

ONE YEAR OUTLOOK

Business & Earnings ▲

- Revise our rating to BUY led primarily by potential synergies and growth opportunities post the recent acquisition of Light Duty Cables (LDC) business of Kongsberg ASA for ~Rs. 3.2bn at ~5x CY21E EBITDA. LDC's portfolio is geared towards mechanical cables/electromechanical actuators for seats & seating-related applications in PVs/OHWs and would complement SEL's presence in cables for door & body-related applications. LDC's empanelment with marquee customers (including Tesla) and manufacturing presence in low-cost destinations heightens cross-selling opportunities and complementarities with SEL. In addition, we maintain that a) the expected medium-term pick-up in OEM volumes, b) SEL's reasonably large aftermarket (AM) revenue, & c) restructuring efforts in the non-automotive cables and lamps divisions would be crucial earnings tailwinds.
- In exports, SEL continues to build upon its presence with major OEMs, including VW & BMW, and now commands ~double-digit market shares in these OEMs. SEL has also started supplying its products for the EV platforms of these OEMs. In addition, new product introductions in the domestic market like Digital Speedo Meters, Throttle position sensors and Rotary sensors are starting to show traction.
- Led by the aforesaid, pencil in a revenue CAGR of ~28% through FY21-FY24E. Expect overall margins to be aided by restructuring efforts and operating leverages; however, this would be offset by the acquisition of the lower margin LDC business.

Valuation Multiples ▲

- Our TP of Rs. 425 is basis 18x Sep-23E EPS. Our multiple factors in strong growth potential across businesses along with synergies with the LDC and expectations of a volume growth-led recovery in accruals and return ratios through FY24E.

FINANCIAL SUMMARY

	NET SALES (Rs. mn)	EBITDA %	PAT	EPS	P/E	EV/ EBITDA	ROE (%)
FY21	16,409	14.4%	1,427	10.2	35.6	22.2	15.5%
FY22E	19,047	15.6%	1,887	13.6	26.6	17.3	18.0%
FY23E	30,663	14.8%	3,030	21.9	16.6	11.8	24.5%
FY24E	34,655	15.2%	3,508	25.4	14.3	10.1	23.1%

THREE YEAR OUTLOOK

Business & Earnings ▲

- Expect the domestic AM (aided by increasing penetration and growing competitiveness vis-a-vis unorganized players), exports to OEMs (aided by increasing acceptance by marquee brands) and the domestic PVs to be the primary drivers for SEL's cables business.
- However, we believe that the imminent step up in penetration of power electronics in automobiles could impair the long-term growth prospects of this business. We note the management's efforts to increase SEL's play in this segment; however, it would face stiff competition in these efforts.
- SEL would also benefit from PLL's market leadership (~60% share in domestic OEM & ~25% of revenue) and robust presence in the AM segment (~70% of revenue). Also, we believe that management's efforts in diversifying exports of lamps into newer geographies like China, Russia and USA could sustain the growth momentum in this business for long period of time.
- LDC would also have engineering/business development support from multiple countries for customers, making SEL a global player. EMA too would be a complementary fit into SEL's product portfolio.

Valuation Multiples ▲

- Expect SEL to report a revenue and PAT CAGR of 24% & 31% respectively through FY21-FY25E. Our multiples factor in potential synergies and growth opportunities led by the recent acquisition of the LDC business of Kongsberg ASA.

KEY ESTIMATES REVISION

	FY22E			FY23E		
	Old	New	Change	Old	New	Change
Sales	18,423	19,047	3.4%	21,385	30,663	43.4%
EBITDA %	14.6%	15.6%	94 bps	15.9%	14.8%	-104 bps
PAT	1,755	1,887	7.5%	2,391	3,030	26.7%
EPS	12.7	13.6	7.5%	17.3	21.9	26.7%
Target P/E	Before Results: 17.0			After Results: 18.0		

All figures in Rs.Mn

OUTLOOK REVIEW 2QFY22 12 November 2021

Industry	AUTOMOBILE		
Key Stock Data			
Bloomberg	SEL IN		
Shares o/s	138mn		
Market Cap	Rs. 50bn (\$1bn)		
52-wk High-Low	Rs. 411-179		
3m ADV	Rs. 111mn (\$1mn)		
Index	BSE SMALL CAP		
F&O	No		
Latest Shareholding (%)			
	Mar 21	Jun 21	Sept 21
Promoters	44.6	44.6	44.6
Institutions	16.2	17.5	18.0
Public	39.2	37.9	37.4
Pledge	-	-	-

Stock Performance (%)

	1m	3m	12m
SEL	-1.3	16.6	85.8
Sensex	-0.3	9.9	37.5

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Quarterly Financial Statement

Consolidated Financial Results

Rs. mn\Period	2QFY22	2QFY21	yoy Growth	1QFY22	qoq Growth	1HFY22	1HFY21	Yoy growth
Revenue	4,937	4,431	11.4%	3,616	36.5%	8,553	6,206	37.8%
Raw Material	2,836	2,606	8.8%	2,001	41.7%	4,837	3,593	34.6%
Employee cost	866	730	18.7%	778	11.2%	1,644	1,325	24.1%
Other cost	434	361	20.4%	344	26.2%	778	601	29.4%
Total Expenditure	4,136	3,697	11.9%	3,124	32.4%	7,260	5,520	31.5%
EBITDA	801	735	8.9%	492	62.6%	1,293	687	88.3%
Margin %	16.2%	16.6%	-37 bps	13.6%	261 bps	15.1%	11.1%	405 bps
D&A	146	144	1.8%	143	2.0%	290	281	3.0%
EBIT	654	591	10.7%	349	87.6%	1,003	405	147.5%
Other income	152	86	76.6%	66	129.7%	218	144	51.6%
Net Interest exp (inc)	35	55	-35.9%	47	-25.2%	83	110	-25.1%
PBT	726	622	16.7%	529	37.3%	1,255	439	186.0%
Tax provision	231	141	63.3%	97	137.2%	328	103	218.1%
Tax rate %	31.7%	22.7%	905 bps	18.4%	1337 bps	26.1%	23.5%	263 bps
PAT (Adjusted)	529	481	10.1%	311	70.3%	840	336	150.2%
PAT Margin %	10.7%	10.8%	-13 bps	8.6%	212 bps	9.8%	5.4%	441 bps
Shares Outstanding	138	140		138		138	140	
EPS (Adjusted)	3.8	3.4	11.2%	2.2	70.3%	6.1	2.4	152.9%

- Auto cable division reported a revenue of Rs. 3.0bn, registering a growth of 20% YoY and margins of 19.9% while 1QFY22 margins stood at 14.8%.

- Lighting division reported a revenue of Rs. 925mn, registering a growth of 10% YoY and margins of 9.6%. 1QFY22 margins stood at 6.3%.

- Non-auto division (SENA) reported a revenue of Rs. 1.0bn registering a growth of 11% YoY and margins of 11.4%. 1QFY22 margins stood at 15.6%.

Financial Summary

Abridged Financial Statements - Consolidated

Rs. mn	FY16	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e	FY25e
Profit & Loss										
Revenue	9,525	12,138	14,311	15,899	15,628	16,409	19,047	30,663	34,655	38,244
Gross profit	3,890	5,275	6,316	6,751	6,478	6,861	8,228	12,265	13,931	15,450
EBITDA	1,543	2,009	2,365	2,328	2,120	2,367	2,966	4,545	5,260	5,882
Depreciation	158	219	372	410	581	568	603	665	746	782
EBIT	1,386	1,789	1,993	1,918	1,539	1,800	2,363	3,880	4,514	5,100
Other Income	155	240	212	380	290	336	380	452	507	778
Interest expense	250	289	271	246	227	192	206	258	305	274
Exceptional items	-57	-15	0	0	-274	0	116	0	0	0
PBT	1,234	1,726	1,934	2,052	1,329	1,943	2,654	4,074	4,716	5,603
Reported PAT (after minority interest)	720	1,115	1,385	1,338	1,040	1,427	1,974	3,030	3,508	4,168
Adj PAT	759	1,125	1,385	1,338	1,232	1,427	1,887	3,030	3,508	4,168
EPS (Rs.)	6.3	8.0	9.9	9.6	8.8	10.2	13.6	21.9	25.4	30.1
Balance Sheet										
Net Worth	5,018	5,242	6,549	7,751	8,538	9,895	11,093	13,669	16,651	20,193
Deferred Tax	112	258	521	634	563	552	552	552	552	552
Total debt	2,586	3,295	2,818	2,981	3,113	2,704	2,434	4,009	3,608	3,247
Other liabilities and provisions	900	954	1,278	1,354	1,452	1,505	2,022	3,088	3,454	3,783
Total Networth and liabilities	8,616	9,750	11,166	12,721	13,665	14,657	16,101	21,317	24,265	27,776
Gross Fixed assets	4,173	5,221	5,373	5,817	7,107	7,714	8,364	10,116	10,616	11,116
Net fixed assets	2,415	3,243	3,023	3,057	3,766	3,805	3,852	4,939	4,693	4,411
Capital work-in-progress	0	24	33	272	152	49	49	49	49	49
Intangible Assets	1,066	2,024	2,417	2,476	2,369	2,176	2,176	4,224	4,224	4,224
Investments	1,487	177	1,304	1,720	2,763	3,195	2,933	2,336	4,586	6,086
Cash and bank balances	189	223	296	471	642	942	1,811	1,312	1,163	2,475
Loans & advances and other assets	638	673	662	850	602	500	649	1,003	1,125	1,234
Net working capital	2,821	3,387	3,431	3,874	3,372	3,989	4,630	7,454	8,425	9,297
Total assets	8,616	9,750	11,166	12,721	13,665	14,657	16,101	21,317	24,265	27,776
Capital Employed	7,716	8,796	9,888	11,366	12,214	13,151	14,079	18,230	20,811	23,993
Invested Capital (CE - cash - CWIP)	7,528	8,549	9,560	10,623	11,420	12,160	12,219	16,869	19,598	21,469
Net debt	910	2,895	1,218	790	598	-1,085	-2,224	447	-2,055	-5,227
Cash Flows										
Cash flows from Operations (Pre-tax)	1,197	1,795	2,486	2,125	2,791	2,092	3,189	2,885	5,041	6,007
Cash flows from Operations (post-tax)	871	1,258	2,173	1,447	2,320	1,610	2,509	1,841	3,833	4,572
Capex	-543	-386	-250	-596	-664	-251	-650	-650	-500	-500
Free cashflows	327	872	1,923	851	1,656	1,359	1,859	1,191	3,333	4,072
Free cashflows (post interest costs)	78	583	1,651	606	1,430	1,167	1,654	933	3,029	3,797
Cash flows from Investing	-2,402	-1,687	-1,250	-890	-1,565	-598	-388	-3,203	-2,750	-2,000
Cash flows from Financing	1,567	467	-845	-418	-607	-860	-1,252	863	-1,232	-1,260
Total cash & liquid investments	189	223	296	471	642	942	1,811	1,312	1,163	2,475

Source: Company data, Spark Capital Research

Financial Summary

	FY16	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e	FY25e
Growth ratios										
Revenue	55.7%	27.4%	17.9%	11.1%	-1.7%	5.0%	16.1%	61.0%	13.0%	10.4%
EBITDA	60.1%	30.1%	17.8%	-1.6%	-8.9%	11.6%	25.3%	53.2%	15.7%	11.8%
Adj PAT	43.1%	54.9%	24.2%	-3.4%	-22.3%	37.3%	38.4%	53.5%	15.8%	18.8%
Margin ratios										
Gross	40.8%	43.5%	44.1%	42.5%	41.4%	41.8%	43.2%	40.0%	40.2%	40.4%
EBITDA	16.2%	16.5%	16.5%	14.6%	13.6%	14.4%	15.6%	14.8%	15.2%	15.4%
Adj PAT	8.0%	9.3%	9.7%	8.4%	7.9%	8.7%	9.9%	9.9%	10.1%	10.9%
Performance ratios										
Pre-tax OCF/EBITDA	77.5%	89.3%	105.1%	91.3%	131.6%	88.4%	107.5%	63.5%	95.8%	102.1%
OCF/IC (%)	11.6%	14.7%	22.7%	13.6%	20.3%	13.2%	20.5%	10.9%	19.6%	21.3%
RoE (%)	20.5%	21.9%	23.5%	18.7%	15.1%	15.5%	18.0%	24.5%	23.1%	22.6%
RoCE (%)	14.8%	15.9%	16.9%	14.1%	12.1%	12.4%	15.0%	19.9%	19.1%	19.5%
RoCE (Pre-tax)	25.4%	24.6%	23.6%	21.6%	15.5%	16.8%	20.2%	26.8%	25.7%	26.2%
RoIC (Pre-tax)	23.6%	22.3%	22.0%	19.0%	14.0%	15.3%	19.4%	26.7%	24.8%	24.8%
Fixed asset turnover (x)	2.9	2.6	2.7	2.8	2.4	2.2	2.4	3.3	3.3	3.5
Total asset turnover (x)	1.4	1.3	1.4	1.3	1.2	1.2	1.2	1.6	1.5	1.5
Financial stability ratios										
Net Debt to Equity (x)	0.2	0.6	0.2	0.1	0.1	(0.1)	(0.2)	0.0	(0.1)	(0.3)
Net Debt to EBITDA (x)	0.6	1.4	0.5	0.3	0.3	(0.5)	(0.7)	0.1	(0.4)	(0.9)
Interest cover (x)	3.5	4.4	8.0	5.9	10.2	8.4	12.2	7.1	12.6	16.7
Inventory days	108	102	87	89	79	89	89	89	89	89
Working capital days	98	93	72	77	59	66	62	64	64	64
Valuation metrics										
Fully Diluted Shares (mn)	120.2	139.9	139.9	139.9	139.9	139.9	138.4	138.4	138.4	138.4
Market cap (Rs.mn)			50,774							
P/E (x)	57.5	45.1	36.7	37.9	41.2	35.6	26.6	16.6	14.3	12.1
P/OCF(x)	58.3	40.4	23.4	35.1	21.9	31.5	20.2	27.6	13.2	11.1
EV (Rs.mn) (ex-CWIP)	51,684	53,645	51,959	51,292	51,220	52,536	51,397	53,471	53,218	51,546
EV/ EBITDA (x)	33.5	26.7	22.0	22.0	24.2	22.2	17.3	11.8	10.1	8.8
EV/ OCF(x)	59.4	42.6	23.9	35.4	22.1	32.6	20.5	29.0	13.9	11.3
FCF Yield			3.8%	1.7%	3.3%	2.7%	3.7%	2.3%	6.6%	8.0%
Price to BV (x)	10.1	9.7	7.8	6.6	5.9	5.1	4.6	3.7	3.0	2.5
Dividend pay-out (%)	11.4%	5.7%	12.1%	15.7%	34.8%	7.3%	15.0%	15.0%	15.0%	15.0%
Dividend yield (%)	0.3%	0.1%	0.3%	0.4%	0.7%	0.2%	0.6%	0.9%	1.0%	1.2%

Source: Company data, Spark Capital Research

Crystal Ball Gazing

Expect SEL to report a revenue and PAT CAGR of 12% & 24% respectively through FY21-FY25E. Revenue growth would be driven by improving market share with existing customers and greater traction in AM & exports. Our multiples factor in the impact of potential slackening of demand for automotive cables (the primary contributor of revenue) with the imminent increase in the penetration of power electronics in automobiles.

Expect SEL to report a revenue and PAT CAGR of 9% & 20% respectively through FY20-FY25E.

	FY011-FY14	FY14-FY17	FY17-FY21	FY21-FY25E
Revenues CAGR	16%	31%	8%	24%
Gross Margin	37%	41%	43%	41%
EBITDA CAGR	18%	29%	4%	26%
EBITDA margin	16.6%	16.4%	15.1%	15.1%
EPS CAGR	16%	30%	6%	31%
Total Asset Turnover (x)	1.8	1.4	1.3	1.4
Total WC days	75	91	74	64
Pre-tax OCF/EBITDA (%)	74%	81%	101%	91%
Post Tax OCF as a % of IC	16%	13%	17%	17%
Debt/EBITDA	0.9	0.9	0.4	(0.5)

Expect improvement in EBITDA margin, leveraging upon its competitive strength and operating leverages.

	FY011-FY14	FY14-FY17	FY17-FY21	FY21-FY25E
RoE (%)	32.6%	23.1%	18.9%	20.7%
RoCE (%)	22.2%	16.1%	14.3%	17.2%
RoIC (%)	31.4%	23.9%	18.5%	22.2%
Average 1 yr fwd				
PE (x)	7.0	16.9	20.1	20.0
EV/EBITDA (x)	4.6	10.4	12.5	11.9
Peak 1 yr fwd				
PE (x)	14.4	25.3	29.4	25.1
EV/EBITDA (x)	8.8	15.7	18.1	14.9

Imminent step-up in penetration of power electronics in automobiles could cap multiple expansion.

P/E multiple	FY25E EPS (Rs.)	Price target
17.0	30.1	510

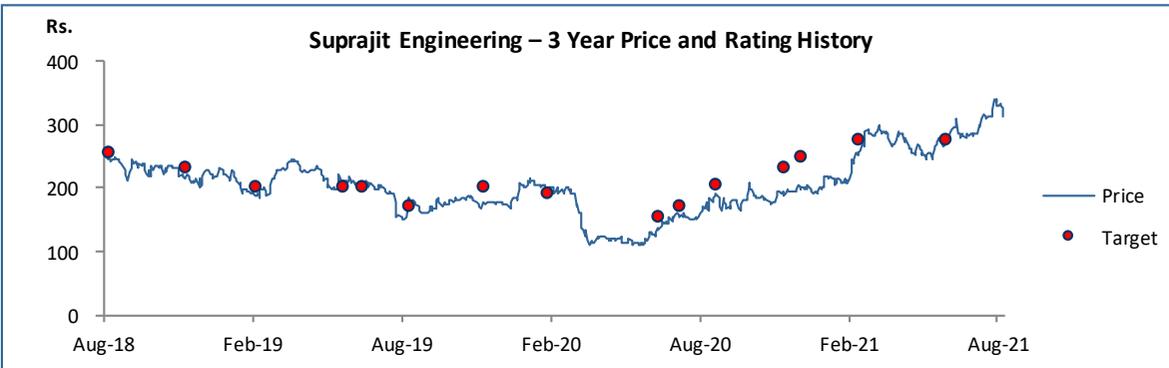
Entry = Rs. 363 @ 17x FY22E EPS

Cumulative Dividends of Rs.9

PAT CAGR of ~31%, exit multiple of 17x on FY25E EPS

TOTAL RETURN OF 44%

Spark Recommendation History



Absolute Rating Interpretation

BUY	Stock expected to provide positive returns of >15% over a 1-year horizon
ADD	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon
REDUCE	Stock expected to provide returns of <5% – -10% over a 1-year horizon
SELL	Stock expected to fall >10% over a 1-year horizon

Symbol Interpretation

◀▶ No Change | ▼ Downgrade | ▲ Upgrade

Report Date	CMP (Rs.)	TP (Rs.)	Reco.
01-Jun-21	267	275	Add
12-Feb-21	258	275	Add
07-Dec-20	202	250	Buy
17-Nov-20	193	230	Buy
25-Aug-20	183	205	Buy
13-Jul-20	158	170	Add
16-Jun-20	131	155	Buy
04-Feb-20	200	190	Reduce
18-Nov-19	177	200	Add
16-Aug-19	153	170	Add
21-Jun-19	200	200	Reduce
30-May-19	212	200	Reduce
13-Feb-19	190	200	Reduce
20-Nov-18	218	230	Reduce

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