

Margin recovery still elusive, hazy outlook...

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

- PV segment forms bulk of sales at ~75%+ with 2-W & CV forming the rest
- It counts Maruti Suzuki as its anchor client, with share in revenues at ~50%

Q4FY23 Results: The company posted muted Q4FY23 results.

- On a consolidated basis, topline came in at ₹ 132 crore, up 4.1% QoQ
- EBITDA came in at ₹ 8.9 crore, flat QoQ, with consequent EBITDA margins at 6.7%, down 38 bps QoQ. Gross margin contracted 20 bps QoQ
- Consolidated loss for the quarter came in at ₹ 2.3 crore

What should investors do? Over the past five years, PAL's stock price is down significantly from ₹ 550 levels in May 2018, vastly underperforming Nifty Auto index. This is broadly tracking its decline in margin and overall profitability with EBITDA margins down from peak of ~20% levels in FY18 to sub 7% in Q4FY23. Consolidated PAT is down from ₹ 30+ crore levels in the past to loss of ₹ 6 crore as of FY23

- We are **dropping coverage** on PPAP Automotive amid a substantial delay in margin recovery at the company despite management assurances of its sharp rebound in the past and latest conference call suggesting no relief in the near term. This is amid entire auto ancillary pack under our coverage reporting meaningful margin recovery from the lows. With little confidence on future profitable growth and its return ratio matrix well below our threshold range we advise investors to exit from PPAP Automotive and shift to more capital efficient and profitable auto ancillaries like Gabriel India

Key triggers for future price performance:

- Good proxy to play upon domestic PV growth with Maruti Suzuki as its anchor client. We foresee sales at the company growing at 15.3% CAGR over FY23-25E with PAT expected to be positive in FY25E vs. loss in FY23P
- Margins to grow to 10% by FY25E on the back of compensation from OEMs and operating leverage at play. Margin recovery to healthy double-digit range is the key monitorable at the company, going forward
- Amid muted margin profile, return ratios are seen subdued at <10%

Alternate Stock Idea: Leaving aside PPAP, in our coverage we like Gabriel India.

- EV proof product profile; dominance in E-2-Ws; healthy cash surplus b/s
- BUY with target price of ₹ 225



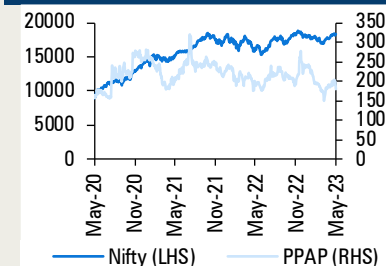
Particulars

Particulars	₹ crore
Market capitalisation	238.0
Total Debt (FY23P)	150.8
Cash & Investment (FY23P)	5.3
EV (₹ crore)	383.4
52 week H/L (₹)	283 / 148
Equity capital (₹ crore)	14.0
Face value (₹)	10.0

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	64.9	64.9	65.0	65.0
FII	5.7	5.8	5.7	5.7
DII	-	-	-	-
Other	29.4	29.3	29.3	29.3

Price Chart



Recent Event & Key risks

- Posted muted Q4FY23 results.
- **Key Risk:** (i) Higher than expected uptick in margins, (ii) Higher than anticipated ramp up in new business initiatives

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	FY23P	3 year CAGR (FY20-23P)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Sales	411.0	359.5	322.2	421.9	511.1	12.4%	597.4	679.7	15.3%
EBITDA	77.2	50.7	32.9	38.6	43.9	-4.7%	50.8	68.0	24.4%
EBITDA Margins (%)	18.8	14.1	10.2	9.1	8.6		8.5	10.0	
Net Profit	33.7	18.2	2.1	(0.8)	(5.9)	PL	(0.5)	16.0	LP
EPS (₹)	24.1	13.0	1.5	(0.6)	(4.2)		(0.3)	11.5	
P/E	7.7	14.2	NM	NM	NM		NM	16.2	
RoNW (%)	11.4	6.0	0.7	(0.3)	(2.0)		(0.2)	5.2	
RoCE (%)	15.6	7.3	1.7	2.1	2.8		3.5	6.9	

Source: Company, ICICI Direct Research

Financial summary (Consolidated)

Exhibit 1: Profit and loss statement					₹ crore
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Net Sales	421.9	511.1	597.4	679.7	
Other Operating Income	0.0	0.0	0.0	0.0	
Total Operating Income	421.9	511.1	597.4	679.7	
Growth (%)	30.9	21.1	16.9	13.8	
Raw Material Expenses	255.8	313.6	370.4	421.4	
Employee Expenses	72.2	82.9	92.6	105.4	
Other Operating Expense	55.2	70.6	83.6	85.0	
Total Operating Expenditure	383.3	467.2	546.7	611.7	
EBITDA	38.6	43.9	50.8	68.0	
Growth (%)	17.3	13.9	15.5	33.8	
Depreciation	29.5	31.1	34.8	36.8	
Interest	6.5	11.7	13.8	10.9	
Other Income	1.0	1.4	0.6	0.6	
PBT	3.6	2.5	2.9	20.9	
(Profit)/Loss from associate	3.5	7.6	2.6	-0.4	
Total Tax	0.9	0.8	0.7	5.3	
PAT	-0.8	-5.9	-0.5	16.0	
Growth (%)	NM	NM	NM	NM	
EPS (₹)	-0.6	-4.2	-0.3	11.5	

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement					₹ crore
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Profit after Tax	-0.8	-5.9	-0.5	16.0	
Add: Depreciation	29.5	31.1	34.8	36.8	
(Inc)/dec in Current Assets	-16.4	-28.8	-24.6	-24.2	
Inc/(dec) in CL and Provisions	3.3	16.8	15.1	14.6	
Others	6.5	11.7	13.8	10.9	
CF from operating activities	22.1	24.9	38.6	54.2	
(Inc)/dec in Investments	0.5	3.4	4.5	0.0	
(Inc)/dec in Fixed Assets	-70.7	-54.4	-30.0	-25.0	
Others	-0.7	-1.2	2.0	2.0	
CF from investing activities	-71.0	-52.3	-23.5	-23.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	55.9	42.7	2.0	-17.0	
Dividend & interest	-7.9	-13.8	-15.9	-13.7	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	-0.1	-1.1	0.0	0.0	
CF from financing activities	47.9	27.8	-13.9	-30.7	
Net Cash flow	-0.9	0.4	1.2	0.5	
Opening Cash	1.5	0.5	0.9	2.1	
Closing Cash	0.5	0.9	2.1	2.6	

Source: Company, ICICI Direct Research (FY23P: CFO and CFF don't match with reported nos.)

Exhibit 2: Balance sheet					₹ crore
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Liabilities					
Equity Capital	14.0	14.0	14.0	14.0	
Reserve and Surplus	289.9	280.7	278.2	291.4	
Total Shareholders funds	303.9	294.7	292.2	305.4	
Total Debt	108.1	150.8	152.8	135.8	
Deferred Tax Liability	6.0	5.1	5.1	5.1	
Minority Interest / Others	7.3	6.3	6.3	6.3	
Total Liabilities	425.2	456.9	456.4	452.6	
Assets					
Gross Block	415.8	482.0	511.0	541.0	
Less: Acc Depreciation	140.3	171.4	206.2	243.0	
Net Block	275.5	310.5	304.8	298.0	
Capital WIP	20.8	9.0	10.0	5.0	
Total Fixed Assets	296.3	319.6	314.8	303.0	
Investments	55.2	51.8	47.3	47.3	
Inventory	56.1	76.1	90.0	102.4	
Debtors	55.9	65.1	73.7	83.8	
Loans and Advances	0.0	0.1	0.1	0.1	
Other Current Assets	20.2	19.6	21.7	23.3	
Cash	0.5	0.9	2.1	2.6	
Total Current Assets	132.6	161.8	187.5	212.2	
Current Liabilities	48.6	63.3	73.7	83.8	
Provisions	0.9	1.0	1.2	1.4	
Current Liabilities & Prov	74.3	91.1	106.2	120.8	
Net Current Assets	58.3	70.7	81.4	91.4	
Others Assets	15.5	14.8	12.8	10.8	
Application of Funds	425.2	456.9	456.4	452.6	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY22	FY23P	FY24E	FY25E
Per share data (₹)				
EPS	-0.6	-4.2	-0.3	11.5
Cash EPS	20.5	18.0	24.5	37.8
BV	217.1	210.5	208.7	218.2
DPS	1.0	1.5	1.5	2.0
Cash Per Share	0.4	0.6	1.5	1.8
Operating Ratios (%)				
EBITDA Margin	9.1	8.6	8.5	10.0
PAT Margin	-0.2	-1.2	-0.1	2.4
Inventory days	48.5	54.4	55.0	55.0
Debtor days	48.3	46.5	45.0	45.0
Creditor days	42.0	45.2	45.0	45.0
Return Ratios (%)				
RoE	-0.3	-2.0	-0.2	5.2
RoCE	2.1	2.8	3.5	6.9
RoIC	2.3	2.9	3.6	7.0
Valuation Ratios (x)				
P/E	NM	NM	NM	14.8
EV / EBITDA	8.9	8.7	7.7	5.5
EV / Net Sales	0.8	0.8	0.7	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	3.4	3.0	2.0
Debt / Equity	0.4	0.5	0.5	0.4
Current Ratio	2.7	2.5	2.5	2.5
Quick Ratio	1.5	1.3	1.3	1.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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