

## SUPRAJIT ENGINEERING

AUTO

# BUY

Target Price: Rs 201

### On strong footing; Maintain BUY

Suprajit's (SEL) Q4 consol. EBITDA was 10% higher than estimate with strong standalone revenue growth (18% YoY vs. 7% industry growth), continued gross margin expansion (pricing power in deflationary environment) and turnaround in profitability of Phoenix Lamps. Standalone capacity will increase to 225 mn in FY17 (from 175 mn in FY15) and increasing utilization should further aid EBITDA margin.

With market share gains in 2Ws (domestic), 4Ws (exports), and aftermarket, we believe SEL will continue to grow faster than industry. Merger of Phoenix Lamps (under process) would further drive synergies (increase clientele & lower corporate overheads). We largely maintain our estimates and factor in dilution on Phoenix' merger. **Maintain BUY** rating with revised target price of Rs 201 (18x FY18E EPS).

CMP : Rs 161  
Potential Upside : 25%

#### MARKET DATA

No. of Shares : 131 mn  
Free Float : 53%  
Market Cap : Rs 21 bn  
52-week High / Low : Rs 166 / Rs 118  
Avg. Daily vol. (6mth) : 59,001 shares  
Bloomberg Code : SEL IB Equity  
Promoters Holding : 47%  
FII / DII : 5% / 8%

### Takeaways from conference call

- ◆ **Standalone domestic operations (~80% of revenue):** Revenue growth of 18% YoY (vs. flattish industry growth) was driven by (1) increase in share of business with Honda 2Ws (Gujarat facility commissioned); (2) new supplies to M&M (KUV100) and Renault Kwid; and (3) robust growth in aftermarket business. Management has maintained its guidance of growing at least 5% more than the industry's average, driven by market share gains
- ◆ **Increase in share of Honda 2Ws:** Suprajit has introduced new products for HMSI and currently supplies ~35% of HMSI's requirements. It expects to increase this share of business to ~50% over the next year (as Gujarat facility ramps up), which shall help it continue outperforming the industry growth
- ◆ **EBITDA margin target:** EBITDA margin of Phoenix Lamps has turned around sharply (20% in Q4FY16 from 10% in Q1FY16) driven by stricter cost controls. The management has guided that EBITDA margin will remain in the 16%-18% range over the next couple of years driven by synergy benefits and ramp-up in SEL's standalone business

### Financial summary (Consolidated)

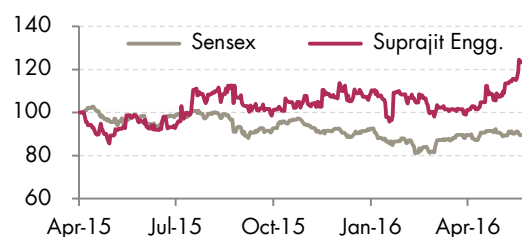
Y/E March	FY15	FY16	FY17E	FY18E
Sales (Rs mn)	5,978	9,451	11,378	13,086
Adj PAT (Rs mn)	432	811	1,263	1,562
Con. EPS* (Rs)	-	-	7.1	7.4
EPS (Rs)	3.6	6.2	9.0	11.2
Change YOY (%)	(14.9)	71.8	46.1	23.7
P/E (x)	44.7	26.0	17.8	14.4
RoE (%)	19.4	23.6	25.2	25.1
RoCE (%)	21.8	26.6	26.9	31.5
EV/E (x)	25.5	14.9	11.3	9.3
DPS (Rs)	1.0	1.1	1.3	1.3

Source: \*Consensus broker estimates, Company, Axis Capital

### Key drivers

(%)	FY16	FY17E	FY18E
Sales growth	55.7	20.4	15.0
Gross margin	40.8	40.6	40.0
EBITDA margin	16.6	17.3	17.4

### Price performance



(...Continued from page 1)

- ◆ **Exports (~20% of revenue):** Exports were under pressure last year due to sharp Euro depreciation, which is now partially reversed. SEL has also won new orders with global PV OEMs, which would drive growth in FY18
- ◆ **Aftermarket business:** Management indicated strong traction in the aftermarket business, driven by introduction of new products and with the brand gaining prominence
- ◆ **New facilities:** SEL had invested in 2 new facilities (1) Chennai – trial production (for Yamaha and Royal Enfield) has started and production expected to commence in June 2016; (2) Sanand – the facility has already commenced production in Q4FY16 for HMSI

### Phoenix Lamps

- ◆ **Revenue growth:** Phoenix Lamps posted revenue growth after three quarters of revenue decline after SEL's management took over. The management indicated that it has regained some part of market share loss
- ◆ **EBITDA margin** at 20.0% (+560 bps YoY, +450bps QoQ) was a strong performance. Company has made reversals of provisions made last year relating to doubtful debts/ inventories

### Other highlights

- ◆ **Current revenue mix** (ex. Phoenix) – 2W: 4W: aftermarket: non-auto is 53:32:10:5 (55:29:10:6 YoY) with domestic business accounting for ~80% of revenue. Consolidated revenue mix (incl Phoenix) stands at 2W: 4W: aftermarket: non-auto – 40:25:32:3
- ◆ **Capex** for FY17 will be Rs 500 mn, of which Rs 350 mn will be towards new equipment at Phoenix Lamps and the remaining towards Suprajit

### Exhibit 1: Results update

Consolidated (Rs mn)	4Q FY16	4Q FY15	YoY (%)	3Q FY16	QoQ (%)	FY16E	FY15	YoY (%)
<b>Net sales</b>	<b>2,743</b>	<b>1,548</b>	<b>77.1</b>	<b>2,606</b>	<b>5.3</b>	<b>9,525</b>	<b>6,118</b>	<b>55.7</b>
- Raw material	1,644	912	80.2	1,469	11.9	5,635	3,729	51.1
(% of net sales)	59.9	58.9	103	56.4	356	59.2	61.0	(179)
- Staff expenditure	331	181	83.2	360	(7.9)	1,253	826	51.7
(% of net sales)	12.1	11.7	40	13.8	(173)	13.2	13.5	(34)
- Other expenditure	260	198	31.0	348	(25.4)	1,059	603	75.4
(% of net sales)	9.5	12.8	(334)	13.4	(389)	11.1	9.9	125
Total expenditure	2,235	1,291	73.1	2,176	2.7	7,947	5,158	54
<b>EBITDA</b>	<b>508</b>	<b>257</b>	<b>97.5</b>	<b>429</b>	<b>18.4</b>	<b>1,578</b>	<b>960</b>	<b>64.5</b>
EBITDA margin (%)	18.5	16.6	191	16.5	206	16.6	15.7	88.5
Depreciation	40	17	128.2	41	(3.5)	158	90	75.5
<b>EBIT</b>	<b>468</b>	<b>240</b>	<b>95.3</b>	<b>388</b>	<b>20.8</b>	<b>1,420</b>	<b>870</b>	<b>63.3</b>
Interest	79	39	102.1	61	29.8	250	164	52.3
Other income	-7	-5	58.7	78	(109.3)	155	41	278.5
<b>PBT</b>	<b>382</b>	<b>196</b>	<b>94.8</b>	<b>405</b>	<b>(5.7)</b>	<b>1,326</b>	<b>747</b>	<b>77.6</b>
Tax	124	63	95.6	131	(5.3)	431	245	75.9
Tax rate (%)	32.4	32.3	14	32.3	14	32.5	32.8	(31)
<b>Adjusted PAT</b>	<b>218</b>	<b>133</b>	<b>64.0</b>	<b>274</b>	<b>(20.6)</b>	<b>895</b>	<b>502</b>	<b>78.4</b>
<b>Reported PAT</b>	<b>172</b>	<b>133</b>	<b>29.5</b>	<b>253</b>	<b>(32.1)</b>	<b>895</b>	<b>502</b>	<b>78.4</b>
Adjusted EPS (Rs)	1.6	0.9	64.0	2.0	(20.6)	6.8	4.2	63.1

Source: Company, Axis Capital

### Exhibit 2: Quarterly details

(Rs mn)	4Q FY16	4Q FY15	YoY (%)	3Q FY16	QoQ (%)
<b>Net sales</b>					
Consolidated	2,743	1,548	77.1	2,606	5.3
Standalone	1,572	1,333	18.0	1,591	(1.1)
Phoenix	927	900	3.0	783	18.3
<b>EBITDA</b>					
Consolidated	508	257	97.5	429	18.4
Standalone	278	223	24.6	284	(2.2)
Phoenix	185	129	43.2	121	52.7
<b>EBITDA margin (%)</b>					
Consolidated	18.5	16.6	191	16.5	206
Standalone	17.7	16.7	94	17.9	(18)
Phoenix	20.0	14.4	562	15.5	450
<b>Adj PAT</b>					
Consolidated	218	133	64.0	274	(20.6)
Standalone	147	108	35.9	160	(8.3)
Subsidiaries	131	54	141.6	64	104.8

Source: Company, Axis Capital

**Financial summary (Consolidated)**
**Profit & loss (Rs mn)**

Y/E March	FY15	FY16	FY17E	FY18E
Net sales	5,978	9,451	11,378	13,086
Other operating income	70	74	87	102
<b>Total operating income</b>	<b>6,048</b>	<b>9,525</b>	<b>11,465</b>	<b>13,188</b>
Cost of goods sold	(3,729)	(5,635)	(6,810)	(7,913)
Gross profit	2,319	3,890	4,655	5,275
<i>Gross margin (%)</i>	<i>38.8</i>	<i>41.2</i>	<i>40.9</i>	<i>40.3</i>
Total operating expenses	(1,429)	(2,312)	(2,667)	(2,975)
<b>EBITDA</b>	<b>890</b>	<b>1,578</b>	<b>1,988</b>	<b>2,300</b>
<i>EBITDA margin (%)</i>	<i>14.9</i>	<i>16.7</i>	<i>17.5</i>	<i>17.6</i>
Depreciation	(90)	(158)	(165)	(180)
<b>EBIT</b>	<b>800</b>	<b>1,420</b>	<b>1,823</b>	<b>2,120</b>
Net interest	(164)	(250)	(160)	(65)
Other income	41	155	194	243
<b>Profit before tax</b>	<b>677</b>	<b>1,326</b>	<b>1,857</b>	<b>2,298</b>
Total taxation	(245)	(431)	(594)	(735)
<i>Tax rate (%)</i>	<i>36.2</i>	<i>32.5</i>	<i>32.0</i>	<i>32.0</i>
Profit after tax	432	895	1,263	1,562
Minorities	-	(84)	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	432	811	1,263	1,562
<i>Adj. PAT margin (%)</i>	<i>7.2</i>	<i>8.6</i>	<i>11.1</i>	<i>11.9</i>
Net non-recurring items	-	(92)	-	-
Reported net profit	432	719	1,263	1,562

**Balance sheet (Rs mn)**

Y/E March	FY15	FY16	FY17E	FY18E
Paid-up capital	120	131	140	140
Reserves & surplus	2,288	4,345	5,403	6,760
Net worth	2,408	5,018	5,543	6,900
Borrowing	1,660	2,586	1,686	686
Other non-current liabilities	101	86	86	86
<b>Total liabilities</b>	<b>5,286</b>	<b>9,560</b>	<b>9,558</b>	<b>10,253</b>
Gross fixed assets	2,659	4,441	4,991	5,291
Less: Depreciation	(809)	(967)	(1,132)	(1,312)
Net fixed assets	1,850	3,474	3,859	3,979
Add: Capital WIP	7	7	-	(10)
Total fixed assets	1,857	3,481	3,859	3,969
Total Investment	1,118	1,487	987	787
Inventory	799	1,669	1,433	1,649
Debtors	1,250	2,096	2,229	2,564
Cash & bank	56	189	336	486
Loans & advances	213	628	704	788
Current liabilities	1,117	1,870	2,243	2,580
Net current assets	1,201	2,723	2,469	2,917
Other non-current assets	(7)	-	-	-
<b>Total assets</b>	<b>5,286</b>	<b>9,560</b>	<b>9,558</b>	<b>10,253</b>

Source: Company, Axis Capital

**Cash flow (Rs mn)**

Y/E March	FY15	FY16	FY17E	FY18E
Profit before tax	677	1,326	1,857	2,298
Depreciation & Amortisation	(90)	(158)	(165)	(180)
<i>Chg in working capital</i>	<i>217</i>	<i>(1,389)</i>	<i>401</i>	<i>(298)</i>
<b>Cash flow from operations</b>	<b>731</b>	<b>1,533</b>	<b>1,253</b>	<b>1,267</b>
<i>Capital expenditure</i>	<i>(415)</i>	<i>(1,782)</i>	<i>(543)</i>	<i>(290)</i>
<b>Cash flow from investing</b>	<b>(691)</b>	<b>(3,416)</b>	<b>151</b>	<b>153</b>
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>1,500</i>	<i>9</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>239</i>	<i>926</i>	<i>(900)</i>	<i>(1,000)</i>
<i>Dividend paid</i>	<i>(133)</i>	<i>(161)</i>	<i>(205)</i>	<i>(205)</i>
<b>Cash flow from financing</b>	<b>(59)</b>	<b>2,015</b>	<b>(1,256)</b>	<b>(1,270)</b>
Net chg in cash	(19)	133	147	150

**Key ratios**

Y/E March	FY15	FY16	FY17E	FY18E
<b>OPERATIONAL</b>				
FDEPS (Rs)	3.6	6.2	9.0	11.2
CEPS (Rs)	4.3	6.7	10.2	12.5
DPS (Rs)	1.0	1.1	1.3	1.3
Dividend payout ratio (%)	26.4	19.2	13.8	11.2
<b>GROWTH</b>				
Net sales (%)	9.6	58.1	20.4	15.0
EBITDA (%)	(3.7)	77.4	26.0	15.7
Adj net profit (%)	(14.9)	87.9	55.6	23.7
FDEPS (%)	(14.9)	71.8	46.1	23.7
<b>PERFORMANCE</b>				
RoE (%)	19.4	23.6	25.2	25.1
RoCE (%)	21.8	26.6	26.9	31.5
<b>EFFICIENCY</b>				
Asset turnover (x)	1.6	1.7	1.6	1.9
Sales/ total assets (x)	1.2	1.3	1.2	1.3
Working capital/ sales (x)	0.2	0.2	0.2	0.2
Receivable days	76.3	80.9	71.5	71.5
Inventory days	56.5	76.7	55.2	55.3
Payable days	40.2	43.4	45.4	45.4
<b>FINANCIAL STABILITY</b>				
Total debt/ equity (x)	0.7	0.7	0.3	0.1
Net debt/ equity (x)	0.7	0.6	0.3	-
Current ratio (x)	2.1	2.5	2.1	2.1
Interest cover (x)	4.9	5.7	11.4	32.5
<b>VALUATION</b>				
PE (x)	44.7	26.0	17.8	14.4
EV/ EBITDA (x)	25.5	14.9	11.3	9.3
EV/ Net sales (x)	3.8	2.5	2.0	1.6
PB (x)	8.0	4.7	4.1	3.3
Dividend yield (%)	0.6	0.7	0.8	0.8
Free cash flow yield (%)	-	-	-	-

Source: Company, Axis Capital

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Axis House, C2, Wadia International Centre, P.B Marg, Worli, Mumbai 400 025, India.

**Tel:- Board** +91-22 4325 2525; **Dealing** +91-22 2438 8861-69;

**Fax:- Research** +91-22 4325 1100; **Dealing** +91-22 4325 3500

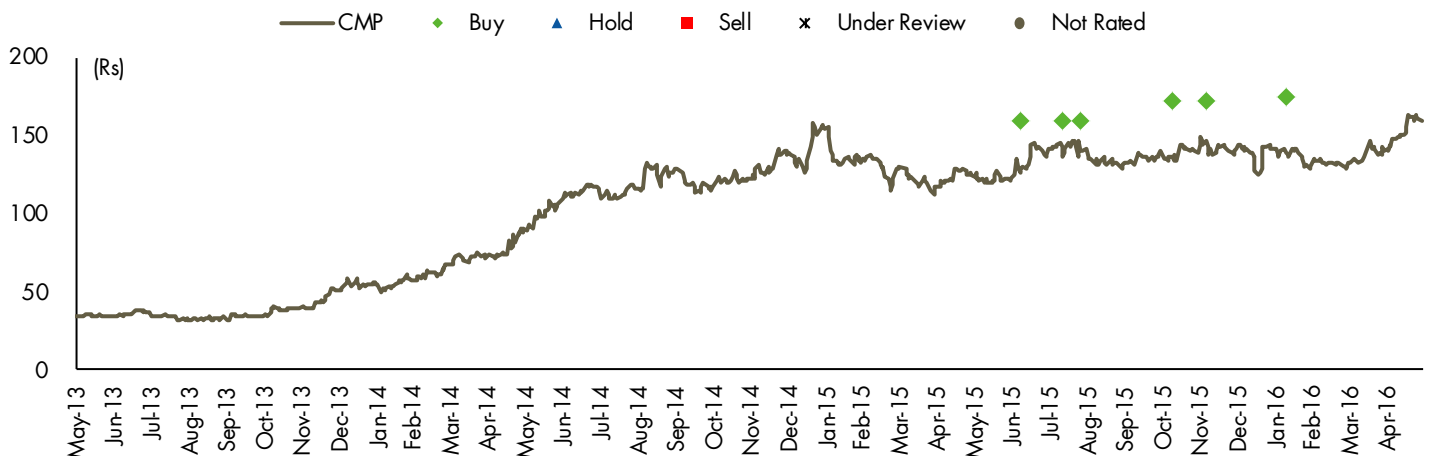
### DEFINITION OF RATINGS

Ratings	Expected absolute returns over 12 months
<b>BUY</b>	More than 10%
<b>HOLD</b>	Between 10% and -10%
<b>SELL</b>	Less than -10%

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### Suprajit Engg (SEL.BO, SEL IN) Price and Recommendation History



Date	Target Price	Reco
9-Jul-15	159	Buy
12-Aug-15	159	Buy
27-Aug-15	159	Buy
10-Nov-15	172	Buy
7-Dec-15	172	Buy
10-Feb-16	174	Buy

Source: Axis Capital