



HDFC securities

Equity
Research

Pick_{of the}
week

Industry	CMP	Recommendation	Add on dips to	Targets	Time Horizon
Auto Parts & Equipments	Rs. 1011	Buy at CMP and add on Dips	Rs. 920-1011	Rs. 1150-1288	4 - 6 Quarters

Company Background

Harita Seating Systems provides seating solutions for the driver and cabin seating for commercial vehicles, tractors and construction equipment, as well as passenger seats for buses. The Company is engaged in the manufacturing of seating systems for automotive and non-automotive applications, and other parts and accessories for automotive and non-automotive applications. The Company's products include driver seat products, such as commercial vehicle seats, tractor seats, off-road vehicle seats and bus passenger seats which include intercity bus seats, intrastate bus seats, urban/city bus seats and standard bus seats. It has manufacturing plant locations in Tamil Nadu, Maharashtra, Karnataka and Uttarakhand, among others. Company has facilities for seat frame manufacturing, powder coating, upholstery cut and sew, and seat assembly. Harita Fehrer Limited is the Company's subsidiary.

Investment Highlights

Harita Seating Systems is the leading manufacturer of seating systems in India. Harita Seating has a JV with Fehrer Automotive, Germany under which it has three manufacturing facilities. Harita Fehrer Ltd is a joint venture between Harita and Fehrer Automotive in which Harita holds 51% stake while 49% is with Fehrer. The JV manufactures seat, seat assembly products like Polyurethane (PU) Composites and Automotive Interiors.

Harita Fehrer had posted revenue of Rs. 398cr, growth of 9.7% over the previous year and had registered profit before tax of Rs. 26cr during FY17.

During the year, company added new customers like United Motors, Ather energy and Motherson Automotive Technologies & Engineering (MATE). Company obtained new orders for the supply of head rests and arm rests to Fiat Chrysler Automotive Limited, foams for Hyundai Tucson and a new variant of Hyundai Grand i10 vehicle through Dymos. Orders for two wheeler seat assemblies were obtained from United Motors for Renegade model, Ather energy for electric scooter and Royal Enfield for Electra and new platform projects.

Company established a new manufacturing facility at Mysuru, Karnataka. It has also invested in Paper Honey Comb – a new technology, during the year and the commencement of commercial production is expected in the medium term.

Harita Seating Systems provides complete seating solutions for driver and cabin seating for commercial vehicles, tractors, construction equipment, as well as passenger seats for buses across all segments and has established itself as a leader in these segments in the country for seating systems.

HDFC Scrip Code	HARSEA
BSE Code	590043
NSE Code	HARITASEAT
Bloomberg	HARS
CMP as on 05 Jan'18	1011
Equity Capital (Rs cr)	7.8
Face Value (Rs)	10
Equity O/S (cr)	0.78
Market Cap (Rs Cr)	788
Book Value (Rs)	207
Avg. 52 Week Vol	9280
52 Week High (Rs)	1054
52 Week Low (Rs)	651

Shareholding Pattern (%)

Promoters	66.2
Institutions	13.4
Non Institutions	20.4

PCG Risk Rating*	Yellow
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* Refer Rating explanation

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Key Highlights

Harita Seating has a JV with Fehrer Automotive, under which it operates three manufacturing facilities in India. Harita has 51% stake while Fehrer holds 49% stake in JV.

The Company's products include driver seat products, such as commercial vehicle seats, tractor seats, off-road vehicles seats and bus passenger seats which include intercity bus seats, intrastate bus seats, urban/city bus seats and standard bus seats.

On Consolidated basis, Harita Seating posted 11% revenue and 12% PAT growth for FY17. We estimate 13.4% revenue, 20% EBITDA and 21% PAT cagr over the same period.

Being a TVS group company, Harita should enjoy the premium valuations.

So, we believe there is a scope of margin expansion as well as P/E expansion in case of Harita Seating. Being superior in terms of financial parameters, Harita deserves premium over Bharat Seats.

Company is debt free and enjoys robust return ratios (RoE/RoCE) > 20%. Harita trades at an attractive valuations of ~15x FY20E PE and 7x EV/EBITDA.

Company has initiated new product development activities to maintain the leadership position in the tractor segment in the domestic market. The Company continues to strengthen its position in export markets and has won significant new orders from overseas customers. The supplies are scheduled in 2017-18. As a leader in the bus passenger seats with a wide range of seats, the Company has further strengthened its position with new product launches in North India. The market has well responded to these new launches and company is gaining market share in this region. Company continues to invest in strengthening the design and testing capabilities to retain the market leadership status.

Harita aims to take advantage of the growing Tractor Industry by offering platform products to leading tractor OEMs and thereby it looks forward to winning a large share of domestic sales. With respect to the CV OEMs, the Company is taking steps to retain the sales growth by expanding its customer base and increasing their share of business among existing domestic customers.

Last Few Quarters impacted due to Demonetisation and GST

Last year, there was an impact of demonetisation on auto sales. Largely the two wheelers were impacted however passenger cars and CV manufacturers also faced some slow down. In the last quarter, there were issues with respect to GST. Many industries/sectors posted dismal performance however we believe that now onwards, such events are behind the economy and we expect growth to return on track. We expect strong growth from Auto majors and we saw some good numbers in the last two months on the monthly volume front. Strong Auto demand augurs well for the auto ancillary segment and also for Harita Seating. This would drive growth prospects for Harita in the coming years.

Trades at attractive valuations compared to its peer

If we compare Harita Seating with Bharat Seats, Harita enjoys a better operating profit margin, the reason being that Bharat Seats caters to majorly Maruti Suzuki from four wheelers segment and players in the two wheeler segment. Earlier, even Harita Seating used to cater to two wheeler vehicles however they have closed their plant at Rudrapur a couple of years back and are now only focusing on the high value margin businesses i.e. buses, trucks, tractors, off-the-road vehicles.

Established in 1988, the company was conceived by Shri TS Srinivasan, son of Shri TV Sundaram Iyengar who was founder of the TVS Group of companies. Harita is a part of TVS Group and TVS Group companies enjoy premium valuations. If we go by comparison, Bharat Seats trades at ~28x FY18E EPS while Harita Seating trades at FY18E EPS of 21x. So, we believe there is a lot of scope of margin expansion as well as P/E expansion in case of Harita Seating. Being superior in terms of financial parameters, Harita deserves a premium over Bharat Seats.

Fehrer Group, Germany

The Fehrer Group is one of the world's leading specialists in components for automotive interiors. Since October 2014, Fehrer has been part of the globally active AUNDE Group, one of the 100 biggest automotive suppliers.

Founded in 1875 in Kitzingen, Germany, Fehrer is known today for highly customer-focused service centers and worldwide production locations in close geographical proximity to partners. Fehrer customers' include Porsche, Lamborghini, Chrysler, Mercedes-Benz, Peugeot, Reva, Ford, BMW, Skoda, Tata, Audi and Renault.

As a developer and series supplier, Fehrer provides comprehensive, tailored full-service through the entire value added chain – from the individual development of suitable material formulations, via innovative engineering, mould and tool construction to reliable series production.

Automobile Industry

The Indian auto industry is one of the largest in the world. The industry accounts for 7.1 percent of the country's Gross Domestic Product (GDP) and employs ~20mn people. The Two Wheelers segment with 80 percent market share is the leader of the Indian Automobile market owing to a growing middle class and a young population. Moreover, the growing interest of the companies in exploring the rural markets further aided the growth of the sector. The overall Passenger Vehicle (PV) segment has 14 percent market share. Some of the factors attributable to the sector include; a buoyant end-user market, improved consumer sentiment and return of adequate liquidity.

India is also a prominent auto exporter and has strong export growth expectations for the near future. Several initiatives by the Government of India and the major automobile players in the Indian market are expected to make India a leader in the Two Wheelers (2W) and Four Wheelers (4W) market in the world by 2020.

Recent Developments in Auto Industry

The Indian Auto components industry can be broadly classified into the organized and unorganized sectors. The organized sector caters to OEMs and consists of high value precision instruments while the unorganized sector comprises of low value products and mostly caters to the aftermarket.

Production of passenger vehicles, commercial vehicles, three wheelers and two wheelers grew at 5.4 percent in FY17 to 2.53cr vehicles from 2.4cr vehicles in FY16. The sales of passenger vehicles, commercial vehicles and two wheelers grew by 9.2 percent, 4.2 percent and 6.9 percent respectively, during the period April-March 2017.

India's electric vehicle (EV) sales increased 37.5 percent to 22,000 units during FY15-16 and are poised to rise further on the back of cheaper energy storage costs and the Government of India's vision to see six million electric and hybrid vehicles in India by 2020.

- JSW Energy, a subsidiary of Jindal Group, has signed a Memorandum of Understanding (MoU) with the Gujarat government to set up an electric vehicle-manufacturing company at cost of Rs 4,000 crore (US\$ 613 million) which will have the capacity to produce 2,00,000 electric vehicles every year.
- Kia Motors is setting up a factory in Penukonda in Anantapur district and the company will invest around US\$ 2bn on this plant and it will have a manufacturing capacity of about 3 lakhs car per annum.
- Several automobile manufacturers, from global majors like Audi to Indian companies like Maruti Suzuki and Mahindra & Mahindra, are exploring the possibilities of introducing driverless self-driven cars for India.
- BMW plans to manufacture the local version of G310R motorcycle under 500 CC, in TVS Motor's Hosur plant in Tamil Nadu, for Indian markets.
- Hero Moto Corp seeks to enhance its participation in the Indian electric vehicle (EV) space by pursuing its internal EV Programme in addition to investing Rs 205 crore (US\$ 30.75mn) to acquire around 26-30 percent stake in Bengaluru-based technology start-up Ather Energy Pvt Ltd.

View & Valuations

Harita Seating has posted 11% revenue cagr and ~21% EBITDA cagr over FY14-17. Its PAT has seen robust 47% cagr over the same period. On Consolidated basis, Harita Seating posted 11% revenue and 12% PAT growth for FY17. Harita Fehrer had posted revenue of Rs. 398cr, growth of 9.7% over the previous year and registered profit before tax of Rs. 26cr during FY17. We estimate 13.4% revenue and 20% EBITDA cagr over FY17-20E. We have factored in 180bps margin expansion led by operational efficiencies and based on its products positioning into premium segments. Company is debt free and enjoys robust return ratios (RoE/RoCE) > 20%. Harita trades at attractive valuations of 15x FY20E EPS and 7x EV/EBITDA. We recommend BUY at CMP of Rs 1011 and add on dips to Rs 920 with sequential targets of Rs 1150 and Rs 1288 over the next 12-18 months. We have ascribed ~19x FY20E EPS to arrive at TP of Rs 1288.

Key Concerns & Risks

- Higher polyurethane raw material prices due to various global factors such as crude oil price increase which may make a significant impact on the company's performance.
- Slowdown in automobile segment locally and internationally to damper growth prospects.

Financial Analysis

(Rs Cr)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Sales	579	637	709	807	905	1035
EBITDA	41	54	68	85	102	121
Net Profit	9	26	29	37	46	53
EPS (Rs)	11.6	34.0	37.8	48.2	58.7	68.1
P/E	87.3	29.8	26.7	21.0	17.2	14.8
EV/EBITDA	21.5	15.3	12.2	9.9	8.3	7.0

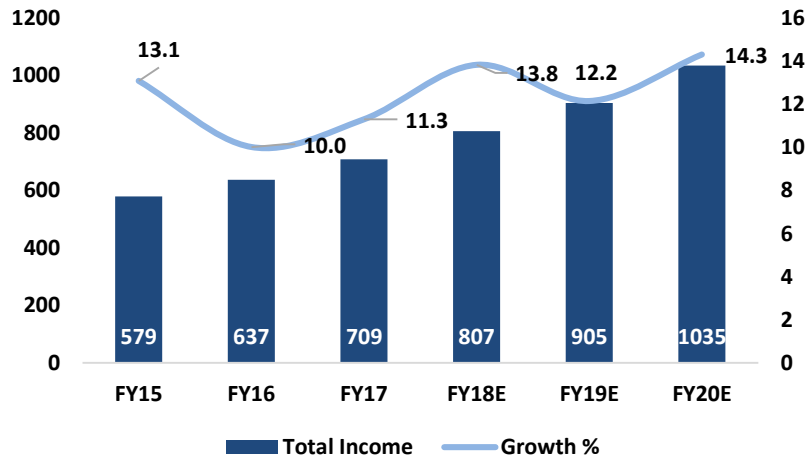
Source: Company, HDFC sec Research

Peer Comparison

FY18E (Rs cr)	Revenue	EBITDA	EBITDA Margin (%)	PAT	EPS (Rs)	MCAP	EV/EBITDA	PE
Harita Seating	807	85	9.7	37	48.2	786	9.9	21.0
Bharat Seats	960	64	6.7	29	9.2	830	13.5	28.3

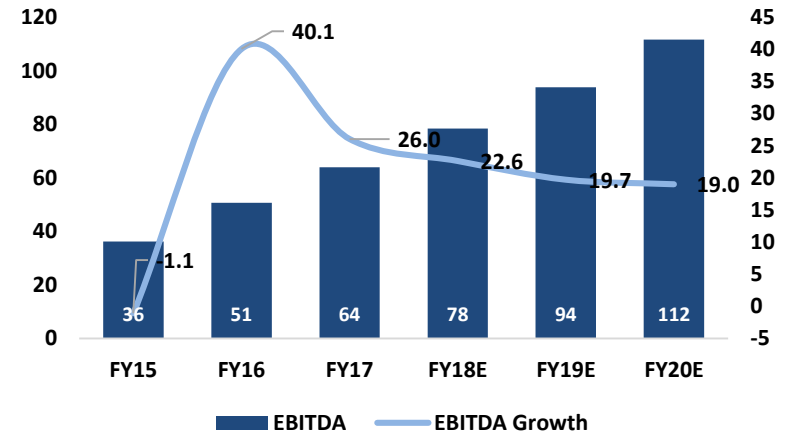
Source: Company, HDFC sec Research

Revenues to see strong ~13% cagr over FY17-20E



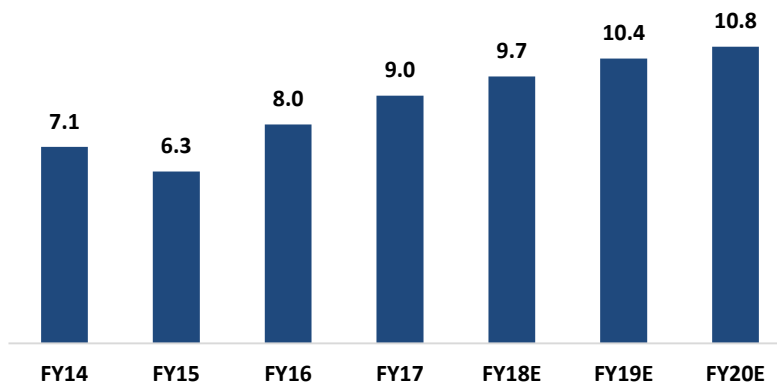
Source: Company, HDFC sec Research

EBITDA to witness continuous growth over FY17-20E



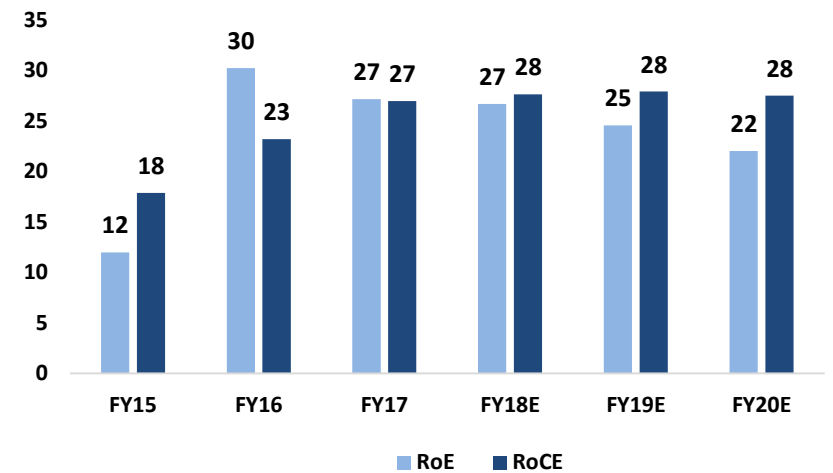
Source: Company, HDFC sec Research

EBITDA Margin (%)



Source: Company, HDFC sec Research

Return Ratios (%)



Source: Company, HDFC sec Research

Income Statement (Consolidated)

(Rs Cr)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	579	637	709	807	905	1035
Other Income	5	3	6	7	8	10
Total Income	584	640	715	814	914	1044
Growth (%)	13.1	10.0	11.3	13.8	12.2	14.3
Operating Expenses	543	586	647	729	811	923
EBITDA	41	54	68	85	102	121
Growth (%)	-1.1	40.1	26.0	22.6	19.7	19.0
EBITDA Margin (%)	6.3	8.0	9.0	9.7	10.4	10.8
Depreciation	13	14	15	16	17	18
EBIT	28	40	53	69	86	103
Interest expenses	6	2	1	1	2	3
PBT	22	43	53	67	82	98
Tax	7	11	16	20	25	30
RPAT	9	26	29	37	46	53
Growth (%)	23.2	193.1	11.4	27.3	22.0	16.0
EPS	11.6	34.0	37.8	48.2	58.7	68.1

Source: Company, HDFC sec Research

Balance Sheet (Consolidated)

As at March	FY15	FY16	FY17	FY18E	FY19E	FY20E
SOURCE OF FUNDS						
Share Capital	7.8	7.8	7.8	7.8	7.8	7.8
Reserves	70	89	112	153	203	262
Shareholders' Funds	78	97	120	161	211	270
Net Deferred Taxes	9	6	8	8	8	8
Long Term Provisions & Others	4	5	6	13	20	28
Minority Interest	64	65	69	69	69	69
Total Source of Funds	154	173	202	250	306	374
APPLICATION OF FUNDS						
Net Block (incl CWIP)	127	116	137	146	147	164
Long Term Loans & Advances	6	3	4	9	16	27
Total Non Current Assets	133	121	143	157	165	192
Current Investments	0	12	14	18	35	52
Inventories	28	29	33	40	42	50
Trade Receivables	122	114	132	144	161	181
Short term Loans & Advances	23	16	28	31	35	40
Cash & Equivalents	9	10	8	41	72	85
Other Current Assets	3	3	3	4	7	14
Total Current Assets	185	184	217	278	351	423
Short-Term Borrowings	24	2	8	15	23	25
Trade Payables	100	97	122	137	151	178
Other Current Liab & Provisions	28	18	16	19	20	23
Short-Term Provisions	10	16	15	16	17	18
Total Current Liabilities	163	132	159	185	210	240
Net Current Assets	22	52	59	93	141	181
Total Application of Funds	154	173	202	250	306	374

Source: Company, HDFC sec Research

Cash Flow Statement

(Rs Cr)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	22	43	53	68	84	100
Non-operating & EO items	-5	-3	-6	-7	-8	-10
Interest Expenses	6	2	1	1	2	3
Depreciation	13	14	15	16	17	18
Working Capital Change	-20	-28	-7	-1	-19	-26
Tax Paid	-7	-11	-16	-20	-25	-30
OPERATING CASH FLOW (a)	9	17	41	57	50	56
Capex	-2	7	-36	-25	-18	-35
Free Cash Flow	8	24	5	32	32	21
Investments	9	1	-1	-5	-6	-11
Non-operating income	5	3	6	7	8	10
INVESTING CASH FLOW (b)	12	12	-31	-23	-16	-36
Debt Issuance / (Repaid)	0	-2	2	7	7	8
Interest Expenses	-6	-2	-1	-1	-2	-3
FCFE	2	21	7	38	37	26
Share Capital Issuance	2	1	4	0	0	0
Dividend	-2	-5	-5	-7	-8	-11
FINANCING CASH FLOW (c)	-6	-8	0	-1	-3	-6
NET CASH FLOW (a+b+c)	15	21	10	33	31	13

Source: Company, HDFC sec Research

Key Ratios

(Rs Cr)	FY15	FY16	FY17	FY18E	FY19E	FY20E
EBITDA Margin	6.3	8.0	9.0	9.7	10.4	10.8
EBIT Margin	4.8	6.3	7.7	8.6	9.5	9.9
APAT Margin	2.5	5.2	5.3	5.9	6.5	6.8
RoE	12.0	30.2	27.2	26.7	24.6	22.0
RoCE	17.9	23.2	27.0	27.6	27.9	27.5
Solvency Ratio						
Net Debt/EBITDA (x)	0.4	-0.4	-0.2	-0.6	-0.9	-1.0
D/E	0.3	0.0	0.1	0.1	0.1	0.1
Net D/E	0.2	-0.2	-0.1	-0.3	-0.4	-0.4
PER SHARE DATA						
EPS	11.6	34.0	37.8	48.2	58.7	68.1
CEPS	28.8	52.0	57.1	69.2	80.0	91.8
BV	100	125	154	207	271	347
Dividend	2.5	6.0	5.0	7.0	9.0	12.0
Turnover Ratios (days)						
Debtor days	77	65	68	65	65	64
Inventory days	16	16	16	18	17	18
Creditors days	75	69	78	78	77	80
VALUATION						
P/E	87.3	29.8	26.7	21.0	17.2	14.8
P/BV	10.1	8.1	6.6	4.9	3.7	2.9
EV/EBITDA	21.5	15.3	12.2	9.9	8.3	7.0
EV / Revenues	1.3	1.2	1.1	1.0	0.9	0.8
Dividend Yield (%)	0.2	0.6	0.5	0.7	0.9	1.2
Dividend Payout	21.6	17.7	13.2	14.5	15.3	17.6

Source: Company, HDFC sec Research

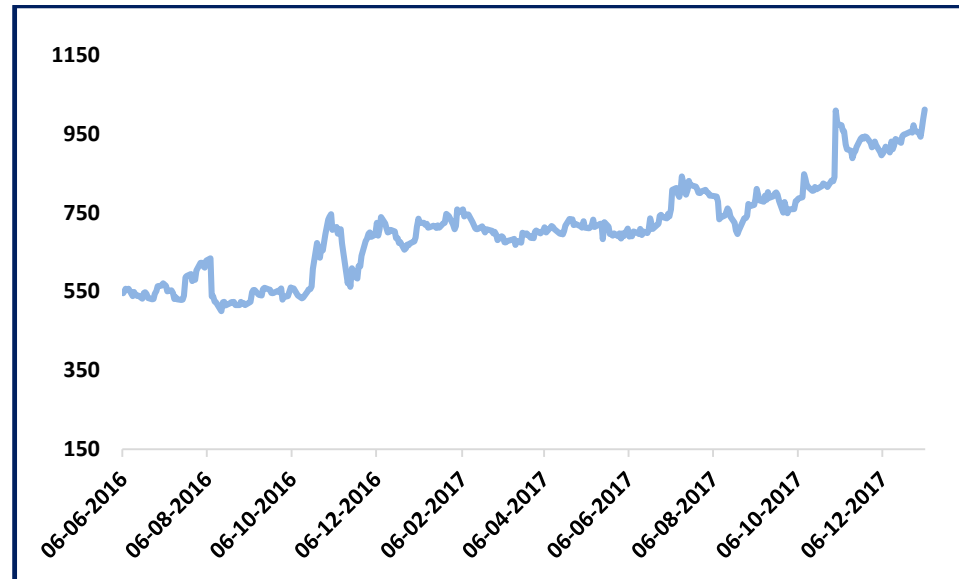
Rating Chart

R E T U R N	HIGH			
	MEDIUM			
	LOW			
		LOW	MEDIUM	HIGH
		RISK		

Ratings Explanation:

RATING	Risk - Return	BEAR CASE	BASE CASE	BULL CASE
BLUE	LOW RISK - LOW RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 20% OR MORE	IF RISKS MANIFEST PRICE CAN FALL 15% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 15%	IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 20% OR MORE
YELLOW	MEDIUM RISK - HIGH RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 35% OR MORE	IF RISKS MANIFEST PRICE CAN FALL 20% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 30%	IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 35% OR MORE
RED	HIGH RISK - HIGH RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 50% OR MORE	IF RISKS MANIFEST PRICE CAN FALL 30% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 30%	IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 50% OR MORE

Price Chart



Rating Definition:

Buy: Stock is expected to gain by 10% or more in the next 1 Year.

Sell: Stock is expected to decline by 10% or more in the next 1 Year.

Disclosure:

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Any holding in stock – No

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