

Margin recovery holds key, wait gets longer...

About the stock: PPAP Automotive (PPAP) is a PV-focused ancillary manufacturing automotive body sealing parts and various interior & exterior plastic moulded parts.

- PV segment forms bulk of sales at ~90% with 2-W & CV comprising the rest
- It counts Maruti Suzuki as its anchor client, with share in revenues at ~50%

Q3FY23 Results: The company posted muted Q3FY23 results.

- On a consolidated basis, topline for Q3FY23 came in at ₹ 127 crore, flat QoQ
- EBITDA came in at ₹ 9 crore, down 30% QoQ, with consequent EBITDA margins at 7.1%, down 300 bps QoQ
- Gross margin contracted 172 bps QoQ while employee expense & other expense were up 102 bps & 27 bps QoQ, respectively
- Consolidated loss for the quarter came in at ₹ 3.7 crore

What should investors do? Over the past five years, PPAP's stock price is down substantially (from ₹ 550 in March 2018), vastly underperforming Nifty Auto Index.

- PPAP continues to be a key beneficiary of strong underlying demand in the PV space with Maruti Suzuki as its anchor client and EV agnostic product profile. However, margin profile at PPAP has been dismal and on a continuous decline. We await margin recovery amid decline in crude and associated plastic resin prices (key raw material). We assign **HOLD** rating

Target Price and Valuation: Introducing FY25E and rolling over our valuations we now value PPAP at ₹ 200 i.e. 16.5x P/E on FY24-25E average EPS of ₹ 12.

Key triggers for future price performance:

- With fundamental levers in place for double digit volume growth in domestic PV space over FY22-25E, market share gain ambition at Maruti Suzuki, new initiatives at PPAP, we build in 17.4% sales CAGR in FY22-25
- With raw material prices on decline (crude led), negotiations underway with key clients for raw material related product price adjustments and operating leverage benefits at play, we bake in 11% operating margins by FY25E
- PAT is expected to substantially improve amid margin recovery as well as trimming of losses at JV. PAT is seen at ₹ 23 crore by FY25E

Alternate Stock Idea: In the auto coverage, we like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with a target price of ₹ 1,665



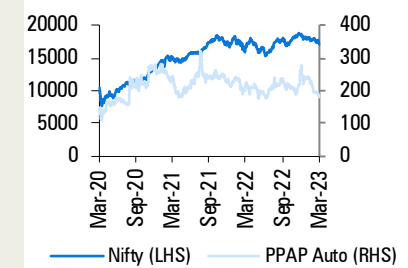
Particulars

Particulars	₹ crore
Market capitalisation	252
Total Debt (FY22)	108
Cash & Investment (FY22)	3
EV (₹ crore)	357
52 week H/L (₹)	283 / 169
Equity capital (₹ crore)	14.0
Face value (₹)	10.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	64.9	64.9	64.9	65.0
FII	5.9	5.7	5.8	5.7
DII	-	-	-	-
Other	29.3	29.4	29.3	29.3

Price Chart



Recent Event & Key risks

- Posted muted Q3FY23 results.
- **Key Risk:** (i) Higher and sooner than expected uptick in margins, (ii) Delay in ramp up in new business initiatives

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Key Financial Summary

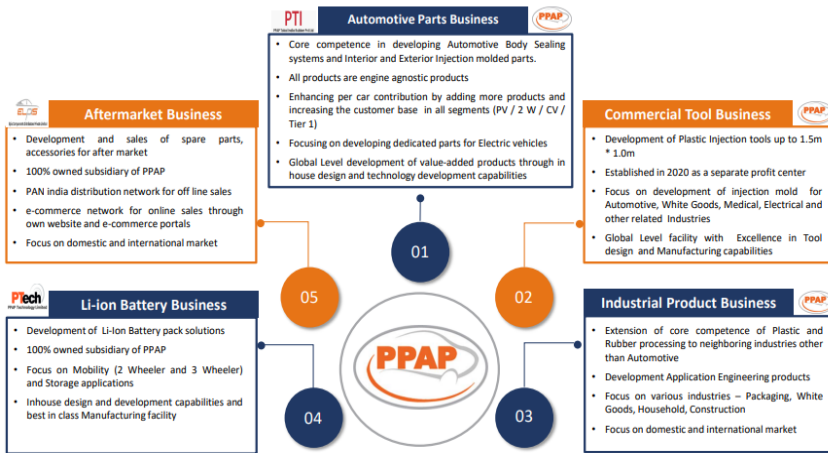
Key Financials	FY19	FY20	FY21	FY22	3 year CAGR (FY19-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	411.0	359.5	322.2	421.9	0.9%	527.4	615.7	682.0	17.4%
EBITDA	77.2	50.7	32.9	38.6	-20.6%	47.7	61.6	75.0	24.8%
EBITDA Margins (%)	18.8	14.1	10.2	9.1		9.0	10.0	11.0	
Net Profit	33.7	18.2	2.1	(0.8)	PL	(3.0)	10.3	23.4	LP
EPS (₹)	24.1	13.0	1.5	(0.6)		(2.1)	7.3	16.7	
P/E	7.5	13.8	NM	NM		NM	24.5	10.8	
RoNW (%)	11.4	6.0	0.7	(0.3)		(1.0)	3.3	7.1	
RoCE (%)	15.6	7.3	1.7	2.1		3.9	6.3	8.8	

Source: Company, ICICI Direct Research

Key takeaway from recent quarterly presentation

Exhibit 1: PPAP's business profile

Business – at a Glance



Source: Company, ICICI Direct Research

The management said content/vehicle for Maruti ranging from ₹ 2,500 to ₹ 3,000 per vehicle, whereas for Honda, it is ₹ 6,000 to ₹ 7,000 per vehicle. Similarly, for MG also, there are models, in which content has gone up to ₹ 6,500 per vehicle. Currently, the same for Tata Motors is about ~₹ 1,400 per vehicle and is expected to go up to ₹ 3,000 per vehicle

The company has forayed into EV battery assembly for E-2-W & E-3-W wherein it imports cells and validates the same through rigorous quality testing process

Exhibit 2: Key clients for company

Esteemed Clientele

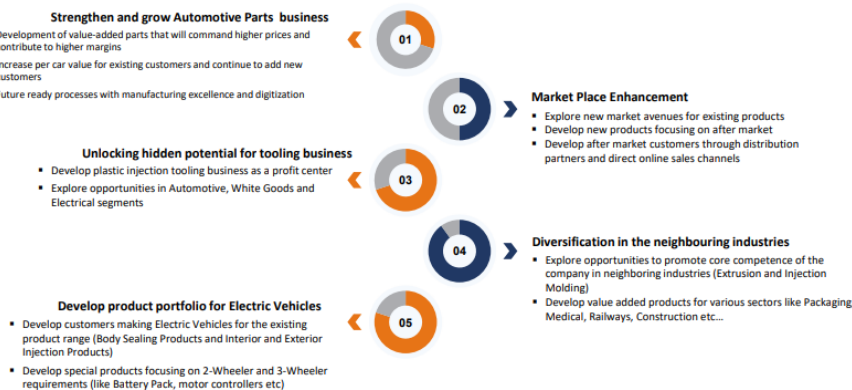


Source: Company, ICICI Direct Research

Its client base includes Japanese OEMs (Maruti, Honda, Toyota) as well as Indian OEMs (Tata Motors, MG&M) and increasing share of business with MG Motors, Hyundai & Kia Motors in UV space

Exhibit 3: Growth roadmap for company

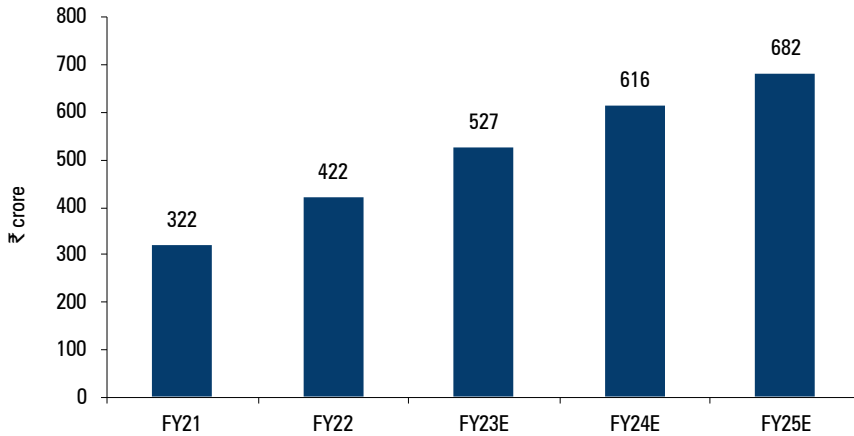
Growth Roadmap – Explore, Expand & Excel



Source: Company, ICICI Direct Research

Financial story in charts

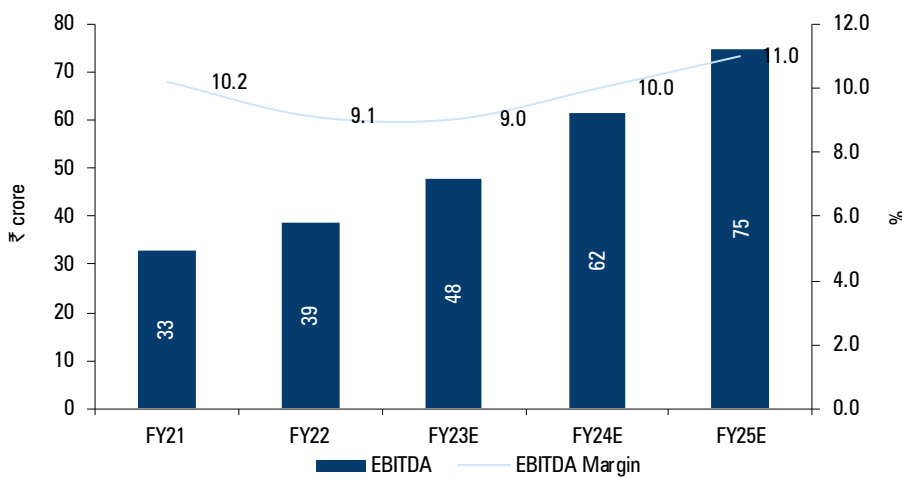
Exhibit 4: Trend in topline



Topline is seen growing at a CAGR of 17.4% over FY22-25E

Source: Company, ICICI Direct Research

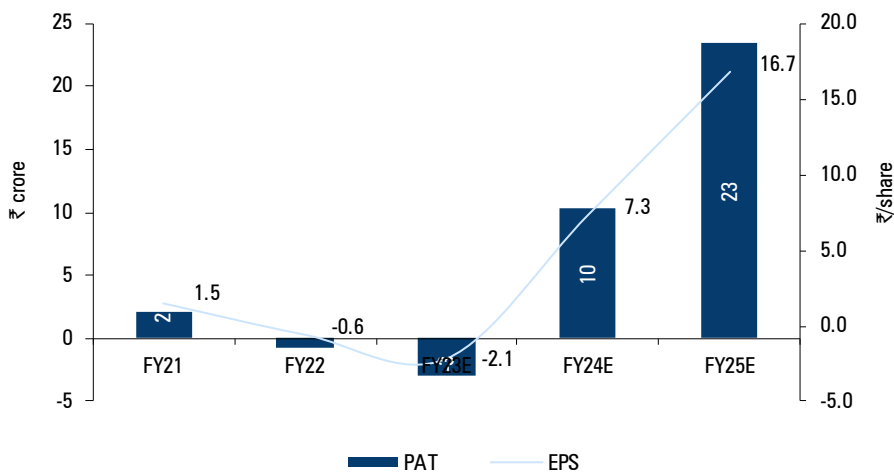
Exhibit 5: Trend in EBITDA and EBITDA margins



Margins are seen rising to 11% by FY25E on the back of higher utilisation, operating leverage benefits as well as calibrated price hikes across product profile. EBITDA growth in the aforesaid period is seen growing at a CAGR of 24.8% over FY22-25E

Source: Company, ICICI Direct Research

Exhibit 6: Trend in PAT and EPS



We expect the company to report positive PAT in FY24E, FY25E at ~₹ 10 and ₹ 23 crore, respectively

Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Net Sales	421.9	527.4	615.7	682.0	
Other Operating Income	0.0	0.0	0.0	0.0	
Total Operating Income	421.9	527.4	615.7	682.0	
Growth (%)	30.9	25.0	16.7	10.8	
Raw Material Expenses	255.8	323.0	378.6	419.4	
Employee Expenses	72.2	84.4	95.4	105.7	
Other Operating Expense	55.2	72.3	80.0	81.8	
Total Operating Expenditure	383.3	479.7	554.1	607.0	
EBITDA	38.6	47.7	61.6	75.0	
Growth (%)	17.3	23.7	29.0	21.9	
Depreciation	29.5	30.4	33.0	35.6	
Interest	6.5	12.1	11.0	8.6	
Other Income	1.0	1.5	0.3	0.7	
PBT	3.6	6.8	17.8	31.4	
(Profit)/Loss from associate	3.5	8.1	3.1	0.1	
Total Tax	0.9	1.7	4.5	7.9	
PAT	-0.8	-3.0	10.3	23.4	
Growth (%)	-137.6	-279.2	443.9	128.0	
EPS (₹)	-0.6	-2.1	7.3	16.7	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Profit after Tax	-0.8	-3.0	10.3	23.4	
Add: Depreciation	29.5	30.4	33.0	35.6	
(Inc)/dec in Current Assets	-16.4	-28.8	-25.7	-18.7	
Inc/(dec) in CL and Provisions	3.3	15.6	15.0	11.3	
Others	6.5	12.1	11.0	8.6	
CF from operating activities	22.1	26.2	43.6	60.3	
(Inc)/dec in Investments	0.5	5.2	2.5	0.0	
(Inc)/dec in Fixed Assets	-70.7	-50.0	-30.0	-25.0	
Others	-0.7	2.0	2.0	2.0	
CF from investing activities	-71.0	-42.8	-25.5	-23.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	55.9	30.0	-5.0	-25.0	
Dividend & interest	-7.9	-13.5	-13.1	-11.4	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	-0.1	0.0	0.0	0.0	
CF from financing activities	47.9	16.5	-18.1	-36.4	
Net Cash flow	-0.9	0.0	0.0	0.8	
Opening Cash	1.5	0.5	0.5	0.5	
Closing Cash	0.5	0.5	0.5	1.3	

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Liabilities					
Equity Capital	14.0	14.0	14.0	14.0	
Reserve and Surplus	289.9	285.5	293.7	314.3	
Total Shareholders funds	303.9	299.5	307.7	328.3	
Total Debt	108.1	138.1	133.1	108.1	
Deferred Tax Liability	6.0	6.0	6.0	6.0	
Minority Interest / Others	7.3	7.3	7.3	7.3	
Total Liabilities	425.2	450.9	454.0	449.7	
Assets					
Gross Block	415.8	451.6	491.6	526.6	
Less: Acc Depreciation	140.3	170.7	203.7	239.3	
Net Block	275.5	280.9	287.9	287.3	
Capital WIP	20.8	35.0	25.0	15.0	
Total Fixed Assets	296.3	315.9	312.9	302.3	
Investments	55.2	50.0	47.5	47.5	
Inventory	56.1	72.2	84.3	93.4	
Debtors	55.9	65.0	75.9	84.1	
Loans and Advances	0.0	0.0	0.0	0.0	
Other Current Assets	20.2	23.6	26.3	27.8	
Cash	0.5	0.5	0.5	1.3	
Total Current Assets	132.6	161.4	187.1	206.7	
Current Liabilities	48.6	57.8	67.5	74.7	
Provisions	0.9	1.0	1.2	1.3	
Current Liabilities & Prov	74.3	89.9	104.9	116.2	
Net Current Assets	58.3	71.5	82.2	90.5	
Others Assets	15.5	13.5	11.5	9.5	
Application of Funds	425.2	450.9	454.0	449.7	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	-0.6	-2.1	7.3	16.7
Cash EPS	20.5	19.5	30.9	42.2
BV	217.1	213.9	219.8	234.5
DPS	1.0	1.0	1.5	2.0
Cash Per Share	0.4	0.3	0.4	1.0
Operating Ratios (%)				
EBITDA Margin	9.1	9.0	10.0	11.0
PAT Margin	-0.2	-0.6	1.7	3.4
Inventory days	48.5	50.0	50.0	50.0
Debtor days	48.3	45.0	45.0	45.0
Creditor days	42.0	40.0	40.0	40.0
Return Ratios (%)				
RoE	-0.3	-1.0	3.3	7.1
RoCE	2.1	3.9	6.3	8.8
RoIC	2.3	4.2	6.7	9.1
Valuation Ratios (x)				
P/E	NM	NM	24.5	10.8
EV / EBITDA	9.2	8.1	6.2	4.8
EV / Net Sales	0.8	0.7	0.6	0.5
Market Cap / Sales	0.6	0.5	0.4	0.4
Price to Book Value	0.8	0.8	0.8	0.8
Solvency Ratios				
Debt/EBITDA	2.8	2.9	2.2	1.4
Debt / Equity	0.4	0.5	0.4	0.3
Current Ratio	2.7	2.7	2.7	2.7
Quick Ratio	1.5	1.5	1.5	1.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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