



POSITIONAL CALL - PPAP AUTOMOTIVE LIMITED

CMP 375

TARGET 462

Dated : 03rd Dec. 2018

BUY

| | |
|--------------|-----------------------|
| Price ₹ | 375 |
| Target Price | 462 |
| Upside | 23% |
| Div Yield | 0.53% |
| Sensex | 36194.30 |
| Nifty | 10876.75 |
| Group/Index | B / S&P BSE Small Cap |

Stock Details

| | |
|------------------|---------------|
| M.cap (₹ in cr) | 525 |
| Equity (₹ In cr) | 14.00 |
| 52 wk H/L ₹ | 721/354.95 |
| Face Value ₹ | 10.00 |
| NSE code | PPAP |
| BSE code | 532934 |

IN ₹ Crores

Results Update

| Particulars | Q2 FY 19 | Q2 FY 18 | % Change |
|-------------|-------------|-------------|----------|
| Revenue | 118.64 | 97.46 | 21.73 |
| EBITDA | 24.39 | 21.73 | 12.24 |
| PBT | 16.57 | 14.09 | 17.60 |
| PAT | 11.57 | 9.21 | 25.62 |
| EPS | 8.26 | 6.58 | 25.62 |

IN ₹ Crores

Half Year Results Snapshot

| Particulars | Sep-18 | Sep-17 | % Change |
|-------------|--------------|--------------|----------|
| Revenue | 218.33 | 179.55 | 21.60 |
| EBITDA | 44.50 | 38.43 | 15.79 |
| PBT | 29.19 | 23.13 | 26.20 |
| PAT | 20.42 | 15.14 | 34.87 |
| EPS | 14.59 | 10.81 | 34.87 |

Investment Rationale

Company holds pan India presence - a total of nine plants, including two JV, in four locations. It also has a strong customer base including Maruti Suzuki, Honda, Nissan, Toyota, Isuzu, GM, Mahindra, Ford among others.

Strong Clientele

Company derived 96% of sales from the Passenger Vehicle segment of the Indian Automotive Industry. The company's Automotive sealing products were used in 70% of total passenger vehicles (PV) produced at 10.79 lacs in India in Q2FY19. **Maruti Suzuki including Suzuki Motors Gujarat continue to remain PPAP's top customer accounting for 46% of the Part Sales. The company's second biggest customer, Honda has contributed 34% to the company's top line of this quarter.** Moreover, PPAP will develop parts for 23 new models for its existing and new customers like **Hyundai and MG motors that are expected to start production within next two years**. During the quarter, 21 % of the part sales were from new vehicle launches. Recently, it started supplying to the new **Amaze from Honda Cars and Yaaris from Toyota**. **It is also looking at adding Volkswagen as a sealing client. For injection growth, it is looking at opportunities in Samvardhana Motherson Group (SMG) and in Nissan Motor India.**

With impetus on the rural economy in an election year and continued focus on infrastructure in select pockets, CV segment should have a strong run going forward as well. To capture growth in this segment, **PPAP has started supplying its products to LCV of SML Isuzu and BharatBenz**. Company has also started supplying to Suzuki Motorcycle India and Honda Motorcycles & Scooters India to benefit from opportunities accruing from the 2W segment. **These new segments would provide new business to the company and de-risk client concentration.** Furthermore, **PPAP Automotive's operating cash flows is expected to grow by a double-digit 46% in next couple of years, which is encouraging, should capital expenditure levels maintain at an appropriate level.**

For the quarter ended Sep 18, net sales were up by 22% on YoY basis at ₹ 118.64 crore. OPM was lower by 120 bps to 20.4%, thus restricting the OP growth to 15% to ₹ 24.15 crore. Other income was lower by 67% to ₹ 0.24 crore. Interest costs were higher by 15% to ₹ 1.31 crore and depreciation costs were flat at ₹ 6.51 crore. Thus, PBT was higher by 18% to ₹ 16.57 crore. After providing total tax of ₹ 5 crore, up by 2%, PAT for Sept. quarter stood at ₹ 11.57 crore, up by 26% Y-o-Y. Being a provider of indispensable parts to any vehicle, company has been able to clock superior EBITDA margins than the industry peers in the auto ancillary space. In Q2FY19, despite GM compression of 330 bps primarily due to surge in RM costs, PPAP has sustained its industry leading EBITDA Margin of 20.4% versus 19.9% in Q1FY19, although YoY it reported a contraction of 120 bps (21.6% in Q2FY18). The Q-O-Q improvement in EBITDA Margin is primarily due to overall equipment efficiencies and operating leverage benefits. **Looking ahead, company to maintain its EBITDA Margin profile owing to a better product mix and improving contribution from new clients and new model launches.**

PPAP to continue reporting ahead of industry revenues & PAT growth with steady margin performance led by improving product mix, growing wallet share with OEMs, strong product development pipeline (23 products) for Hyundai & MG Motors over next 24 months. However, company remain cautious on overall PV demand in the near to medium term caused by rising crude oil prices, liquidity crunch, currency volatility, high interest rate regime and RM cost headwinds coupled with client concentration risk as MSIL and Hyundai contributing ~80% of revenues.

Acknowledging vigorous performance, 64% promoter holding, strong customer base, and low equity base, we recommend Buy with a target of ₹ 462, which corresponds to 16x P/E.



Share price Chart has been taken for a period of past 1year. There is a strong support at the levels of ₹372 & resistance of ₹480 in medium term. If stock breaks that levels, then may reach up to another resistance @ ₹499.

Disclosures & Disclaimers

Disclosures :

1) Business Activity :

Rudra Shares & Stock Brokers Limited is engaged in the business of providing broking services & distribution of various financial products. RUDRA is also registered as a Research Analyst under SEBI(Research Analyst) Regulations, 2014. SEBI Reg. No. INH100002524.

2) Disciplinary History :

There has been no instance of any Disciplinary action, penalty etc. levied/passed by any regulation/administrative agencies against RUDRA and its Directors. Pursuant to SEBI inspection of books and records of Rudra, as a Stock Broker, SEBI has not issued any Administrative warning to Rudra.

3) Terms & Conditions of issuance of Research Report:

The Research report is issued to the registered clients. The Research Report is based on the facts, figures and information that are considered true, correct and reliable. The information is obtained from publicly available media or other sources believed to be reliable. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation to buy or sell or subscribe for securities or other financial instruments for clients.

4) Disclosures with regard to ownership and material conflicts of interest :

| <u>Sr. No.</u> | <u>Disclosures</u> | <u>Yes/No</u> |
|----------------|---|---------------|
| a) | Rudra or its research analysts, or his/her relative or associate has any direct or indirect financial interest in the subject company. | No |
| b) | Rudra or its research analysts, or his/her relative or associate has any other material conflict of interest at time of publication of the research report. | No |
| c) | Rudra or its research analysts, or his/her relative or associates have actual/beneficial ownership of one per cent or more securities of the subject company. | No |

5) Disclosures with regard to receipt of compensation :

| <u>Sr. No.</u> | <u>Disclosures</u> | <u>Yes/No</u> |
|----------------|--|---------------|
| a) | Rudra or its associates have received any compensation from the subject company in the past twelve months. | No |
| b) | Rudra or its associates have managed or co-managed public offering of securities for the subject in the past twelve months. | No |
| c) | Rudra or its associates have received any compensation or other benefits from the subject company or third party in connection with the research report. | No |

6) Other Disclosures:

| <u>Sr. No.</u> | <u>Disclosures</u> | |
|----------------|---|----|
| a) | The research analyst has served as an officer,director,employee of the subject company. | No |
| b) | Rudra or its research analyst has been engaged in market making activity for the subject company. | No |
| c) | Rudra or its or associates have received any compensation from the subject company in the past twelve months. | No |

Disclaimers:

This Research Report (hereinafter called report) has been prepared and presented by **RUDRA SHARES & STOCK BROKERS LIMITED**, which does not constitute any offer or advice to sell or does solicitation to buy any securities. The information presented in this report, are for the intended recipients only. Further, the intended recipients are advised to exercise restraint in placing any dependence on this report, as the sender, Rudra Shares & Stock Brokers Limited, neither guarantees the accuracy of any information contained herein nor assumes any responsibility in relation to losses arising from the errors of fact, opinion or the dependence placed on the same.

Despite the information in this document has been previewed on the basis of publicly available information, internal data , personal views of the research analyst(s) and other reliable sources, believed to be true, we do not represent it as accurate, complete or exhaustive. It should not be relied on as such, as this document is for general guidance only. Besides this, the research analyst(s) are bound by stringent internal regulations and legal and statutory requirements of the Securities and Exchange Board of India(SEBI) and the analysts' compensation was, is, or will be not directly or indirectly related with the other companies and/or entities of Rudra Shares & Stock Brokers Ltd and have no bearing whatsoever on any recommendation, that they have given in the research report. Rudra Shares & Stock Brokers Ltd or any of its affiliates/group companies shall not be in any way responsible for any such loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Rudra Shares & Stock Brokers Ltd has not independently verified all the information, which has been obtained by the company for analysis purpose, from publicly available media or other sources believed to be reliable. Accordingly, we neither testify nor make any representation or warranty, express or implied, of the accuracy, contents or data contained within this document. Rudra Share & Stock Brokers Ltd and its affiliates are engaged in investment advisory, stock broking, retail & HNI and other financial services. Details of affiliates are available on our website i.e. www.rudrashares.com.

We hereby declare, that the information herein may change any time due to the volatile market conditions, therefore, it is advised to use own discretion and judgment while entering into any transactions, whatsoever.

Individuals employed as research analyst by Rudra Shares & Stock Brokers Ltd or their associates are not allowed to deal or trade in securities, within thirty days before and five days after the publication of a research report as prescribed under SEBI Research Analyst Regulations.

Subject to the restrictions mentioned in above paragraph, we and our affiliates, officers, directors, employees and their relative may: (a) from time to time, have long or short positions acting as a principal in, and buy or sell the securities or derivatives thereof, of Company mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or profits.