



Farsight

MORNING FARSIGHT

Friday, November 16, 2018

PPAP AUTOMOTIVE

CMP:RS 378

TRGT:RS 425

TIME HORIZON: 1 YEAR

PPAP Automotive, India's largest manufacturer of Automotive Sealing Systems, Interior and Exterior Injection parts (plastic & rubber extrusion) with over 30 years of experience, 7 manufacturing plants and 2 JV, is still looking a good buy with company having enormous market presence, which is visible from the fact that company's Automotive sealing products were used in 70% of total passenger vehicles (PV) produced at 10.79 lacs in India in Q2FY19. The company is developing parts for 23 new models that are expected to start production within the next 2 years. These parts are being developed for the company's existing customers as well as for new customers. During Q2FY19, 21% of sales were from new vehicle launches. For Q2FY19, it reported strong performance with PBT of Rs 16.6 cr against Rs 12.8 cr QoQ and Rs 14.1 cr YoY, leading to an EPS of Rs 8.26 for Q2FY19. For H1 FY19, PAT is placed at Rs 20.4 cr against Rs 15.1 cr, a growth of 35% with EPS of Rs 14.58 for H1FY18. On an estimated EBITDA of Rs 90 cr for FY19 (H1FY19 EBITDA Rs 44.5 cr with EBITDA margin of 20.3%) and EPS of Rs 31, stock is trading at an EV/EBITDA of 6x and PE of 12.2x with RoE of over 20%, market leadership status and a strong balance-sheet, which are quite attractive. It primarily caters to following parts for a Car (which will continue unabated in Electric Vehicles as well, hence no disruption): Roof Moulding, Glass run channel for side windows, Inner door belt, back door sealing, air spoiler in front, moulding wind shield etc. The company is a major supplier to Maruti Suzuki (MSIL), meeting —90% of Maruti's rubber extrusion requirements. About 46% of PPAP's revenue comes from Maruti, while Honda Cars constitutes —34%, Toyota (6%), Tata Motors (3%) and Nissan (8%) are other key customers. PPAP produces over 150,000 parts daily, with more than 500 SKUs. The company has formed a JV with Tokai Kogyo of Japan for automotive exterior and sealing products, in addition to a technology partnership with Japan's Nissen Chemitec Corp for automotive interior products. PPAP does not have any major capital expenditure plans for the next few years, as it believes current capacity is enough to meet demand. Further, it has recently started commercial production from its newly setup Gujarat Plant on 9th July 2018, to cater to increasing production requirement of Maruti, while current balance-sheet is virtually debt free. Hyundai is also in talks with PPAP to provide parts (sealing and injection molded parts) for two more models (to be introduced in FY19) besides Eon, where PPAP Automotive is the single source supplier. Company is expanding & De-Risking Business and has started supplying to LCV (Bharat Benz, SML Isuzu) & 2W (Suzuki Motorcycles, Honda Motorcycles) as well. Share now ruling at Rs 378 looks a good buy as it can move to Rs 425 in 1 year.

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