

# Suprajit Engineering | SEL IN

## Strong 4QFY16 across businesses

Suprajit Engineering reported a strong 4QFY16 with consolidated adj. PAT at ₹242mn, c.25% ahead of JMFe. The beat was driven by better-than-expected margin across both standalone and subsidiary operations. SEL has successfully stabilized operations at recently acquired Phoenix Lamps (PLL) and the management indicated that are already getting back some part of the lost business post the management change at PLL. As the company successfully executes the plant modernization capex at PLL and integrates group operations, it expects to increase the win rate, stimulating consolidated earnings momentum. In cable business SEL expects revenue growth to be led by a) domestic demand recovery, b) ramp up in supplies to Honda 2W, and c) increasing traction in PV/non-auto verticals. Led by leadership consolidation in cable business and improving PLL performance, we estimate consolidated EPS to witness 22% CAGR over FY16-18E. We reiterate BUY with TP of ₹190. Below expected margin improvement at PLL, delayed recovery in domestic auto, and forex volatility are risks to our call.

- 4QFY16 earnings 25% above JMFe:** 4QFY16 consolidated adj. PAT at ₹242mn (+81% YoY) was c.25% above JMFe, largely driven by robust 365bps EBITDA margin beat and healthy topline. Adj. EBITDA at ₹523mn (+100% YoY) was c.29% above JMFe with EBITDA margin at 19.1% (+250 bps YoY/365 bps above JMFe). The beat in operating margin was driven by lower other costs and staff costs which was partially negated by slightly higher than expected RM costs. Standalone adj. PAT for the quarter came in 21% above JMFe at Rs 171mn (+58% yoy), led by a strong EBITDA margin of 18.6% (+190bps yoy, 155bps above JMFe) even as revenues came in line at Rs 1.57bn (+18% yoy). Subsidiaries' (including PLL) EBITDA margin at 19.7% (+540bps QoQ) came in c.670bps ahead of JMFe. PLL consol. sales stood at ₹927mn (13% ahead of JMFe) as business gains momentum. PLL's EBITDA stood at ₹150mn (32% ahead of JMFe) largely driven by 230bps operating margin beat.
- PLL to support cons. earnings momentum:** During the conference call management highlighted that operations at PLL have stabilized and going forward as management executes plant modernization capex, it expects to recover lost businesses, adding to consolidated revenue growth momentum. Further, management indicated that it expects PLL margins to inch upwards.
- Standalone operations on a strong footing:** While SEL continues to dominate the domestic 2W mechanical cable segment, it is gaining traction in the 4W segment as well. Going forward, the 2W revenue momentum is expected to remain strong on the back of a) demand recovery, and b) ramp up in supplies to less penetrated Honda 2W (35% now). In 4W, SEL currently has c.25%-30% market share in domestic PV (mechanical cable) segment and with increased focus, it expects significant improvement over medium term.

### Exhibit 1: Financial Summary

Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Net sales	6,118	9,525	11,575	13,837	16,172
Sales growth (%)	12.2	55.7	21.5	19.5	16.9
EBITDA	961	1,593	1,915	2,289	2,693
EBITDA (%)	15.7	16.7	16.5	16.5	16.6
Adjusted net profit	503	835	995	1,240	1,509
EPS (₹)	4.2	6.4	7.6	9.4	11.5
EPS growth (%)	-1.0	51.8	19.1	24.6	21.7
ROIC (%)	16.6	18.4	16.4	18.1	19.6
ROE (%)	22.6	24.3	20.4	21.4	21.9
PE (x)	38.7	25.5	21.4	17.2	14.1
Price/Book value (x)	8.1	4.8	4.0	3.4	2.8
EV/EBITDA (x)	20.8	13.9	11.5	9.5	7.9

Source: Company data, JM Financial. Note: Valuations as of 31/05/2016

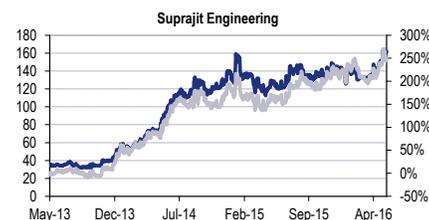
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### Key Data

Market cap (bn)	₹ 21.3 / US\$ 0.3
Shares in issue (mn)	120.0
Diluted share (mn)	120.0
3-mon avg daily val (mn)	₹ 10.5/US\$ 0.2
52-week range	₹ 166.0/117.1
Sensex/Nifty	26,668/8,160
₹/US\$	67.3

### Daily Performance



%	1M	3M	12M
Absolute	15.5	24.5	30.7
Relative*	11.4	8.6	34.9

\* To the BSE Sensex

### Shareholding Pattern (%)

	Mar-16	Mar-15
Promoters	47.4	51.8
FII	5.9	4.7
DII	8.4	2.0
Public / others	38.4	41.4

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ and FactSet.

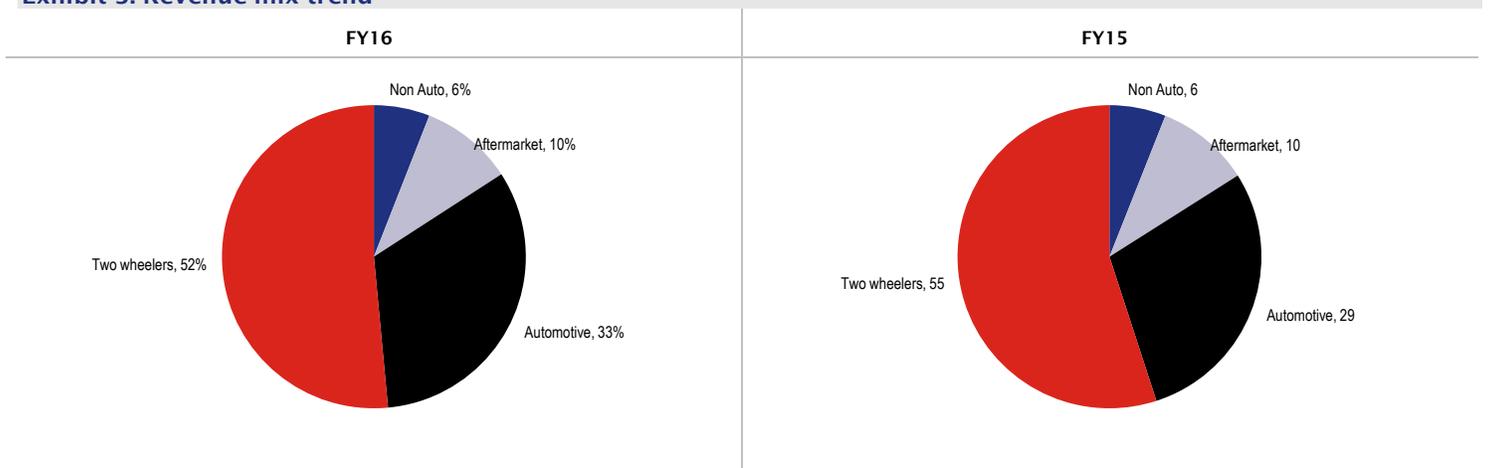
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**Capex and outlook:** During the call, SEL's management indicated that ₹300mn capex plan at PLL is well on track to get completed by Dec'16. On the ramp-up of Chennai facility (to supply Yamaha and RE) and Sanand facility (to supply Honda), management indicated that balance of ₹150mn capex would likely be spent in FY17. For PLL, management indicated that aftermarket would get better in FY17. In terms of Auto exports, management expects significant increase from FY18 on new orders from PV OEM's. As per the management, commodity prices have begun rising and would flow through P&L in FY17. Since most of the tax breaks are getting expired in FY17, SEL would likely suffer full tax rate.

**Exhibit 2. Quarterly financial results (consolidated)**

	(₹ mn)						
	Q4FY16	Q4FY15	% YoY	Q3FY16	% QoQ	Q4FY16E	% A/E
Sales	2,743	1,548	77.1	2,605	5.3	2,625	4.5
Expenditure	2,220	1,291	71.9	2,176	2.0	2,219	0.0
EBITDA	523	257	103.4	429	22.0	405	29.2
EBITDA Margin	19.1	16.6	246bps	16.5	262bps	15.4	365bps
Other Income	-7	-5	44.9	78	-109.4	15	-149.0
Interest	70	39	79.2	61	15.1	61	15.2
Depreciation	40	17	128.5	41	-3.9	51	-22.3
PBT	406	196	107.6	405	0.3	308	31.8
Tax	124	62	98.9	142	-12.5	92	34.0
Tax rate (%)	30.5	31.8	-133bps	35.0	-445bps	30.0	50bps
PAT (Adjusted)	242	133	81.4	235	2.9	194	24.9
PAT Margin	8.8	8.6	21bps	9.0	-20bps	7.4	144bps

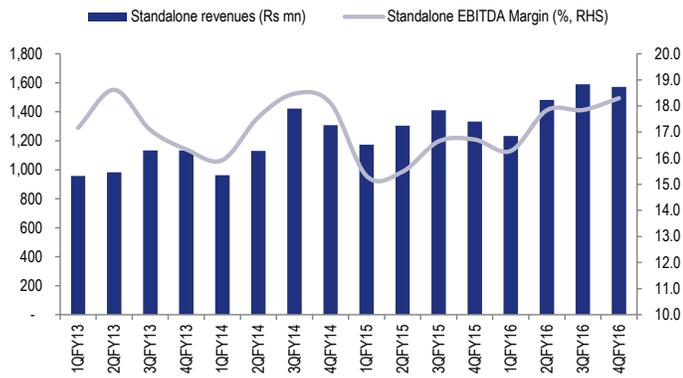
Source: Company, JM Financial.

**Exhibit 3. Revenue-mix trend**

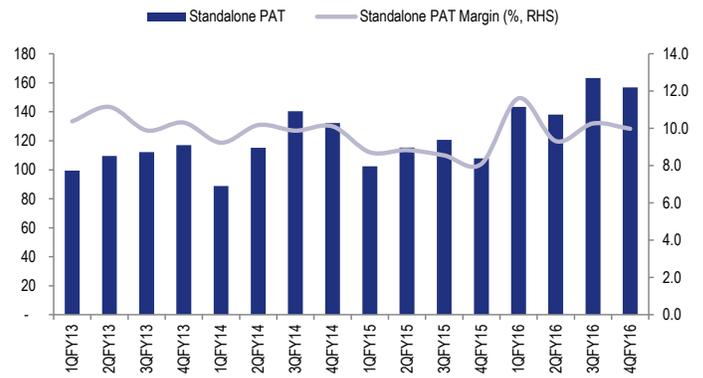
Source: Company, JM Financial

**Exhibit 4. Standalone financial trends**

**Revenue and EBITDA margin**



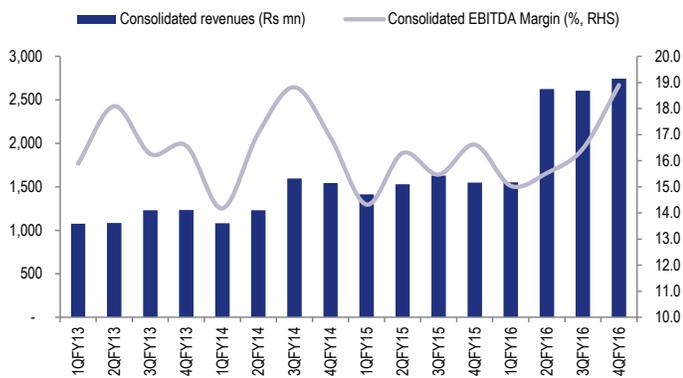
**PAT and PAT Margin**



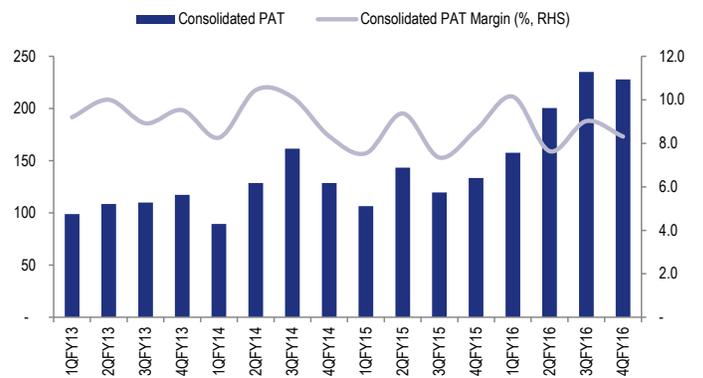
Source: Company, JM Financial

**Exhibit 5. Consolidated financial trends**

**Revenue and EBITDA margin**



**PAT and PAT Margin**



Source: Company, JM Financial

## Company background

Suprajit Engineering, a company promoted by Mr. K Ajith Kumar Rai in 1985, is the largest manufacturer of automotive cables in India. Suprajit is a market leader in automotive control cables in India, is world's largest mechanical cable manufacturer, and among the top 5 in auto cables globally.

With the most competitive manufacturing in India and its technical and logistical supports worldwide, the group provides the optimal product development and manufacturing solutions to its domestic and international customers.

Suprajit Engineering recently acquired of Phoenix Lamps. Phoenix Lamps Limited is the largest automotive halogen lamp manufacturer in India.

Revenue Variables					
Y/E March (₹ mn)	FY15A	FY16A	FY17E	FY18E	FY19E
Standalone revenue	5,222	5,879	6,938	8,272	9,940
Subsidiary Revenues	896	3,646	4,637	5,565	6,232
<b>Total revenue</b>	<b>6,118</b>	<b>9,525</b>	<b>11,575</b>	<b>13,837</b>	<b>16,172</b>

Source: Company, JM Financial

## Investment Rationale

- Suprajit Engineering started as a supplier to a single company (TVS Motor), and now dominates the domestic 2W cable market with c.55% market share. It is the largest supplier of mechanical cables to Bajaj Auto, TVS Motors and Hero Motocorp, while ramping up supplies to Honda 2W (HMSI). Given the dominant position of Suprajit in domestic 2W cable segment, we believe it is well placed to leverage the medium-long term growth opportunity in domestic 2W industry.
- While Suprajit continues to consolidate its position in 2W segment, it has built significant presence in other segments as well. In the non-auto segment too, it has gained significant traction in recent years. Consequently, 2W which once accounted for almost 100% of revenues, today accounts for c.52% of standalone revenues.
- Suprajit has embarked on a well-timed capacity expansion, with targeted capacity of c.225mn cables by Mar '16. While a part of this capacity will be dedicated to existing clients, it will help company leverage the expected recovery in domestic automotive demand.
- Acquisition of Phoenix lamps would help SEL reduce its exposure to mechanical cables. Further, given Phoenix's strong traction in export markets, it would also help SEL penetrate new markets and clients.

## Key Risks

- Inability to scale up in 4W/non-auto segment
- Volatility in currency
- Execution risks with integration of Phoenix lamps

## Financial Tables (Consolidated)

Profit & Loss					
	(₹ mn)				
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Net sales (Net of excise)	6,118	9,525	11,575	13,837	16,172
Growth (%)	12.2	55.7	21.5	19.5	16.9
Other operational income	0	0	0	0	0
Raw material (or COGS)	3,729	5,635	6,866	8,299	9,789
Personnel cost	826	1,253	1,471	1,692	1,908
Other expenses (or SG&A)	603	1,043	1,324	1,557	1,782
<b>EBITDA</b>	<b>961</b>	<b>1,593</b>	<b>1,915</b>	<b>2,289</b>	<b>2,693</b>
EBITDA (%)	15.7	16.7	16.5	16.5	16.6
Growth (%)	3.9	65.9	20.2	19.6	17.6
Other non-op. income	41	155	118	132	152
Depreciation and amort.	90	158	203	227	253
EBIT	911	1,591	1,830	2,194	2,591
Add: Net interest income	-164	-241	-261	-251	-235
Pre tax profit	747	1,350	1,569	1,943	2,356
Taxes	245	431	471	563	683
Add: Extraordinary items	0	-116	0	0	1
Less: Minority interest	0	84	104	140	165
Reported net profit	503	719	995	1,240	1,509
<b>Adjusted net profit</b>	<b>503</b>	<b>835</b>	<b>995</b>	<b>1,240</b>	<b>1,509</b>
Margin (%)	8.2	8.8	8.6	9.0	9.3
Diluted share cap. (mn)	120	131	131	131	131
<b>Diluted EPS (₹)</b>	<b>4.2</b>	<b>6.4</b>	<b>7.6</b>	<b>9.4</b>	<b>11.5</b>
Growth (%)	-1.0	51.8	19.1	24.6	21.7
Total Dividend + Tax	135	163	187	233	280

Source: Company, JM Financial

Balance Sheet					
	(₹ mn)				
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Share capital	120	131	131	131	131
Other capital	0	0	0	0	0
Reserves and surplus	2,288	4,344	5,152	6,159	7,387
Networth	2,408	4,476	5,284	6,290	7,518
Total loans	1,660	2,586	2,386	2,186	1,986
Minority interest	0	542	542	542	542
<b>Sources of funds</b>	<b>4,068</b>	<b>7,604</b>	<b>8,212</b>	<b>9,018</b>	<b>10,046</b>
Intangible assets	0	0	0	0	0
Fixed assets	2,492	4,248	4,698	5,198	5,648
Less: Depn. and amort.	812	970	1,173	1,400	1,653
Net block	1,680	3,278	3,525	3,799	3,996
Capital WIP	170	203	220	250	250
Investments	1,118	1,487	1,487	1,487	1,487
Def tax assets/- liability	-91	-86	-86	-86	-86
Current assets	2,305	4,582	5,182	5,995	7,147
Inventories	799	1,669	1,744	1,895	2,215
Sundry debtors	1,250	2,096	2,537	3,033	3,545
Cash & bank balances	56	189	210	307	551
Other current assets	0	0	0	0	0
Loans & advances	200	628	691	760	836
Current liabilities & prov.	1,128	1,870	2,126	2,436	2,757
Current liabilities	994	1,640	1,875	2,161	2,456
Provisions and others	134	229	251	275	301
Net current assets	1,178	2,712	3,056	3,559	4,390
Others (net)	13	10	10	10	10
<b>Application of funds</b>	<b>4,068</b>	<b>7,604</b>	<b>8,212</b>	<b>9,018</b>	<b>10,046</b>

Source: Company, JM Financial

Cash flow statement					
	(₹ mn)				
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Reported net profit	503	719	995	1,240	1,509
Depreciation and amort.	92	158	203	227	253
-Inc/dec in working cap.	-107	-1,340	-331	-411	-587
Others	0	542	0	0	0
<b>Cash from operations (a)</b>	<b>488</b>	<b>79</b>	<b>866</b>	<b>1,055</b>	<b>1,175</b>
-Inc/dec in investments	-369	-370	0	0	0
Capex	-411	-1,789	-467	-530	-450
Others	169	-61	9	5	0
<b>Cash flow from inv. (b)</b>	<b>-610</b>	<b>-2,220</b>	<b>-458</b>	<b>-525</b>	<b>-450</b>
Inc/-dec in capital	-7	1,512	0	0	-1
Dividend+Tax thereon	-135	-163	-187	-233	-280
Inc/-dec in loans	238	927	-200	-200	-200
Others	6	-1	0	0	0
<b>Financial cash flow (c)</b>	<b>103</b>	<b>2,274</b>	<b>-386</b>	<b>-433</b>	<b>-481</b>
Inc/-dec in cash (a+b+c)	-20	133	22	97	244
Opening cash balance	76	56	189	210	307
Closing cash balance	56	189	210	307	551

Source: Company, JM Financial

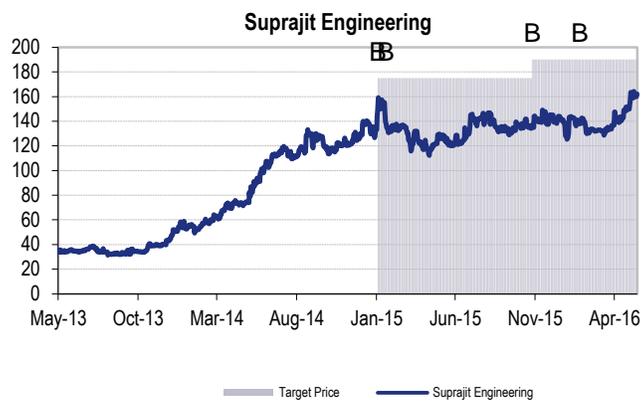
Key Ratios					
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
BV/Share (₹)	20.1	34.1	40.2	47.9	57.2
ROCE (%)	16.6	18.4	16.4	18.1	19.6
ROE (%)	22.6	24.3	20.4	21.4	21.9
Net Debt/equity ratio (x)	0.2	0.2	0.1	0.1	0.0
<b>Valuation ratios (x)</b>					
PER	38.7	25.5	21.4	17.2	14.1
PBV	8.1	4.8	4.0	3.4	2.8
EV/EBITDA	20.8	13.9	11.5	9.5	7.9
EV/Sales	3.3	2.3	1.9	1.6	1.3
<b>Turnover ratios (no.)</b>					
Debtor days	75	80	80	80	80
Inventory days	48	64	55	50	50
Creditor days	56	61	60	60	60

Source: Company, JM Financial

## History of earnings estimates and target price

Date	FY16E EPS (₹)	% Chg.	FY17E EPS (₹)	% Chg.	Target Price	% Chg.
20-Jan-15	6.2		8.8		175	
4-Feb-15	6.1	-1.6	8.7	-1.1	175	0.0
12-Nov-15	5.8	-4.9	7.8	-10.3	190	8.6
11-Feb-16	6.4	10.3	7.9	1.3	190	0.0

## Recommendation history



## APPENDIX I

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(Formerly known as JM Financial Institutional Securities Private Limited)

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

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