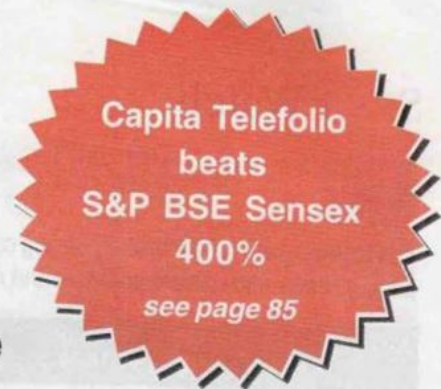


PPAP Automotive

# Set to pick up speed

With capacities and technology in place, well positioned to ride on the recovery of passenger cars, the key user industry



Established in 1978, PPAP Automotive is a leading manufacturer of automotive sealing systems, interior and exterior injection molded products. The automotive sealing products are used to seal the vehicle body and glass from noise, dust and water. They are made from either plastic extrusion or through injection molding.

There is capability to extrude up to four plastic materials in the same profile according to customer specifications. The products include outer and inner belt molding, trim door opening, windshield molding and roof molding.

Best injection molding machines manufacture both gas assist as well as non-gas type injection molded parts. Products include quarter window seal, A-pillar garnish and C-pillar garnish.

The exterior and interior products are used to enhance the aesthetics of the vehicle as well as to prevent the body from damage. Some of the products are also used to lift the aerodynamics of the car by reducing air drag on the body of the car at high speeds. Plastic extrusion products include skirt air damper as well as body-side moldings. Injection molding products include body-side moldings along with other interior products.

There is technical collaboration with Tokai Kogyo Company and Nissen Chemitec Corporation, both from Japan, to develop automotive products. There is also a joint venture with Tokai Kogyo Company of Japan to manufacture ethylene propylene diene monomer rubber-based automotive system with products including opening trims, hood seals, door weather strip and TPV glass run channels.

The main customer is the passenger car industry. This industry in India is on a recovery mode after flat-to-negative growth over the last few years. Besides domestic market, many MNC auto majors are also setting up plants to meet global requirements. Due to under-penetration, favorable demography, poor public transport and increasing income levels, the passenger car industry will gradually pick up speed, especially as petrol and

### Strong client base

Maruti cars contribute around 43% of PPAP Automotive's total sales and Honda's 39%. Efforts are on to get the business of Hyundai and other MNCs



diesel prices have come down and interest rate cuts are expected to continue.

For the major supplier to major automotive manufacturers in India, Maruti Suzuki's cars contribute around 43% of sales and Honda Motor Cars's 39%. Tata Motors, M&M, Toyota Kirloskar and General Motors comprise the remaining. There is an exclusive tie-up to supply sealing systems for all the new model launches of these players including S Cross by Maruti or the lat-

est Jazz by Honda. Efforts are on to supply to Hyundai Motors. Clarity will emerge by end fiscal closing March 2016 (FY 2016).

Talks are on with many others including MNC auto original equipment manufacturers (OEMs) establishing base in India in line with the Make-in-India concept. A few more MNC auto OEMs are expected to join as clients by end FY 2016. Currently, products are being developed for 12 new models to be launched over the next two years.

The state-of-the-art manufacturing facilities at Noida, Greater Noida, Chennai and in the Pathredi region of Rajasthan are strategically located near the clientele. Over the past three years, more than Rs 70 crore has been invested in increasing capacities for future growth. Current aggregate capacity utilization is around 70% in all the four plants. Barring around Rs 10 crore every year as maintenance expenditure, annual net sales of around Rs 500 crore can be generated by optimizing the capacity utilization at all these plants.

Net sales grew 29% to Rs 318.50 crore and the operating profit margin (OPM) 140 basis points (bps) to 12.7%, leading to a 45% increase in operating profit (OP) to Rs 40.40 crore in FY 2015. Profit after tax (Pat) surged 120% to Rs 12.04 crore.

Net sales fell 1% to Rs 73.23 crore and the OPM 320 bps to 16.8%, thus, boosting OP 22% to Rs 12.27 crore in the June 2015 quarter over a year ago. Pat rose 23% to Rs 2.97 crore.

There was a deferment of some orders in Q1 of FY 2016, which resulted in about 1% fall in net sales, apart from lower raw material cost impact on sales over the year. The loss of sales will be compensated in the remaining months of FY 2016.

We expect the company to report net sales of Rs 346.97 crore and Pat of Rs 18.37 crore in FY 2016. Net sales are projected at Rs 399.01 crore and Pat at Rs 24.01 crore in FY 2017. This gives an EPS of Rs 13.1 for the current fiscal and Rs 17.2 for the next fiscal. The book value was Rs 135 end March 2015. The scrip was trading around Rs 115 on 5 October 2015.

### PPAP Automotive: Financials

	1403 (12)	1503 (12)	1603 (12P)	1703 (12P)
Sales	246.75	318.50	346.97	399.01
OPM (%)	11.3	12.7	16.2	17.1
OP	27.80	40.40	56.07	68.23
Other inc.	8.49	4.14	3.77	3.58
PBIDT	36.30	44.50	59.83	71.81
Interest	3.04	7.13	9.08	10.44
PBDT	33.24	37.38	50.75	61.36
Dep.	19.75	21.54	23.20	25.52
PBT	13.49	15.84	27.55	35.84
EO	-5.46	0.00	0.00	0.00
PBT after EO	8.03	15.84	27.55	35.84
Total Tax	2.56	3.80	9.18	11.83
PAT	5.47	12.04	18.37	24.01
EPS (Rs) *	6.6	8.6	13.1	17.2

\* on equity of Rs 14.00 crore: Face value of Rs 10 each. EO: Extraordinary items. EPS is adjusted after EO and relevant tax (P): Projections. Figures in crore. Source: Capitaline Databases