



PG ELECTROPLAST LIMITED

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November 18, 2021

To,
The Manager (Listing)
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001

To,
The Manager (Listing)
National Stock Exchange of India Limited,
Exchange Plaza,
Bandra Kurla Complex,
Bandra (East),
Mumbai - 400 051

Scrip Code: 533581

Scrip Symbol: PGEL

Sub.: Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 – Transcript of the Earnings Conference Call

Dear Sir,
Pursuant to Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, please find enclosed transcript of the Earnings Conference Call held on Tuesday, November 16, 2021.

This is for your information & Records.

For **PG Electroplast Limited**


(Sanchay Dubey)
Company Secretary



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**“PG Electroplast Limited
Q2 FY-22 Earnings Conference Call”**

November 16, 2021



**MANAGEMENT: MR. VISHAL GUPTA – MANAGING DIRECTOR
(FINANCE), PG ELECTROPLAST LIMITED**

**MR. VIKAS GUPTA – MANAGING DIRECTOR
(OPERATIONS), PG ELECTROPLAST LIMITED**

**MR. PRAMOD GUPTA - CHIEF FINANCIAL OFFICER,
PG ELECTROPLAST LIMITED**

**MODERATOR: MR. DEEPAK AGARWAL – PHILLIPCAPITAL (INDIA)
PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the PG Electroplast Limited Q2 FY22 Earnings Conference Call, hosted by PhillipCapital (India) Private Limited. During this call, company may make certain forward-looking statements based on the current, held beliefs of the management of the company which are expressed in good faith and in management's opinion are reasonable. The forward-looking statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, financial condition performance or achievements of the Company or industry to differ materially from those in forward-looking. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Deepak Agarwal from PhillipCapital (India) Private Limited. Thank you, and over to you, Sir!

Deepak Agarwal: Thanks. Good afternoon. On behalf of PhillipCapital, we welcome you all to the PG Electroplast Limited's Q2 FY22 Earnings Call. Today, we have with us the management represented by Mr. Vishal Gupta, Managing Director (Finance), Mr. Vikas Gupta, Managing Director (Operations) and Mr. Pramod Gupta, Chief Financial Officer. We thank the management for giving us opportunity to host this call. So without taking much of time, I would like to hand over the floor to the management for their opening remarks, post which we will open the floor for Q&A. Over to you Sir! Thanks.

Vishal Gupta: Thank you. Thank you, Deepak. Thank you very much. Good evening and warm welcome to everyone to our second quarter earnings call. I hope you are all keeping safe and healthy. I am joined in this call by Mr. Vikas Gupta, our Managing Director (Operations) and Mr. Pramod Gupta, our Chief Financial Officer. We have already shared our results presentation last week and I hope you have all really gone through that.

First of all, we are very delighted to announce that our wholly owned subsidiary, PG Technoplast Private Limited has recently received approval from the Government of India for the PLI scheme for AC components. We are committed the fourth largest investment after players like Daikin, Amber and Hindalco and we believe we are in one of the best positions to capitalize on the opportunities being provided by this scheme.

We are investing in a good mix of component manufacturing to significantly improve our value addition. We are confident of gaining a sizable share of the domestic market of room AC manufacturing in the coming years. With the establishment of a robust ecosystem/component ecosystem, domestically in the next few years, we can also look forward to tapping export markets for fully built ACs and AC components.

Coming to the updates for the quarter, I would like to commend India's strong vaccination drive which has restored consumer confidence, this is evidenced by the strong festival sales, this signals that the economy is on the recovery path. The demand situation is expected to be further boosted by the marriage season. This is expected to be poised strong this year. The first two months of this quarter was quite slow as there was large inventories in the channel and the distribution network was also lacking in confidence as everyone was expecting the arrival of the third wave; however, due to the vaccination drive and the strong festive season that confidence is now back and the offtake from our customers has started ramping up in the month of October and November.

Now I will talk about the different products of the company. This quarter the washing machine division saw its highest ever production in sales. Sales grew 88% YoY because of second quarter and 98% for the first half for this year as compared to the last year. We added two new customers in this quarter and introduced eight new models. Our fully automatic washing machine is seeing very good response and we are steadily adding new customers further. The growth of the division is very strong and we are on track to achieve our target of 100% growth this financial year. Our outlook for this business very positive and we will be scaling our production capacity by 55% in the next few months.

We have already given the development of five new platforms in semi-automatic and fully automatic categories. This will help us to expand our product offerings to our customers for the next year. AC sales remain positive this year. Sales are up 111% for the quarter and 319% for the first half, but the numbers were not very big. There is a sharp rise in the commodity prices of copper, aluminum and steel along with the rise in the prices of crude, which has led to the corresponding increase in the plastic, resins and transportation.

The container shipping prices also continue to being at very high levels. We have been able to pass these price increases to our customers. Our OEM range of home ACs have been tested and validated by many Indian brands and we have tied up with

them for the coming season and our order book is nearly full now. We have also received good feedback about the model and product response what we have developed. We are working towards ensuring successful execution of our order and all preparations are being made to ramp up to peak capacities immediately after commissioning of PG Technoplast Green facility in Supa. Demand looks very robust for our AC products with the PLI approval in hand we have now given planning the next phase of robust growth in the segments for the coming years.

The company has already added a large licensed brand as a customer for Air Coolers in the OE model. Talking of growth percentages is right now meaningless and numbers may look very high on a very small base of last year. New client addition is the result of a long project and product development process undertaken jointly by our teams of both the companies. Our company has already developed its own models of air coolers, the product validation for which has been completed by two clients. We are seeing increasing enquiries post Diwali for the coming season and we are confident of good growth for this coming season for the air coolers also.

Our company has recently started manufacturing LED television. We have already signed up two brands in this quarter and we have already given production for one of them and we are expected to start ramping our LED TV production by the end of this year. Our specialised plastic molding and spares business is showing good traction and our outlook on both businesses is very robust. The growth in this focused segment is 58% of the corpus and 157% for this year. We are discussing this many new business possibilities in specialized molding which will help us in expanding our molding capability. We are also undertaking several manufacturing activities to improve cost efficiencies and maintain cost leadership.

Further in tools manufacturing the order book is quite robust now. We have recently increased our capacities in this division by 40% and now we can manufacture bigger tools in shorter times. Earlier we were limited to tools for up to 650 tonne machines, but now we can manufacture for tools up to 1000 tonne machines. Outlook on mold manufacturing business remains very promising and an increasing number of customers are looking to localize their tool sourcing. The customers are also looking for end to end solution for product conceptualization, research and development, tool manufacturing, product manufacturing and supply chain management.

We have taken a decision to focus on fresh tool manufacturing orders from consumer durables and turnkey businesses where we can leverage these factors to tie in with our company's current business objectives to create good synergies for both

our companies and our customers. Now I would like to hand over to Mr. Pramod Gupta who will take you through the financials for the quarter. Thank you everyone.

Pramod Gupta:

Welcome everyone. I am sure you would have looked at the profit and loss account and balance sheet. Revenues for the quarter were up 30% and net profit was up 47% for the quarter. I would like to detail more on the finer details especially on one off the cost during the quarter, which impacted little bit of margins in this quarter.

We had a fund raise in the second quarter, basically the money came in July first week and so we had a total expense of about 1.6 Crores for that fund raise, out of which Rs.60 lakhs has been expensed during this quarter and the next two quarters Rs.50 lakhs each will be expended.

Apart from that because we are launching our AC ODM product, we had a lot of testing and validation expenses for AC ODM business and they were to the tune of 2.3 Crores most of which are unlikely to repeat and there has been no corresponding revenues yet and we have written them off in the current quarter itself.

Also, we had startup expenses till August related to the 100% subsidiary, which is PGTL because we were hiring people like managerial and supervisory posts and those people have subsequently been transferred in the month of September to PGTL and all those expenses have also been written off in this quarter itself. We had a small delay in passing on some of the higher commodity prices to some clients due to contract commitments which also led to a little bit pressure on the margins.

Coming to the balance sheet if you see this quarter we raised 76.6 Crores through CCCD and equity, which has been partly used to pay for the current liabilities. Also Rs.30 Crores out of that we had invested in a 100% subsidiary that is PG Technoplast which is going to be our growth vehicle as well as in the entity we have received the PLI notification from the government.

Also, due to the challenges on the supply side, we have increased our inventories especially on the imported raw material and this will continue for this quarter as well to assure a smooth supply of AC ODM model in the subsequent month which is the peak season for the AC.

I also want to dwell a little bit on PGTL which is a 100% subsidiary. So we will now be actually investing close to 60 Crores of equity into this totally in this financial year, 30 Crores has already been invested. We have also got

sanctions from banks to the tune of 80 Crores of term loans for completing the capex for FY22. Overall, capex is going to be close to 110 Crores to 115 Crores in PGTL in FY22 for putting up the capacities for AC manufacturing and AC component manufacturing in Noida and Supa.

Noida plant incidentally has already started production and we have done the trials there. Supa we intend to do the trials in the next month around December 15 onwards. Out of the 80 Crores totally approved term loans, 40 Crores has already been drawn and rest will be drawn as the machinery and plant start getting commissioned fully in the next one to one and a half months.

I would also like to sum up that in 1H FY21 again this year because of the shutdown and its after effect, we had a loss of almost 250 Crores of sales and close to about 18 Crores to 20 Crores on EBITDA, but we are still very hopeful of closing the years and sales in four figures and having an EBITDA growth of close to 50% over the last financial year. This is not a guidance, but our estimates as of today based on the order book and business outlook. With this now I would like to open for the question answer. Deepak, I will hand it over to you. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Vishal Prasad from VP Capital. Please go ahead.

Vishal Prasad: Good evening. I have two, three questions. First question is on PLI the approval that we have got. So, could you please talk about the PLI scheme in that how much we plan to invest and what are the milestones we need to make to get the benefits and what are the expected benefit that we will get over the years?

Pramod Gupta: I will take this question. Basically over a period of five years, the total amount that has to be invested is 300 Crores and we have committed 321 Crores. First year the minimum is 50 Crores, by next year this cumulative has to be 100 Crores, by third year 150 Crores and fourth year 225 Crores and fifth year 300 Crores. This is the cumulative investment in plant and machinery that has to be done excluding of land and building. After that from the second year onwards, first year is the investment year which is in our case going to be 2021-22. In 2023-23 minimum sales of 250 Crores of the components have to be there to avail the PLI benefit. So, if we do 250 Crores sales of the desired components that we have chosen in 2022-23 financial year which is basically financial year 2023 we will be getting 6% of the sales as the benefit in the year 2024. Similarly in year 2024 we have to do a sales of 500 Crores

and if we hit 500 Crores sales on those components we are eligible for 30 Crores of PLI benefit so the benefit is 6% for the first two years and 5% for the next two years and 4% for the sales for the last fifth year. So, like first year is the investment year, second year onwards you have to do the sales. So that is the way it will work. The cumulative sales that we have to do to get the full benefit is over 4000 Crores over a period of five years and if we do and meet all the guidelines parameters we are eligible for 198 Crores of PLI benefit cumulatively.

Vishal Prasad: Okay, so you mentioned that we will do a capex on plant and machinery of between 300 Crores and 350 Crores. So, could you talk about what would be the investment in land and buildings, let us say keeping that 350 Crores capex in plant and machinery?

Vishal Gupta: In the first two years, we are planning to do an investment in land and building and after that we will actually take a call on how the business proceeds. The first two years the land and building cumulative investment will be about 55 Crores to 65 Crores minimum and largely it is actually in Supa where we are building this 10 acre plot in the first year, 10 acre we have spent 10 Crores on land and 25 Crores to 30 Crores will be spent on the utility plus the building and next year we may look at actually again building in the second phase, which will be the year 2023, which will be probably 20 Crores to 25 Crores kind of a capex. Now for 250000 square feet of area cumulatively in the second phase and first phase also we are building 250000 square feet area. So, that will be the capex on land and building in the first two years. After that we will actually be evaluating options of building or basically to take a long-term lease depending upon how we see our cash flow situation and how we see the opportunities and do the cost benefit analysis.

Vishal Prasad: Could you tell me what is the expected revenue from whatever capacities we have in PG Electroplast including television and washing machine and air conditioner?

Vishal Gupta: See the problem is it is very difficult to give the idea because some of these businesses are seasonal. Especially the AC as well as the washing businesses but if we do an optimum utilization, which is to the tune of 60%, 65% in both the businesses, on the expanded capacity, post this year we can probably do a turnover of about close to 2500 Crores easily in all the businesses put together.

Vishal Prasad: This will be excluding Electroplast right, our subsidiary revenue?

Vishal Gupta: Yes. I am taking about the consolidated company post this year's expansion, which is going to be get complete in December.

Vishal Prasad: My last question is Sir could you talk about the component that we plan to manufacture? Are we going to manufacture the motors and all?

Vishal Gupta: We have not opted for making motors. We are going to be making the PCB controllers, cross flow fans, sheet metal components basically plastic components and heat exchangers.

Vishal Prasad: Thank you Sir.

Moderator: Thank you. The next question is from the line of Satyan Wadhwa from Profusion Capital. Please go ahead.

Satyan Wadhwa: Could you just guide us on how much and what sort of asset turn one should expect on the capex that you are doing and the margins going forward will be same in the 6% to 7% range or do we expect to do better? This is without the PLI benefit and the PLI benefit will be on top of that, right?

Pramod Gupta: I will take the first question. The asset turns will improve for the company going forward hopefully because when we do the full assembly of the product in a ODM model, the asset turns on the fixed assets obviously go up significantly. Also we are likely to see a slight improvement in the margin, if we have normal years and there are no one offs etc., so we can expect about some small percentage increase in the margins on a standalone basis without the PLI benefit. I would like to highlight here that PLI benefit the whole idea of the government to give a PLI benefit is to remove the disability so that we can become competitive whether it is imports and also we at some point in time become competitive in export market. So, my sense is and I believe that large part of the PLI benefit will actually be going to the customer and eventually be passed on to the end consumer, so that the Indian companies and component players become globally competitive and sizable and we also in our strategy actually are try and not building in a huge retaining of the PLI benefit, a large part of it will be actually given or passed on to the customers so that they can remain competitive in the market place and they can compete with the other players who have got PLI.

Satyan Wadhwa: In your current assessment what is the gap between Indian competitiveness, your competitiveness versus imports of the same components from China or other sort of FTA countries, if you can just shed some light on that would be great?

Vishal Gupta: Now with the policy and the duty structures that we have in place, imports at least in India are not viable and they are probably expensive than what we can do right now in India but in export market we have a disability vis-à-vis Chinese players about 10% to 12% at least in the fully built AC right now.

Satyan Wadhwa: Great. Thank you. I will go back queue. Let others ask the question and then I will come back. Thank you.

Moderator: Thank you. The next question is from the line of Dixit Shah from Ambika Fincap. Please go ahead.

Dixit Shah: Thanks for taking my question. You are getting into too many things, washing machine, TV, and air conditioners. So, I just wanted to understand in terms of the capabilities vis-à-vis the larger players like Dixon and Amber, I am sure, you would have done the benchmarking and look at the capability gaps and all. So could you elaborate on that or do you have all the capabilities to do all of these consumer goods items?

Vikas Gupta: I will take this question. I am Vikas Gupta. The question is very pertinent. We understand you being little apprehensive on the bandwidth which is available with us, but we would like to assure you that please understand the washing machine is a business that we have been in the last four years now and we are a pretty well established players in the washing machine category. In fact in the current quarter we were just next to Dixon in the ODM category of the washing machines. We were number two in fact in that. Coming to air conditioners, air conditioners is one of the business that we have been doing for the last two and a half, three years now. Definitely, we are giving a big push to this business and we are getting to ODM category of business for air conditioners and we have already created a team for that. We have one of the best resources available in terms of technical and R&D team members with us and we have already in fact launched the products, the customers have already validated that and we are already in the execution phase of that. So, I think we will be able to go through that. There will be no issues on that. In TV also we are tying up with the large design houses in China and we are getting those products manufactured in India so I do not think any challenge will be there in that part also.

Dixit Shah: Thanks for that. What I am trying to understand is, is there an entry barriers, is it very difficult for anyone to come in and do a third party manufacturing or you think you have a certain competitive advantages that you have welled in the business?

Vishal Gupta: Please understand we have a credibility in the market. Please go ahead understand if I have been able to do a good business with my clients in a washing machine category they will be more than willing to share their AC businesses also with me. Likewise, it will hold true for TV business also. So, we are building on whatever past experiences that in the past business relationships that we have with our clients. We are building and we are leveraging that. So we do not see any big challenge in that. Definitely in the beginning there might be some customers who will be little apprehensive, we also understand that. So, that is why we are very cautious about that and we are taking all the possible steps to overcome those challenges and definitely for air conditioners this is a big year for us and coming two quarters will be very big. Once we are able to deliver on those promises, I think there is no looking back.

Dixit Shah: My last question is there is a large component market opening up in the Southeast Asia and other parts of the world for the exports, so are you looking at sometime down the line capturing that part of the business opportunity?

Vishal Gupta: Listen, right now our focus is on the domestic market only. As I told you like we are launching our ODM category of air conditioners and our focus will be for the next quarters at least for delivering on those promises that we have made to our customers. Definitely looking forward exports is the one focus area that we will be definitely exploring and I think that will be one or two years down the horizon for us.

Dixit Shah: Thank you for taking my questions and I think you guys have a good future. All the best to you.

Moderator: Thank you. The next question is from the line of Vishal Prasad from VP Capital. Please go ahead.

Vishal Prasad: Two more questions from my side. One is basically on AC components not for us, but generally the industry perspective, I understand that generally we try to import the motors from China and there are few place where we are trying to build scale in India, but still we are facing challenges. So, from your perspective and the industry perspective, do you see that three years down the line we have enough capability in India so that we do not import from China?

Vishal Gupta: Please understand looking forward definitely as the major motive and the major objective of PLI scheme is to develop a robust component ecosystem in India and there are several players and I would say our peer group companies only who have also participated in PLI scheme and they are also pitching in for components like motors

and everything. So, we are hopeful that definitely the component base we will be able to get developed in India in the next two, three years and we will not be requiring to import from China then.

Vishal Prasad: Sir, if somebody manufactures in India and that company is able to get the scale, so will there be a cost differential between whatever is manufactured in India and if we are trying to import from China?

Vishal Gupta: Please understand with the PLI benefit of 5% to 6% I think definitely there will be a cost advantage. Please understand it is not only a pure cost decision where we would look at the imports versus local buying decision, we have to look at the long lead times also and you have to look at the inventory carrying cost also, so all those factors also come into play. So I think in the long-term definitely the local vendor base will get a preference going forward.

Vishal Prasad: Is there a technology challenge, manufacturing it in India or there is nothing like that?

Vishal Gupta: I do not think, other than compressors there is any technology challenge in other components. Motors is definitely little bit but I think there are companies who are tying up with some Chinese or some overseas technology partners and they are coming out with the local solutions for motors also.

Vishal Prasad: Compressors what are the challenges, I mean, if we are trying to manufacture it in India?

Vishal Gupta: Compressors definitely there is a technology barrier and I think as of now there is only one company which is manufacturing compressors and in the current PLI scheme there are a couple of companies who have already spelled out their intentions of manufacturing compressors in India, so going forward I think component based available for compressors also in the coming two years. Please understand you have to give at least two years for this PLI scheme to have an effect on the market.

Vishal Prasad: My last question, you mentioned that RM price fluctuations, we were not able to pass some of the prices that is why margins suffered. So in a contrast that we have there is no auto parts language there is it? Based on the price increase or decrease we are not able to pass automatically?

Vishal Gupta: There are contracts typically which are there where the price revision happens either monthly, two months or on a quarterly basis and there are some times, some customers

which prefer a quarterly price revisions, and the kind of commodity price run up which we saw in the last quarter was very significant, more than that actually the transportation and logistics cost the way it ran, especially for imported components that leads to sometime a mismatch between a passing of the cost fully to the customer and that sometimes leads to some bit of margin pressure, and it is towards that in the coming quarters as the price revisions happen.

Vishal Prasad: Sir, are we facing any pressure from the customers that we will not be able to approve all the price increases?

Vishal Gupta: Sir, this is very natural. Please understand that all the customers are trying to put a pressure on all these vendors and this is very natural, but it is a process, which is based on trust and mutual understanding and we are in continuous decision with all other clients and we are able to pass on the cost pressures to them. We are able to pass on that cost increases to them. Definitely sometimes there can be some time lag, but more or less I think, if you look at a holistic picture, we are able to pass on that cost impact to our clients.

Vishal Prasad: Sir, we are into washing machine and air condition, so would we be looking at any other white goods or these are the three where we are trying to focus?

Vishal Gupta: Please understand for the current year, and next one or two years, I think our focus will be AC, air conditioners as we have already committed a large capex or large amount of capex and investment through PLI scheme, so it will not be appropriate for us to talk about any other product category as of now, but definitely going forward we will keep on evaluating opportunities as and when they come.

Vishal Prasad: Thank you Sir.

Moderator: Thank you. The next question is from the line of Kinshuk Tiwari from PhillipCapital. Please go ahead.

Kinshuk Tiwari: Good evening to everyone. Most of the questions have been answered. I just wanted to ask one thing, Sir, as we increase our capacity and as we had new products and clients, do we have enough capabilities in terms of key personnel who are going to be instrumental in terms of executing these plans over the next two, three years? That is one. What are your thoughts there? Second one is are we increasing our PoS capabilities in the long run, in terms of product additions, I am talking of capabilities in the product itself will be the new age products that have come in, in

the market, how are we thinking about IoT and etc. The first one was on key people and the second one was in the capabilities if you could answer? Thank you.

Vishal Gupta: Please understand definitely you have I think maybe certain doubts, but please understand we have already created a team which has been working on all these product areas for the last more than one year. You see when a product is conceptualized, when it is designed there has to be a team from the initial stage only. The products that we are offering to our customers right now were in the design, were started in a design phase, more than a year back, so we put the team in place, more than a year back for design of all these products. Definitely as we expand our capacities and look at different product capabilities also, we will be adding more people, more team members in that, we are in process of adding that. In fact, we have hired a lot of team members, especially our AC business in the last one or two months for which I think Mr. Pramod Gupta has already explained about the expense that we have booked for all those, people we have tied.

Kinshuk Tiwari: My questions are all answered. Thank you.

Moderator: Thank you. The next question is from the line of G.N. Ravi an individual investor. Please go ahead.

G.N. Ravi: Good evening. With the expansion that you are proposing would there be any increase in the financial cost and what will be the burden in the next two years please?

Vishal Gupta: Obviously, once we do expand and we do have to take more loans, for expansion there will be some financial expense which will go up, but obviously the increase in the financial expenses in proportion to the sales growth is going to be lower and we hope that as a percentage of overall sales, the financial expenses will continue to come down.

G.N. Ravi: Thank you Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference back to the management for closing remarks.

Vishal Gupta: I would like to thank everybody for attending the call and asking intelligent questions. We will meet again in the next quarter, hopefully with better numbers. Thank you.

Moderator: Thank you very much. On behalf of PhillipCapital (India) Private Limited we conclude today's conference. Thank you for joining. You may now disconnect your lines.