

Suprajit Engineering

BUY

INDUSTRY	AUTOS
CMP(as on 14 Feb 2017)	Rs 204
Target Price	Rs 247
Nifty	8,792
Sensex	28,339

KEY STOCK DATA	
Bloomberg	SEL IN
No. of Shares (mn)	131
MCap (Rsbn) / (\$ mn)	27/400
6m avg traded value (Rs mn)	13

STOCK PERFORMANCE (%)			
52 Week high / low	Rs 238 / 125		
	3M	6M	12M
Absolute (%)	0.7	7.4	45.4
Relative (%)	(3.3)	6.5	27.5

SHAREHOLDING PATTERN (%)	
Promoters	47.37
FIs & Local MFs	8.46
FPIs	7.61
Public & Others	36.56

Source : BSE

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Status quo

Suprajit Engineering's (SEL) consolidated 3QFY17 results came in below expectations owing to the weak performance of its cable business (effect of demonetisation) and a seasonally weak quarter for Wescon Controls. APAT came in lower than estimates at Rs 213mn (+7% YoY), largely driven by a lower EBITDA margin at 15.3% (-120 bps YoY).

In the cable business, SEL expects revenue growth to be led by (1) domestic demand recovery, (2) improving momentum in exports and (3) increasing traction in the PV/non-auto verticals. As per the management, the effect of demonetisation has ebbed and in 4Q, its business as usual.

Led by leadership consolidation in the cable business, improving PLL performance and Wescon controls, we estimate consolidated earnings to witness a CAGR of 24% over FY16-18E.

Maintain BUY with a revised TP of Rs 247 (18x SEL's consol Dec-18E EPS).

Financial Summary

Year Ending Mar (Rs mn)	3QFY17	3QFY16	YoY (%)	2QFY17	QoQ (%)	FY16	FY17E	FY18E	FY19E
Net Sales	3,132	2,605	20.2	2,816	11.2	9,525	12,430	15,289	18,643
EBITDA	478	429	11.4	468	2.1	1,543	2,138	2,676	3,300
APAT	213	263	(19.3)	377	(43.6)	719	1,169	1,554	2,041
Diluted EPS (Rs)	1.9	1.9	(0.4)	2.4	(20.3)	5.5	8.9	11.9	15.6
P/E (x)						34.3	22.8	17.1	13.1
EV / EBITDA (x)						18.8	13.9	10.7	8.7
RoE (%)						20.9	23.3	24.8	26.0

Source: Company, HDFC sec Inst Research

Highlights of the quarter

- Contribution from 4W/Non-auto to improve:** SEL's 4W mix has been stable in 3Q at 33%, but will increase with the inflow of new orders from the domestic (Maruti-direct vendor) and export markets (BMW, Audi, Rolls Royce). The non-auto business incl Wescon stands at 25% vs SEL's 5%. SEL plans to boost revenue growth by foraying into select new segments (viz Aviation, Marine, Agri and Medical) through Wescon.
- PLL's profitability to improve:** The management reckons that PLL's growth would be led by export aftermarket and OEM segments hereon. The subsidiaries (Trifa & Luxlite) are delivering better margins than the standalone operations.
- Near-term outlook:** 4Q will be a strong quarter with a pick up in the domestic 2W industry, higher volumes from SEL's European cable subsidiaries and strong supplies from Wescon.

YoY numbers are not comparable as Wescon was acquired on Sep 18, 2016.

EBITDA margins contracted by 401bps QoQ owing to increase in employee costs

The management indicated that European subsidiaries have performed better than the standalone, owing to new businesses from the likes of BMW, Audi and Rolls Royce

On the domestic front, SEL has bagged direct orders from Maruti for Speedo cables. Even though the order size is small currently, the company is confident of increasing the wallet share gradually

Quarterly Financials Snapshot – SEL (Consolidated)

(Rs mn)	3QFY17	3QFY16	YoY (%)	2QFY17	QoQ (%)
Net sales	3,132	2,605	20.2	2,816	11.2
Material Expenses	1,726	1,468	17.5	1,628	6.0
Employee Expenses	587	360	63.3	415	41.4
Other Operating Expenses	341	348	(2.1)	305	11.9
EBITDA	478	429	11.4	468	2.1
Depreciation	72	41	75.7	53	37.7
EBIT	406	388	4.6	415	(2.4)
Other Income	10	78	(87.2)	185	(94.6)
Interest Cost	91	61	48.7	69	31.7
PBT	325	405	(19.7)	531	(38.8)
Tax	112	142	(20.6)	154	(27.3)
PAT	213	263	(19.3)	377	(43.6)
EO Items (Adj For Tax)	40	(10)	(496.9)	(60)	(166.2)
APAT	252	253	(0.4)	317	(20.3)
Adj EPS	1.9	1.9	(0.4)	2.4	(20.3)

Source: Company, HDFC sec Inst Research

Margin Analysis

	3QFY17	3QFY16	YoY (bps)	2QFY17	QoQ (bps)
Material Expenses as % of Net Sales	55.1	56.4	(126)	57.8	(272)
Employee Expenses as % of Net Sales	18.7	13.8	494	14.7	401
Other Expenses as % of Net Sales	10.9	13.4	(249)	10.8	7
EBITDA Margin (%)	15.3	16.5	(120)	16.6	(135)
Tax rate (%)	34.6	35.0	(38)	29.1	549
APAT Margin (%)	8.1	9.7	(166)	11.2	(318)

Source: Company, HDFC sec Inst Research

PLL reported strong revenue trajectory YoY at 25% led by growth across all segments.

EBIDTA margin fell to 11.2% (-577bps QoQ) as gross margins narrowed by 655bps YoY. For 9MFY17, margins have improved to 13.4% and the management is confident of maintaining margins similar to SEL (15-17%)

Management has indicated new business/customers will come in from FY18. Trial runs and testing at the customer's end is on currently for the new H7 line. Capacity expansion to 11mn units (earlier 0.3mn) and the line would be capable of producing multiple products (H8, H16) will aid revenue visibility and margins for PLL

Quarterly Financials Snapshot – PLL (Consolidated)

(Rs mn)	3QFY17	3QFY16	YoY (%)	2QFY17	QoQ (%)
Net sales (incl OOI)	1,095	784	39.8	727	50.7
Material Expenses	652	415	57.0	389	67.9
Employee Expenses	138	124	10.6	115	19.2
Other Operating Expenses	182	111	64.8	108	69.4
EBITDA	123	133	(7.7)	115	7.0
Depreciation	47	17	184.8	17	183.1
EBIT	76	117	(34.9)	98	(22.8)
Other Income	(21)	13	(266.7)	27	(180.3)
Interest Cost	17	10	65.4	9	99.2
PBT	37	119	(68.6)	116	(67.9)
Tax	12	43	(71.4)	35	(64.2)
APAT	25	76	(67.1)	81	(69.4)
Adj EPS	1.5	2.7	(43.8)	2.3	(33.4)

Source: Company, HDFC sec Inst Research

Margin Analysis

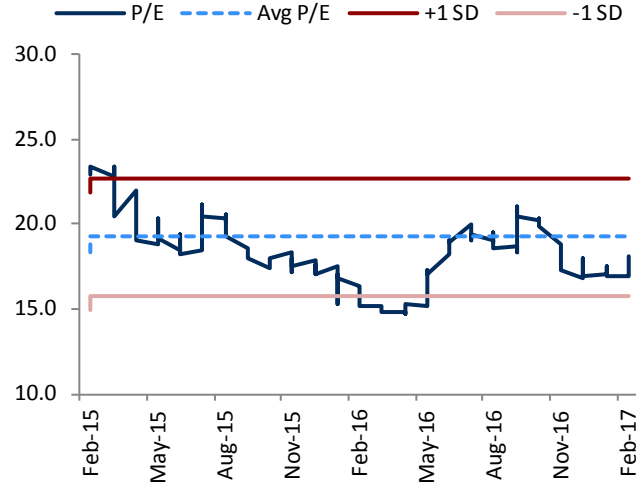
	3QFY17	3QFY16	YoY (bps)	2QFY17	QoQ (bps)
Material Expenses as % of Net Sales	59.6	53.0	655	53.5	608
Employee Expenses as % of Net Sales	12.6	15.9	(331)	15.9	(333)
Other Expenses as % of Net Sales	16.6	14.1	252	14.8	184
EBITDA Margin (%)	11.2	17.0	(577)	15.8	(459)
Tax rate (%)	33.3	36.5	(320)	29.9	340
APAT Margin (%)	2.3	9.6	(737)	11.2	(893)

Source: Company, HDFC sec Inst Research

Our revised SOTP-based TP stands at Rs 247 (18x on Dec-18E)

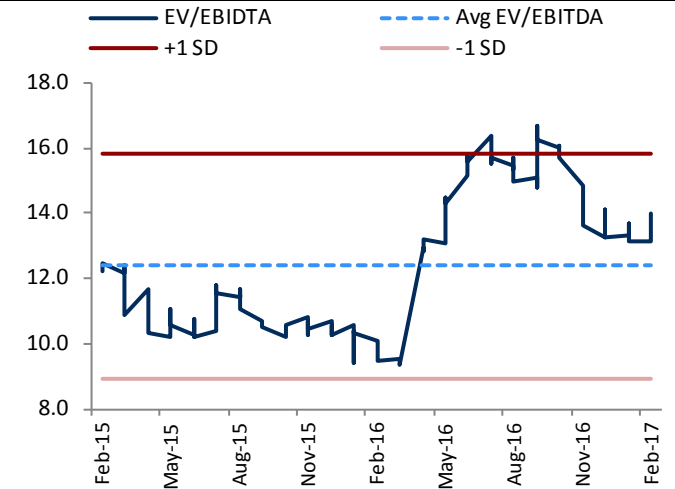
We have maintained our estimates as we believe the temporary blip in 3Q is led more by macro factors and the fundamentals and growth prospects of the business remain unchanged

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	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Net Sales	12,430	15,289	18,643	12,430	15,289	18,643	-	-	-
EBITDA	2,138	2,676	3,300	2,138	2,676	3,300	-	-	-
Adj PAT	1169	1554	2041	1169	1554	2041	-	-	-
Adj EPS (in Rs)	8.4	11.1	14.6	8.4	11.1	14.6	-	-	-

Source: HDFC sec Inst Research

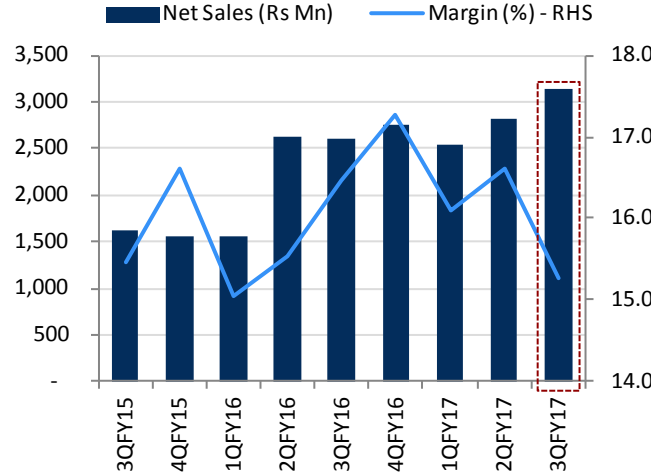
This quarter was affected mainly due to the liquidity crunch in India which crippled the 2W industry to quite an extent

Overall mix remained stable QoQ. In 2Ws, the share of business from HMSI has been stable at 50%. In 4Ws, Maruti has added SEL as a direct supplier (vs earlier Tier I/II supplier) for Speedo cables in older models. The management is confident of improving its wallet share gradually

Robust growth YoY across all segments aided in higher revenues for PLL

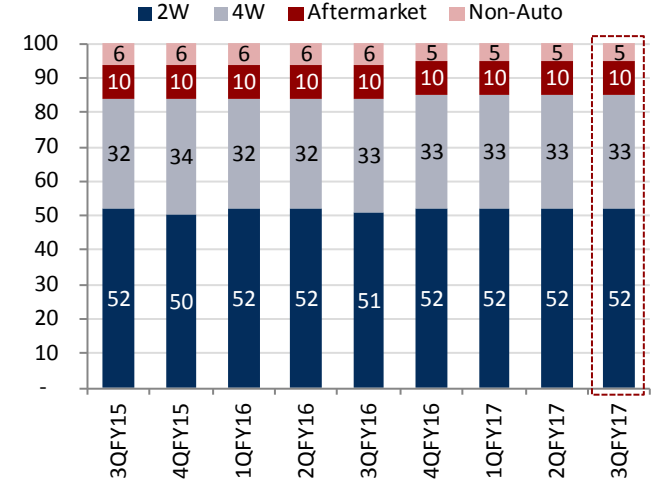
PLL's margins were weaker QoQ on account of higher employee costs and inventory adjustments

Demonet Quarter



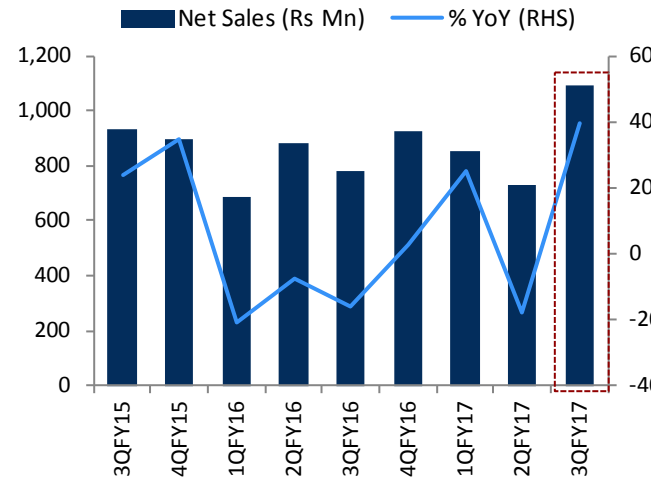
Source: Company, HDFC sec Inst Research
* SEL Consol (incl PLL)

Overall Mix Remains Stable



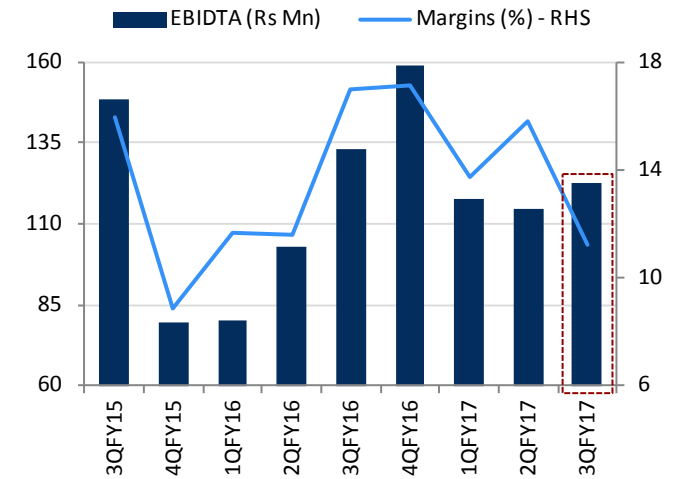
Source: Company, HDFC sec Inst Research
* SEL Consol (ex PLL)

PLL- Maintains Growth Momentum YoY



Source: Company, HDFC sec Inst Research
* PLL

Higher Staff Costs Led To Margin Drop



Source: Company, HDFC sec Inst Research
* PLL

Peer Valuation

	MCap (Rs bn)	CMP (Rs/sh)	Rating	TP	Adj EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			RoE (%)		
					FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Bharat Forge	242	1,039	NEU	943	24.8	31.0	40.0	42.0	33.6	26.0	18.4	16.2	13.3	16.4	17.4	19.8
Exide Industries	182	214	BUY	223	8.3	9.1	10.8	25.6	23.5	19.8	16.2	14.6	13.2	17.5	21.9	21.6
Balkrishna Industries	115	1,191	NEU	1,152	65.8	76.6	84.2	18.1	15.5	14.1	9.6	8.4	7.8	31.4	31.7	30.8
Suprajit Engineering	27	204	BUY	247	8.4	11.1	14.6	24.4	18.4	14.0	13.9	10.7	8.6	23.2	24.8	26.0
Jamna Auto	16	199	BUY	222	12.1	14.6	17.3	16.4	13.7	11.5	8.0	6.7	5.6	35.4	34.2	32.9
Ramkrishna Forgings	12	423	BUY	474	8.3	24.4	37.0	51.0	17.3	11.4	9.6	8.0	7.0	12.6	15.6	16.5
Subros	11	187	NR	-	5.9	10.0	13.8	31.9	18.7	13.5	9.1	6.8	5.4	10.1	15.7	19.3
Lumax Autotech	5	435	BUY	673	27.3	37.4	45.4	15.9	11.6	9.6	7.0	5.1	4.1	12.6	15.5	16.6

Source: Company, HDFC sec Inst Research

Income Statement(Consolidated)

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Net Revenues	6,118	9,525	12,430	15,289	18,643
Growth (%)	12.2	55.7	30.5	23.0	21.9
Material Expenses	3,729	5,635	7,309	8,975	11,055
Employee Expenses	826	1,253	1,616	1,972	2,424
Other Operating Expenses	603	1,093	1,367	1,667	1,864
EBITDA	960	1543	2138	2676	3300
EBITDA Margin (%)	15.7	16.2	17.2	17.5	17.7
EBITDA Growth (%)	3.8	60.7	38.5	25.1	23.3
Depreciation	90	158	249	288	253
EBIT	870	1385	1889	2388	3047
Other Income (Including EO Items)	41	155	167	176	196
Interest	164	250	257	279	327
PBT	747	1291	1799	2286	2915
Tax (Incl Deferred)	245	431	576	731	875
Minority Interest	-	84	54	-	-
RPAT	503	776	1169	1554	2041
EO (Loss) / Profit (Net Of Tax)	-	57	-	-	-
APAT	503	719	1169	1554	2041
APAT Growth (%)	-1.1	43.1	62.6	32.9	31.3
Adjusted EPS (Rs)	4.2	5.5	8.9	11.9	15.6
EPS Growth (%)	-1.1	31.3	62.6	32.9	31.3

Source: Company, HDFC sec Inst Research

Balance Sheet(Consolidated)

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital - Equity	120	131	131	131	131
Reserves	2,288	4,344	5,450	6,822	8,624
Total Shareholders Funds	2,408	4,475	5,581	6,953	8,755
Minority Interest	-	542	542	-	-
Long Term Debt	928	1,582	1,232	1,082	1,082
Short Term Debt	1,005	1,005	2,206	1,871	1,319
Total Debt	1,933	2,586	3,438	2,953	2,400
Net Deferred Taxes	91	107	107	107	107
Long Term Provisions & Others	91	171	154	185	217
TOTAL SOURCES OF FUNDS	4,523	7,881	9,822	10,198	11,479
APPLICATION OF FUNDS					
Net Block	1,680	2,271	4,606	4,651	4,744
CWIP	170	144	233	246	246
Goodwill	-	1,066	850	-	-
Investments	0	-	-	-	-
LT Loans & Advances	69	181	226	237	285
Total Non-current Assets	1,919	3,662	5,915	5,134	5,276
Inventories	799	1,669	2,111	2,597	2,962
Debtors	1,250	2,096	2,656	3,016	3,882
Other Current Assets	144	447	560	607	712
Cash & Equivalents	1,173	1,706	634	1,463	1,103
Total Current Assets	3,367	5,918	5,961	7,683	8,660
Creditors	568	944	1,226	1,676	1,416
Other Current Liabilities & Provns	195	755	828	944	1,040
Total Current Liabilities	763	1,699	2,054	2,619	2,456
Net Current Assets	2,604	4,219	3,908	5,064	6,204
TOTAL APPLICATION OF FUNDS	4,523	7,882	9,822	10,198	11,479

Source: Company, HDFC sec Inst Research

Cash Flow(Consolidated)

(Rs mn)	FY15	FY16	FY17E	FY18E	FY15
Reported PBT	747	1,291	1,799	2,286	2,915
Non-operating & EO items	-	(141)	(54)	-	-
Interest expenses	164	250	257	279	327
Depreciation	90	158	249	288	253
Working Capital Change	(81)	(1,115)	(707)	(343)	(1,771)
Tax Paid	(245)	(431)	(576)	(731)	(875)
OPERATING CASH FLOW (a)	676	11	968	1,778	849
Capex	(409)	(723)	(2,673)	(346)	(346)
Free cash flow (FCF)	267	(711)	(1,705)	1,432	503
Investments	5	0	-	-	-
Non-operating Income	11	(581)	290	308	(0)
INVESTING CASH FLOW (b)	(393)	(1,304)	(2,384)	(38)	(346)
Debt Issuance/(Repaid)	373	653	737	(450)	(297)
Interest Expenses	(164)	(250)	(257)	(279)	(327)
FCFE	804	192	(711)	1,261	533
Share Capital Issuance	-	1,505	-	-	-
Dividend	(137)	(84)	(137)	(182)	(239)
FINANCING CASH FLOW (c)	72	1,825	343	(911)	(863)
NET CASH FLOW (a+b+c)	355	532	(1,072)	829	(360)
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	1,174	1,706	634	1,463	1,103

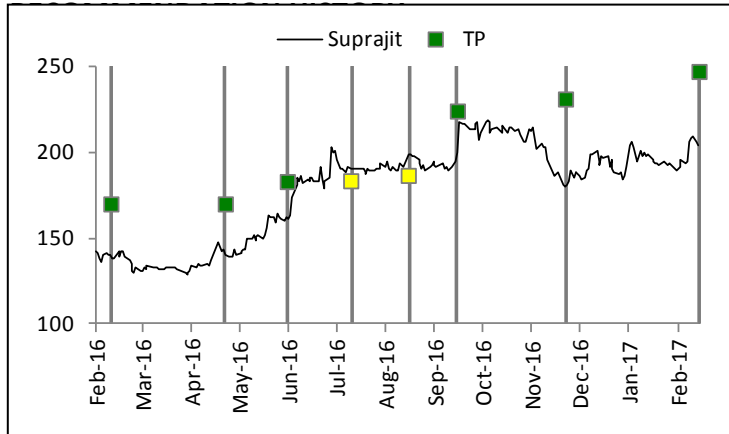
Source: Company, HDFC sec Inst Research

Key Ratios(Consolidated)

	FY15	FY16	FY17E	FY18E	FY15
PROFITABILITY (%)					
GPM	39.0	40.8	41.2	41.3	40.7
EBITDA Margin	15.7	16.2	17.2	17.5	17.7
APAT Margin	8.2	7.5	9.4	10.2	10.9
RoE	22.6	20.9	23.3	24.8	26.0
RoIC (or Core RoCE)	11.9	12.8	13.1	15.5	19.0
RoCE	15.1	14.6	15.6	17.9	21.2
EFFICIENCY					
Tax Rate (%)	32.7	33.4	32.0	32.0	30.0
Fixed Asset Turnover (x)	2.5	2.9	2.1	2.5	2.9
Inventory (days)	47.7	64.0	62.0	62.0	58.0
Debtors (days)	74.6	80.3	78.0	72.0	76.0
Other Current Assets (days)	8.6	17.1	16.4	14.5	13.9
Payables (days)	33.9	36.2	36.0	40.0	27.7
Other Current Liab & Provs (days)	11.6	28.9	24.3	22.5	20.4
Cash Conversion Cycle (days)	85.4	96.3	96.1	86.0	99.9
Debt/EBITDA (x)	2.0	1.7	1.6	1.1	0.7
Net D/E (x)	0.8	0.5	0.6	0.3	0.2
Interest Coverage (x)	0.2	0.2	0.1	0.1	0.1
PER SHARE DATA (Rs)					
EPS	4.2	5.9	8.9	11.9	15.6
CEPS	5.1	6.9	11.2	14.5	18.1
Dividend	1.0	0.6	0.9	1.2	1.6
Book Value	20.1	34.2	42.7	53.2	66.9
VALUATION					
P/E (x)	48.7	34.3	22.8	17.1	13.1
P/BV (x)	10.2	6.0	4.8	3.8	3.0
EV/EBITDA (x)	27.4	18.8	13.9	10.7	8.7
EV/Revenues (x)	4.3	3.0	2.4	1.9	1.5
OCF/EV (%)	2.6	0.0	3.2	6.2	3.0
FCF/EV (%)	1.0	(2.5)	(5.7)	5.0	1.7
FCFE/Mkt Cap (%)	3.3	0.7	(2.7)	4.7	2.0
Dividend Yield (%)	0.5	0.3	0.4	0.6	0.8

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
11-Feb-16	139	BUY	170
22-Apr-16	142	BUY	170
1-Jun-16	161	BUY	183
11-Jul-16	191	NEU	183
17-Aug-16	198	NEU	186
16-Sep-16	199	BUY	224
23-Nov-16	180	BUY	231
15-Feb-17	204	BUY	247

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

Disclosure:
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