

# Suprajit Engineering

**BUY**

<b>INDUSTRY</b>	<b>AUTOS</b>
<b>CMP(as on 31 May 2016)</b>	<b>Rs 161</b>
<b>Target Price</b>	<b>Rs 183</b>
Nifty	8,160
Sensex	26,668

<b>KEY STOCK DATA</b>	
Bloomberg	SEL IN
No. of Shares (mn)	131
MCap (Rsbm) / (\$ mn)	21/317
6m avg traded value (Rsmn)	8

<b>STOCK PERFORMANCE (%)</b>			
<b>52 Week high / low</b>	<b>Rs 166 / 117</b>		
	3M	6M	12M
Absolute (%)	24.5	16.7	30.7
Relative (%)	8.6	14.7	34.9

<b>SHAREHOLDING PATTERN (%)</b>	
Promoters	47.37
FIs & Local MFs	8.40
FIIIs	5.88
Public & Others	38.35

Source : BSE

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## Shining bright

Suprajit Engineering's (SEL) consolidated 4QFY16 results, including Phoenix Lamps (PLL), were ahead of expectations. It reported a robust topline (5% QoQ) with growth in the 2W/4W OEM segments at SEL and strong export aftermarket growth at PLL. Lower staff cost and other expenses drove strong EBITDA margin expansion (+80bps QoQ) to 17.3%.

PLL reported a strong beat at the operational level with EBDITA margin at 17.2% (+840bps YoY), aided by oplev gains and cost reduction efforts. A sharp drop in gross margins (-210bps QoQ) offset the gains. PLL reported a robust QoQ topline at Rs 0.93bn, driven by strong growth from all segments.

Flat underlying auto sales haven't derailed SEL's growth. The scope for market share gains in 4Ws and aftermarkets in SEL continue to excite us. SEL's capability to turnaround PLL's operations is visible in the results. We raise our FY17/18E earnings by ~3%. **Maintain BUY with a revised TP of Rs 183 (18x SEL's consolidated FY18E EPS).**

### Financial Summary (Consolidated)

(Rs mn)	4QFY16	4QFY15	YoY (%)	3QFY16	QoQ (%)	FY15	FY16P	FY17E	FY18E
Net Sales	2,743	1,549	77.1	1,822	50.6	6,118	9,525	11,994	14,056
EBITDA	473	257	84.0	296	60.0	960	1,543	2,015	2,411
PAT	183	133	37.2	233	(21.6)	503	776	1,088	1,330
Diluted EPS (Rs)	1.4	1.1	29.0	2.0	(29.3)	4.2	5.9	8.3	10.1
P/E (x)						38.4	27.1	19.4	15.9
EV / EBITDA (x)						22.1	15.2	11.6	9.6
RoE (%)						22.6	22.6	21.7	21.8

Source: Company, HDFC sec Inst Research

### Highlights of the quarter

- 4W exports and higher SOB from HMSI:** SEL's 4W mix has improved YoY from 31% to 33% (+200bps YoY) led by traction in the export market. It could inch up to 37% over the next few years. In its stronghold 2W OEM segment, SEL raised SOB from HMSI, which is up from 30% to 35%. With the ramp-up of the Sanand facility, this could reach ~50% in FY17.
- Streamlining of PLL ops on track:** PLL reported 18% QoQ jump in net sales, led by strong growth in the export aftermarket and OEM segments. The management wants to bring in new products (traded) in the aftermarket. The new line will come up by CY16-end.
- Near-term outlook:** Expect healthy topline growth with improving outlook for 2W demand. However, higher commodity prices could put pressure on margins.

**YoY numbers are not comparable as PLL was acquired in Jun-16. Strong beat at PLL's topline aided a 5% QoQ jump in sales**

**EBIDTA margins expanded 80bps QoQ owing to operating leverage**

**Other expenses include Rs 3.5cr towards SEL's QIP expenses and Rs 3cr worth discounts provided on account of lower commodity prices (a large chunk being carried forward from the previous quarter)**

**SEL's new facility at Chennai will cater to RE and Yamaha and is expected to commercialise in Jun-16. Initially, it will transfer Yamaha's current bus from Bangalore to Chennai and later will work on RE and other Tier-I players. The management indicated that volume ramp-up will commence in FY18**

### Quarterly Financials Snapshot – SEL (Consolidated incl PLL)

(Rs mn)	4QFY16	4QFY15	YoY (%)	3QFY16	QoQ (%)
<b>Net sales</b>	<b>2,743</b>	<b>1,549</b>	<b>77.1</b>	<b>2,605</b>	<b>5.3</b>
Material Expenses	1,643	912	80.2	1,468	11.9
Employee Expenses	331	181	83.2	360	(7.9)
Other Operating Expenses	295	198	48.6	348	(15.3)
<b>EBITDA</b>	<b>473</b>	<b>257</b>	<b>84.0</b>	<b>429</b>	<b>10.4</b>
Depreciation	40	17	129.0	41	(3.9)
<b>EBIT</b>	<b>434</b>	<b>240</b>	<b>80.8</b>	<b>388</b>	<b>11.9</b>
Other Income	(7)	(5)	44.1	78	(109.4)
Interest Cost	79	39	102.1	61	29.9
<b>PBT</b>	<b>347</b>	<b>196</b>	<b>77.4</b>	<b>405</b>	<b>(14.2)</b>
Tax	124	62	98.9	142	(12.4)
<b>PAT</b>	<b>223</b>	<b>133</b>	<b>67.4</b>	<b>263</b>	<b>(15.2)</b>
Minority Interest	40	-	-	28	42.8
<b>APAT after MI</b>	<b>183</b>	<b>133</b>	<b>37.2</b>	<b>235</b>	<b>(22.2)</b>
EO Items (Adj For Tax)	(11)	-	-	(10)	8.5
<b>RPAT after EOI</b>	<b>172</b>	<b>133</b>	<b>29.0</b>	<b>225</b>	<b>(23.5)</b>
<b>Adj EPS</b>	<b>1.4</b>	<b>1.1</b>	<b>25.7</b>	<b>1.8</b>	<b>(22.2)</b>

Source: Company, HDFC sec Inst Research

### Margin Analysis

	4QFY16	4QFY15	YoY (bps)	3QFY16	QoQ (bps)
Material Expenses As % Of Net Sales	59.9	58.9	102	56.4	355
Employee Expenses As % Of Net Sales	12.1	11.7	40	13.8	(173)
Other Expenses As % Of Net Sales	10.8	12.8	(206)	13.4	(262)
<b>EBITDA Margin (%)</b>	<b>17.3</b>	<b>16.6</b>	<b>64</b>	<b>16.5</b>	<b>80</b>
Tax Rate (%)	35.7	31.8	385	35.0	73
<b>APAT Margin (%)</b>	<b>6.3</b>	<b>8.6</b>	<b>(234)</b>	<b>8.6</b>	<b>(236)</b>

Source: Company, HDFC sec Inst Research

*A strong recovery in exports led to a sharp uptick in net sales QoQ. The geographical mix stands at 66% export and 44% domestic as of Mar-16*

*EBITDA margin rose to 17.2% (+20bps QoQ), as sharp oplev gains and absence the of cost control efforts were largely offset by lower gross margins (-600bps QoQ)*

*The new line at PLL will come in from Korea by Sept/Oct-16. The capex earmarked for this is Rs 30mn and an additional maintenance capex of Rs 0.4-0.5mn will be incurred in FY17*

### Quarterly Financials Snapshot – PLL (Consolidated)

(Rs mn)	4QFY16	4QFY15	YoY (%)	3QFY16	QoQ (%)
<b>Net sales (incl OOI)</b>	<b>927</b>	<b>900</b>	<b>3.0</b>	<b>784</b>	<b>18.3</b>
Material Expenses	547	513	6.6	415	31.8
Employee Expenses	115	144	(20.3)	124	(7.8)
Other Operating Expenses	106	163	(35.3)	111	(4.5)
<b>EBITDA</b>	<b>159</b>	<b>80</b>	<b>100.1</b>	<b>133</b>	<b>19.5</b>
Depreciation	13	29	(55.4)	17	(21.5)
<b>EBIT</b>	<b>146</b>	<b>50</b>	<b>189.8</b>	<b>117</b>	<b>25.3</b>
Other Income	18	3	529.9	13	40.1
Interest Cost	12	18	(29.9)	10	18.4
<b>PBT</b>	<b>152</b>	<b>36</b>	<b>325.9</b>	<b>119</b>	<b>27.5</b>
Tax	47	15	219.4	43	8.7
<b>APAT</b>	<b>104</b>	<b>21</b>	<b>401.4</b>	<b>76</b>	<b>38.3</b>
<b>Adj EPS</b>	<b>3.7</b>	<b>0.7</b>	<b>401.4</b>	<b>2.7</b>	<b>38.3</b>

Source: Company, HDFC sec Inst Research

### Margin Analysis

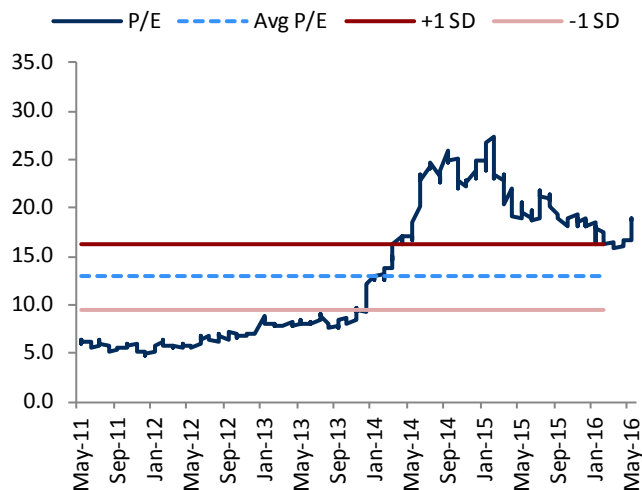
	4QFY16	4QFY15	YoY (bps)	3QFY16	QoQ (bps)
Material Expenses As % Of Net Sales	59.1	57.0	204	53.0	604
Employee Expenses As % Of Net Sales	12.4	16.0	(362)	15.9	(350)
Other Expenses As % Of Net Sales	11.4	18.1	(675)	14.1	(272)
<b>EBITDA Margin (%)</b>	<b>17.2</b>	<b>8.8</b>	<b>833</b>	<b>17.0</b>	<b>18</b>
Tax rate (%)	31.1	41.5	(1,037)	36.5	(538)
<b>APAT Margin (%)</b>	<b>11.3</b>	<b>2.3</b>	<b>896</b>	<b>9.6</b>	<b>163</b>

Source: Company, HDFC sec Inst Research

**Our revised SOTP-based TP stands at Rs 183 (earlier Rs 170)**

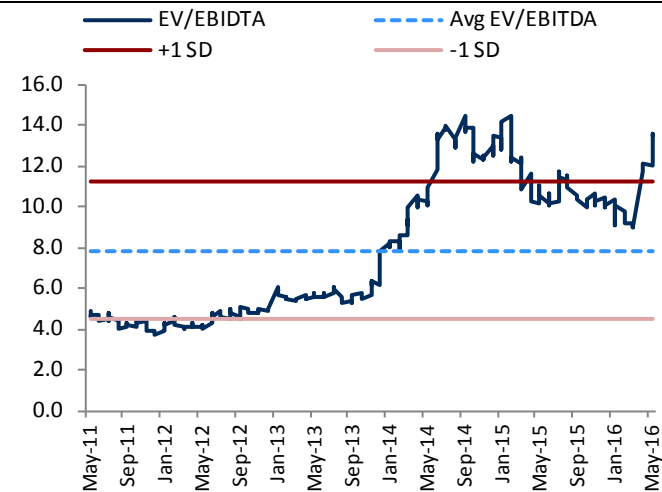
**We have increased our earnings and estimates by 2-3% to factor in a strong 4QFY16 performance**

### One-year Forward P/E Chart



Source: Company, Bloomberg, HDFC sec Inst Research

### One-year Forward EV/EBITDA Chart



Source: Company, Bloomberg, HDFC sec Inst Research

### Change In Estimates (SEL Consol incl PLL)

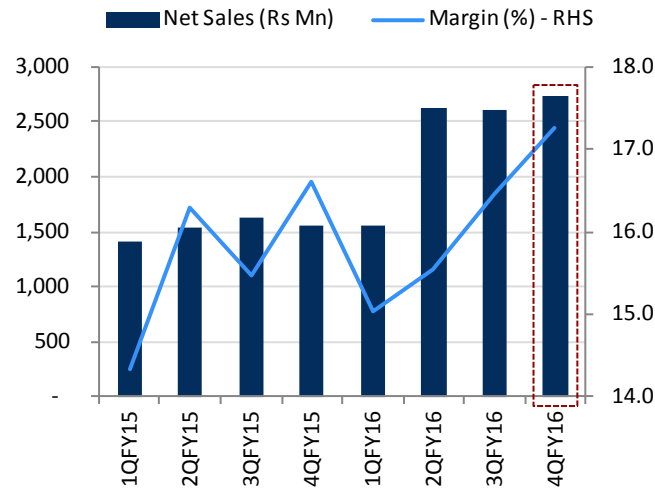
In Rs mn	New		Old		% chg	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Net Sales	11,994	14,056	11,685	13,624	2.6	3.2
EBITDA	2,015	2,411	1,961	2,327	2.8	3.6
Adj PAT	1,085	1,327	1,055	1,292	2.8	2.7
Adj EPS (in Rs)	8.3	10.1	8.1	9.9	2.8	2.7

Source: HDFC sec Inst Research

**Strong beat at the operational level from PLL was led by a sharp jump QoQ in topline and margin expansion**

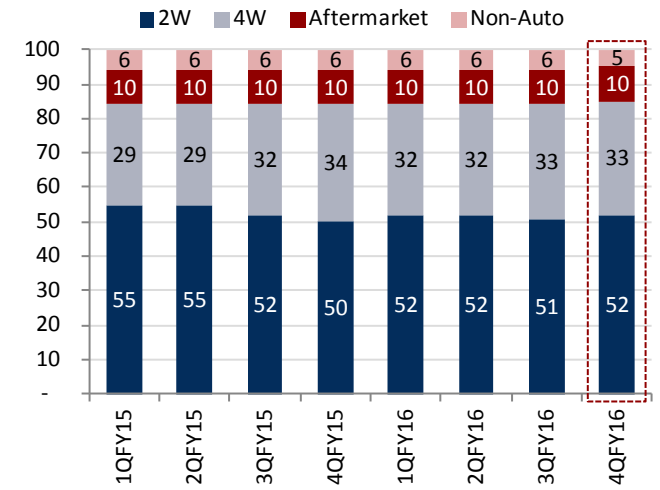
**The 4W mix is improving in SEL led by a strong uptick in auto exports and domestic OEM. SEL's cables are present in leading models of Kwid, KUV 100 and VW**

**Strong Beat from PLL's Operations**



Source: Company, HDFC sec Inst Research  
\* SEL Consol (incl PLL)

**2W Mix Improves QoQ, 4W Mix Remains Steady**

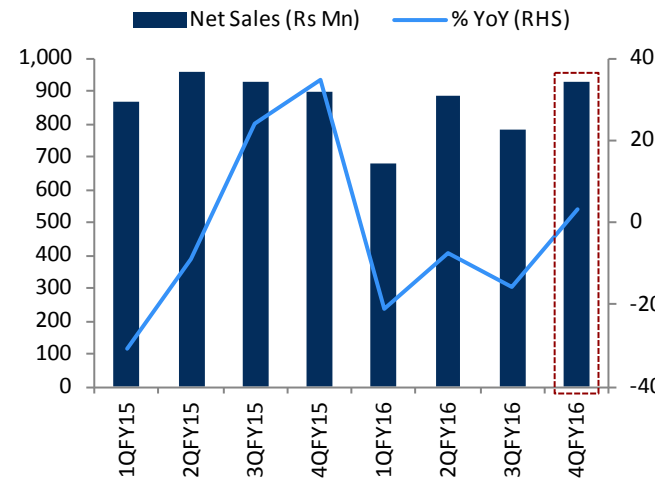


Source: Company, HDFC sec Inst Research  
\* SEL Consol (ex PLL)

**Robust growth QoQ across all segments aided in higher revenues for PLL**

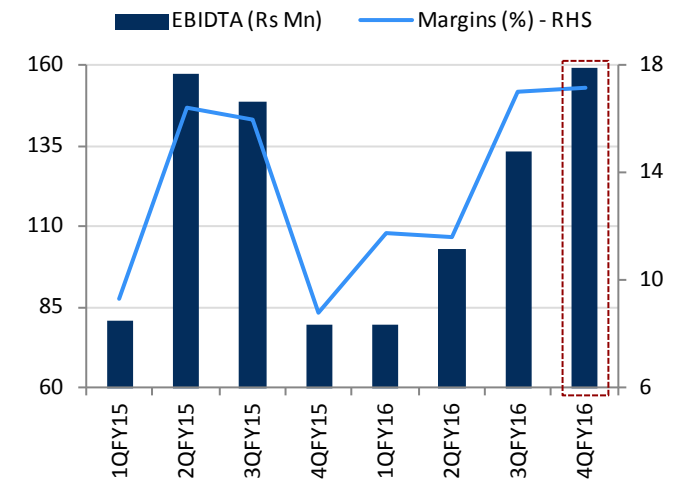
**PLL surprised on the margins with strong cost control efforts**

**PLL: Strong Push**



Source: Company, HDFC sec Inst Research  
\* PLL

**Margin Uptick Led By Strong Oplev**



Source: Company, HDFC sec Inst Research  
\* PLL

**Peer Valuation**

	Mcap (Rsbn)	CMP (Rs/sh)	Rating	TP	Adj EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			RoE (%)		
					FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16P	FY17E	FY18E	FY16P	FY17E	FY18E
Balkrishna Industries	65	670	BUY	823	58.8	53.5	68.6	11.4	12.5	9.8	7.3	6.8	5.1	22.3	17.2	18.8
Bharat Forge	176	756	BUY	869	29.6	32.6	39.5	25.5	23.2	19.1	13.2	11.8	9.9	18.5	19.7	20.7
Exide Industries	139	164	NEU	131	7.0	7.7	8.7	23.6	21.3	19.0	13.5	12.2	10.7	14.0	14.2	14.7
Jamna Auto	12	147	BUY	192	9.0	10.8	12.8	16.3	13.5	11.5	7.5	6.4	5.2	32.6	32.0	31.0
Ramkrishna Forgings	11	381	BUY	619	19.1	33.0	44.2	19.9	11.6	8.6	11.3	7.6	6.2	12.4	18.5	20.9
<b>Suprajit Engineering</b>	<b>21</b>	<b>161</b>	<b>BUY</b>	<b>183</b>	<b>5.9</b>	<b>8.3</b>	<b>10.1</b>	<b>27.1</b>	<b>19.4</b>	<b>15.9</b>	<b>15.2</b>	<b>11.6</b>	<b>9.6</b>	<b>22.6</b>	<b>21.7</b>	<b>21.8</b>

Source: Company, HDFC sec Inst Research

**Income Statement(Consolidated)**

(Rs mn)	FY14	FY15	FY16	FY17E	FY18E
<b>Net Revenues</b>	<b>5,452</b>	<b>6,118</b>	<b>9,525</b>	<b>11,994</b>	<b>14,056</b>
<b>Growth (%)</b>	<b>17.9</b>	<b>12.2</b>	<b>55.7</b>	<b>25.9</b>	<b>17.2</b>
Material Expenses	3,313	3,729	5,635	7,088	8,293
Employee Expenses	701	826	1,253	1,571	1,827
Other Operating Expenses	513	603	1,093	1,319	1,525
<b>EBITDA</b>	<b>926</b>	<b>960</b>	<b>1,543</b>	<b>2,015</b>	<b>2,411</b>
<b>EBITDA Margin (%)</b>	<b>17.0</b>	<b>15.7</b>	<b>16.2</b>	<b>16.8</b>	<b>17.2</b>
<b>EBITDA Growth (%)</b>	<b>19.6</b>	<b>3.8</b>	<b>60.7</b>	<b>30.6</b>	<b>19.6</b>
Depreciation	84	90	158	170	184
<b>EBIT</b>	<b>842</b>	<b>870</b>	<b>1,385</b>	<b>1,845</b>	<b>2,226</b>
Other Income (Including EO Items)	36	41	155	210	218
Interest	134	164	250	273	262
<b>PBT</b>	<b>744</b>	<b>747</b>	<b>1,291</b>	<b>1,782</b>	<b>2,182</b>
Tax (Incl Deferred)	236	245	431	588	720
Minority Interest	-	-	84	105	131
<b>APAT</b>	<b>508</b>	<b>503</b>	<b>776</b>	<b>1,088</b>	<b>1,330</b>
<b>APAT Growth (%)</b>	<b>20.6</b>	<b>-1.1</b>	<b>71.1</b>	<b>38.8</b>	<b>22.4</b>
<b>Adjusted EPS (Rs)</b>	<b>4.2</b>	<b>4.2</b>	<b>5.9</b>	<b>8.3</b>	<b>10.2</b>
<b>EPS Growth (%)</b>	<b>20.6</b>	<b>-1.1</b>	<b>41.7</b>	<b>40.3</b>	<b>22.2</b>
EO (Loss) / Profit (Net Of Tax)	-	-	57	-	-
<b>RPAT</b>	<b>508</b>	<b>503</b>	<b>719</b>	<b>1,088</b>	<b>1,330</b>

Source: Company, HDFC sec Inst Research

**Balance Sheet(Consolidated)**

(Rs mn)	FY14	FY15	FY16P	FY17E	FY18E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	120	120	131	131	131
Reserves	1,927	2,288	4,344	5,376	6,547
<b>Total Shareholders' Funds</b>	<b>2,047</b>	<b>2,408</b>	<b>4,475</b>	<b>5,506</b>	<b>6,678</b>
Minority Interest	-	-	542	542	542
Long-term Debt	558	928	1,582	1,482	1,382
Short-term Debt	1,002	1,005	1,005	1,005	1,005
<b>Total Debt</b>	<b>1,560</b>	<b>1,933</b>	<b>2,586</b>	<b>2,486</b>	<b>2,386</b>
Net Deferred Taxes	75	91	107	107	107
Long-term Provisions & Others	82	91	171	154	183
<b>TOTAL SOURCES OF FUNDS</b>	<b>3,764</b>	<b>4,523</b>	<b>7,881</b>	<b>8,796</b>	<b>9,896</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	1,524	1,680	2,271	2,685	2,854
CWIP	7	170	144	153	167
Goodwill	-	-	1,066	1,066	1,066
Investments	5	0	-	-	-
LT Loans & Advances	65	69	181	163	220
<b>Total Non-current Assets</b>	<b>1,601</b>	<b>1,919</b>	<b>3,662</b>	<b>4,067</b>	<b>4,307</b>
Inventories	774	799	1,669	2,037	2,388
Debtors	1,189	1,250	2,096	2,596	3,042
Other Current Assets	180	144	447	437	624
Cash & Equivalents	818	1,173	1,706	1,669	1,796
<b>Total Current Assets</b>	<b>2,960</b>	<b>3,367</b>	<b>5,918</b>	<b>6,739</b>	<b>7,850</b>
Creditors	588	568	944	1,183	1,348
Other Current Liabilities & Provns	209	195	755	828	913
<b>Total Current Liabilities</b>	<b>797</b>	<b>763</b>	<b>1,699</b>	<b>2,011</b>	<b>2,260</b>
<b>Net Current Assets</b>	<b>2,163</b>	<b>2,604</b>	<b>4,219</b>	<b>4,728</b>	<b>5,589</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>3,764</b>	<b>4,523</b>	<b>7,881</b>	<b>8,796</b>	<b>9,896</b>

Source: Company, HDFC sec Inst Research

**Cash Flow(Consolidated)**

(Rs mn)	FY14	FY15	FY16P	FY17E	FY18E
Reported PBT	744	747	1,291	1,776	2,177
Non-operating & EO items	-	-	(141)	(105)	(131)
Interest expenses	134	164	250	279	268
Depreciation	84	90	158	170	184
Working Capital Change	(382)	(81)	(1,115)	(544)	(761)
Tax Paid	(236)	(245)	(431)	(586)	(718)
<b>OPERATING CASH FLOW ( a )</b>	<b>344</b>	<b>676</b>	<b>11</b>	<b>989</b>	<b>1,017</b>
Capex	(250)	(409)	(723)	(593)	(367)
Free cash flow (FCF)	94	267	(711)	396	650
Investments	-	5	0	-	-
Non-operating Income	19	11	(582)	74	(0)
<b>INVESTING CASH FLOW ( b )</b>	<b>(231)</b>	<b>(393)</b>	<b>(1,304)</b>	<b>(520)</b>	<b>(367)</b>
Debt Issuance/(Repaid)	447	373	653	(100)	(100)
Interest Expenses	(134)	(164)	(250)	(279)	(268)
FCFE	675	804	192	575	818
Share Capital Issuance	-	-	1,505	-	-
Dividend	(133)	(137)	(84)	(127)	(155)
<b>FINANCING CASH FLOW ( c )</b>	<b>179</b>	<b>72</b>	<b>1,825</b>	<b>(506)</b>	<b>(523)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>293</b>	<b>355</b>	<b>532</b>	<b>(37)</b>	<b>127</b>
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	818	1,173	1,705	1,669	1,796

Source: Company, HDFC sec Inst Research

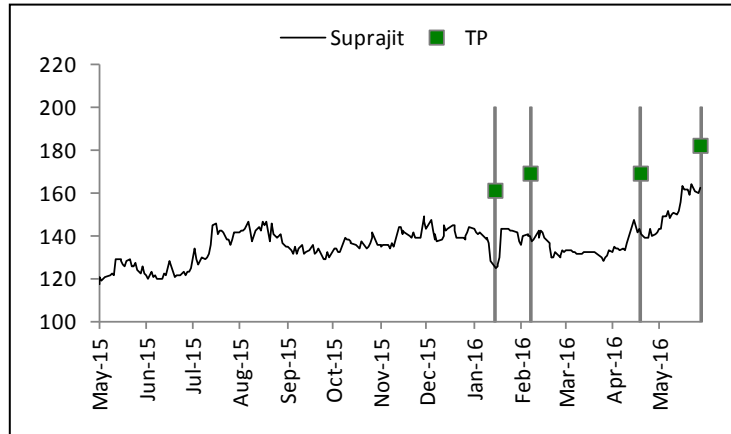
**Key Ratios(Consolidated)**

	FY14	FY15	FY16P	FY17E	FY18E
<b>PROFITABILITY (%)</b>					
GPM	39.2	39.0	40.8	40.9	41.0
EBITDA Margin	17.0	15.7	16.2	16.8	17.2
APAT Margin	9.3	8.2	8.1	9.0	9.4
RoE	27.4	22.6	22.6	21.7	21.8
RoIC (or Core RoCE)	15.2	11.9	12.8	13.2	14.7
RoCE	18.4	15.1	15.5	15.6	16.4
<b>EFFICIENCY</b>					
Tax Rate (%)	31.7	32.7	33.4	33.0	33.0
Fixed Asset Turnover (x)	2.7	2.5	2.9	3.1	3.4
Inventory (days)	51.8	47.7	64.0	62.0	62.0
Debtors (days)	79.6	74.6	80.3	79.0	79.0
Other Current Assets (days)	12.0	8.6	17.1	13.3	16.2
Payables (days)	39.4	33.9	36.2	36.0	35.0
Other Current Liab & Provs (days)	14.0	11.6	28.9	25.2	23.7
Cash Conversion Cycle (days)	90.0	85.4	96.3	93.1	98.5
Debt/EBITDA (x)	1.7	2.0	1.7	1.2	1.0
Net D/E (x)	0.7	0.8	0.5	0.4	0.3
Interest Coverage (x)	0.2	0.2	0.2	0.2	0.1
<b>PER SHARE DATA (Rs)</b>					
EPS	4.2	4.2	5.9	8.3	10.1
CEPS	5.1	5.1	6.9	9.9	11.9
Dividend	1.0	1.0	0.6	0.8	1.0
Book Value	17.1	20.1	34.2	42.1	51.1
<b>VALUATION</b>					
P/E (x)	38.0	38.4	27.1	19.4	15.9
P/BV (x)	9.4	8.0	4.7	3.8	3.2
EV/EBITDA (x)	22.5	22.1	15.2	11.6	9.6
EV/Revenues (x)	3.8	3.5	2.5	1.9	1.6
OCF/EV (%)	1.7	3.2	0.0	4.2	4.4
FCF/EV (%)	0.5	1.3	(3.0)	1.7	2.8
FCFE/Mkt Cap (%)	3.5	4.2	0.9	2.7	3.9
Dividend Yield (%)	0.6	0.6	0.3	0.5	0.6

Source: Company, HDFC sec Inst Research



**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
18-Jan-16	126	BUY	162
11-Feb-16	139	BUY	170
22-Apr-16	142	BUY	170
1-Jun-16	161	BUY	183

**Rating Definitions**

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

## INSTITUTIONAL RESEARCH

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