MORNING FARSIGHT

Monday, October 01, 2018

PPAP AUTOMOTIVE CMP:RS 394 TRGT:RS 450 TIME HORIZON: 1 YEAR

PPAP Automotive, with over 30 years of experience, 7 manufacturing plants and 2 JV plants, is looking a good buy, post recent correction, due to optically softer Q1 earnings, while market is failing to note that Q1 is generally softer for the company, as its major client Maruti has some shut downs in Q1. PPAP's business segments mainly comprise manufacturing of automotive sealing and exterior & interior injection moulding systems. 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 windshield etc. The company is a major supplier to Maruti Suzuki (MSIL), meeting —90% of Maruti's rubber extrusion requirements. About 48% of PPAP's revenue comes from Maruti, while Honda Cars constitutes —30%, 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 capex plans for the next few years, as it believes current capacity is enough to meet demand. Further, it has recently started commercial production from it's newly set up Gujarat Plant on 9th July 2018, to cater to increasing production requirement of Maruti, while current balance-sheet is virtually debt free. In Q1FY19, company reported consolidated revenues of Rs 99.7 Cr. (up 21% YoY, 22% QoQ). Despite drop in Gross Margins (on account of surge in RM costs) the company maintained its 20% EBITDA Margin in Q1FY19, 80bps YoY expansion. EBITDA was placed at Rs 20 a against Rs 15.7 cr YoY, a growth of 26% YoY and PAT was placed at Rs 8.9 cr against Rs 5.9 cr YoY, with EPS of Rs 6.3 on standalone basis. Company's consolidated EPS in FY18 was at Rs 28.08 and on an estimated consolidated EPS of Rs 30 for FY19, stock is trading at PE of 13.1x, which is seen attractive. Further, on an estimated EBITDA of Rs 100 cr (FY18 EBITDA was at Rs 89 cr), stock is trading at an EV/EBITDA of 5.8x only, which are immensely attractive, as plastic extrusion and injection moulding players have always commanded premium multiples, irrespective to industry to which they cater. Further, in Q1FY19,supplies to Hyundai formed less than 1%to total revenues. This is expected to contribute to 4-5% of total revenues and company is also in talks with Volkswagen, thus de-risking itself from revenue concentration risks. We gain confidence from the fact that Hyundai is 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. Share ruling at Rs 394 can move to Rs 450 in 1 year Buy as an investor only in this extreme volatility and pessimism now seen prevailing.