for supporting this call. Thank you very much.

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.