

MAY 31, 2016

RESULT

Coverage view: **Attractive**

Price (₹): 162

Target price (₹): 180

BSE-30: 26,668

Strong execution at Phoenix Lamps boosts consolidated performance. Consolidated EBITDA was ₹473 mn (+10% qoq) in 4QFY16, which was 18% ahead of our estimates driven by strong performance of Phoenix Lamps and other subsidiaries. Standalone performance was weaker than expected led by sharp increase in other expenses. The company has won new export orders from existing customers and is gaining market share in the domestic market. Maintain BUY with a revised TP of ₹180 (from ₹175).

Company data and valuation summary

Suprajit Engineering

Stock data

52-week range (Rs) (high,low)	166-117		
Market Cap. (Rs bn)	21.3		
Shareholding pattern (%)			
Promoters	51.8		
FIs	4.6		
MFs	2.5		
Price performance (%)			
	1M	3M	12M
Absolute	15.5	24.5	30.7
Rel. to BSE-30	10.9	7.4	36.4

Forecasts/Valuations

	2016	2017E	2018E
EPS (Rs)	5.5	7.7	9.1
EPS growth (%)	30.7	39.9	19.0
P/E (X)	29.6	21.2	17.8
Sales (Rs bn)	9.5	11.7	13.2
Net profits (Rs bn)	0.7	1.0	1.2
EBITDA (Rs bn)	1.5	1.9	2.1
EV/EBITDA (X)	15.4	12.4	10.6
ROE (%)	20.9	20.7	20.9
Div. Yield (%)	0.6	0.9	1.0

Standalone performance below expectations while subsidiaries report a strong growth

The company reported a growth of 18% yoy in standalone revenues driven by strong growth in four-wheeler OEM, new order wins in export business and market share gains in two-wheeler OEM segment in 4QFY16. Gross margin improved 270 bps yoy largely driven by productivity improvements in their plants and decline in commodity costs. Other expenses rose sharply by 77% yoy driven by increase in year-end discounts to OEMs and ₹35 mn expenses related to QIP, which is non-recurring. EBITDA of ₹243 mn (+9% yoy) was lower than our estimates but if we add back ₹35 mn QIP expenses to EBITDA, then EBITDA was in line with our estimates. Consolidated EBITDA was ₹473 mn (+10% qoq) driven by strong performance of Phoenix Lamps and other subsidiaries. Consolidated EBITDA margin improved by 80 bps qoq led by 140 bps qoq improvement in EBITDA margin of Phoenix Lamps in 4QFY16.

Restructuring of Phoenix Lamps underway

Phoenix Lamps reported 3% yoy increase in revenues and 28% yoy increase in EBITDA in 4QFY16. The company had taken steps to improve quality levels, accounting practices related to working capital and productivity levels, which have started to show results. EBITDA margin improved 300 bps on a yoy basis in 4QFY16. Management expects further improvement in EBITDA margin as productivity levels are brought in line with Suprajit's standards.

Maintain BUY rating on strong growth outlook

We maintain our BUY rating on the stock with a revised target price of ₹180 (from ₹175 earlier) as we roll over to March 2018 (from September 2017 earlier). We have cut our consolidated earnings estimates by 2-3% over FY2017/18E driven by 6-7% cut in standalone EBITDA assumptions. We value the stock at 20X March 2018 EPS. We estimate the company to deliver 26% consolidated earnings CAGR over FY2016-19E. The company has raised ₹1.5 bn through a QIP, which has resulted in a dilution of 9.4%.

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Conference call takeaways

- ▶ Company's revenue mix was – two-wheelers (52%), four-wheeler (33%), aftermarket (10%) and non-auto (5%) in FY2016. Exports form 19% of consolidated revenues (excluding Phoenix lamps) while domestic business forms 81% of revenues.
- ▶ Company's market share in replacement market is ~4-5%, which is likely to increase as it increases distribution presence in North, West and East India. Company is quite strong in South India in replacement market. Exports and replacement market are likely to be strong growth drivers for the company, which will help it grow higher than automotive production growth in India.
- ▶ Company has won new export orders from its existing customers, which will start contributing from FY2018 onwards. Company did not share the quantum of these orders but expects a strong growth in exports to continue.
- ▶ Company has improved its share of business with Honda Motorcycles and Scooters to 35% in FY2016 versus 30% in FY2015. Company expects the market share to increase to 50% by end of FY2017.

Exhibit 1: Suprajit's standalone 4QFY16 results were below estimates on higher other expenses (partly non-recurring items)
Suprajit Engineering standalone results, March fiscal year-end, 4QFY16 (₹ mn)

	4QFY16	4QFY16E	4QFY15	3QFY16	(% chg.)			FY2016	FY2015	Yoy chg. (%)	FY2017E
					4QFY16E	4QFY15	3QFY16				
Net sales	1,572	1,543	1,333	1,591	1.9	18.0	(1.2)	5,879	5,222	12.6	6,891
Raw materials	(956)	(957)	(846)	(981)	(0.1)	13.0	(2.6)	(3,636)	(3,310)		(4,272)
Staff costs	(185)	(185)	(157)	(192)	(0.1)	17.4	(4.0)	(726)	(659)		(834)
Other expenses	(189)	(130)	(107)	(133)	45.4	76.7	42.2	(526)	(414)		(594)
Total expenses	(1,330)	(1,272)	(1,110)	(1,307)	4.6	19.8	1.7	(4,887)	(4,383)		(5,701)
EBITDA	243	271	223	284	(10.5)	9.0	(14.5)	992	840	18.2	1,190
Depreciation	(23)	(21)	(15)	(21)	8.7	51.2	8.7	(84)	(75)		(97)
EBIT	220	250	208	263	(12.1)	5.9	(16.3)	908	765	18.7	1,093
Other income	35	30	(8)	30				126	35		158
Interest expense	(64)	(45)	(32)	(47)				(194)	(135)		(190)
Profit before tax	191	235	168	246	(18.8)	13.9	(22.4)	839	665	26.2	1,061
Exceptional income/(expense)	(11)	—	—	(10)				(57)	—		—
Tax expense	(79)	(75)	(60)	(83)	5.1	32.7	(4.2)	(282)	(219)		(318)
Profit after tax	101	160	108	153	(36.8)	(6.5)	(34.2)	500	446	12.0	743
EPS (Rs)	0.8	1.3	0.9	1.3	(42.3)	(14.6)	(39.8)	3.8	3.7	2.3	5.7
As % of net revenues											
Raw material cost as % of net sales	60.8	62.0	63.4	61.7				61.8	63.4		62.0
Staff cost as % of net sales	11.8	12.0	11.8	12.1				12.3	12.6		12.1
Other expenses as % of net sales	12.0	8.4	8.0	8.4				8.9	7.9		8.6
No. of shares	131.3	120.0	120.0	120.0				131.3	120.0		131.3
Tax rate (%)	43.9	32.0	35.5	35.0				36.1	32.9		30.0
EBITDA margin (%)	15.4	17.6	16.7	17.8				16.9	16.1		17.3
EBIT margin (%)	14.0	16.2	15.6	16.5				15.4	14.6		15.9

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Suprajit's consolidated 4QFY16 EBITDA was 18% above our estimates

Suprajit Engineering consolidated results, March fiscal year-ends, 4QFY16 (₹ mn)

	4QFY16	4QFY16E	4QFY15	3QFY16	(% chg.)			FY2016	FY2015	Yoy chg. (%)	FY2017E
					4QFY16E	4QFY15	3QFY16				
Net sales	2,743	2,500	1,548	2,605	9.7	77.2	5.3	9,525	6,118	55.7	11,672
Raw materials	(1,643)	(1,413)	(912)	(1,468)		80.2	11.9	(5,635)	(3,729)		(7,011)
Staff costs	(331)	(345)	(181)	(360)		83.2	(7.9)	(1,253)	(826)		(1,495)
Other expenses	(295)	(340)	(198)	(348)		48.7	(15.3)	(1,093)	(603)		(1,304)
Total expenses	(2,270)	(2,098)	(1,291)	(2,176)		75.8	4.3	(7,982)	(5,157)		(9,810)
EBITDA	473	403	257	429	17.6	84.0	10.4	1,543	961	60.7	1,862
Depreciation	(40)	(42)	(17)	(41)	(5.7)	128.5	(3.9)	(158)	(90)		(220)
EBIT	434	361	240	388	20.3	80.8	11.9	1,386	871	59.1	1,643
Other income	(7)	80	(5)	78				155	41		221
Interest expense	(79)	(60)	(39)	(61)				(250)	(164)		(262)
Profit before tax	347	381	196	405	(8.7)	77.4	(14.2)	1,291	748	72.7	1,602
Exceptional income/(expense)	(11)	—	—	(10)				(57)	—		—
Tax expense	(124)	(126)	(62)	(142)	(1.3)	98.9	(12.5)	(431)	(245)		(482)
Minority interest	(40)	(44)	—	(44)				(84)	—		(113)
Profit after tax	172	211	133	210	(18.5)	29.0	(17.9)	719	503	43.0	1,007
EPS (Rs)	1.3	1.8	1.1	1.7	(25.6)	17.9	(25.0)	5.5	4.2	30.7	7.7
As % of net revenues											
Raw material cost as % of net sales	59.9	56.5	58.9	56.4				59.2	61.0		60.1
Staff cost as % of net sales	12.1	13.8	11.7	13.8				13.2	13.5		12.8
Other expenses as % of net sales	10.8	13.6	12.8	13.4				11.5	9.9		11.2
No. of shares	131.3	120.0	120.0	120.0				131.3	120.0		131.3
Tax rate (%)	36.8	33.0	31.8	35.8				34.9	32.7		30.1
EBITDA margin (%)	17.3	16.1	16.6	16.5				16.2	15.7		16.0
EBIT margin (%)	15.8	14.4	15.5	14.9				14.5	14.2		14.1

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Phoenix's consolidated EBITDA increased by 28% yoy in 4QFY16

Phoenix Lamps consolidated results, March fiscal year-end, 3QFY16 (₹ mn)

	4QFY16	4QFY15	3QFY16	(% chg.)		FY2016	FY2015	Yoy chg. (%)	FY2017E
				4QFY15	3QFY16				
Gross sales	979	945	837			3,475	3,824		
Excise duty	(52)	(45)	(54)			(196)	(173)		
Net sales	927	900	783	3	18	3,279	3,651	(10.2)	3,607
Raw materials	(547)	(513)	(415)	7	32	(1,904)	(2,081)		(2,128)
Staff costs	(115)	(144)	(124)	(20)	(8)	(475)	(528)		(475)
Other expenses	(115)	(126)	(129)	(8)	(11)	(474)	(525)		(474)
Total expenses	(777)	(783)	(669)	(1)	16	(2,853)	(3,134)		(3,077)
EBITDA	150	117	115	28	30	426	517	(17.8)	530
Depreciation	(13)	(29)	(16)	(55)	(21)	(91)	(119)		(97)
EBIT	137	88	98	55	39	334	398	(16.0)	433
Other income	18	3	13			33	10		43
Interest expense	(12)	(18)	(10)			(53)	(61)		(53)
Profit before tax	142	73	101	94	41	314	348		423
Exceptional income/(expense)	10	(38)	18			49	(52)		—
Tax expense	(47)	(15)	(43)	219	9	(135)	(100)		(127)
Profit after tax	105	21	75	404	39	229	196	17.1	296
EPS (Rs)	0.9	0.2	0.6	404	39	1.9	1.6	17.1	2.5
As % of net revenues									
Raw material cost as % of net sales	59.1	57.0	53.0			58.1	57.0		59.0
Staff cost as % of net sales	12.4	16.0	15.9			14.5	14.5		13.2
Other expenses as % of net sales	12.4	14.0	16.4			14.5	14.4		13.1
No. of shares	120.0	120.0	120.0			120.0	120.0		120.0
Tax rate (%)	31.1	41.6	36.5			37.0	33.8		30.0
EBITDA margin (%)	16.1	13.0	14.7			13.0	14.2		14.7
EBIT margin (%)	14.7	9.8	12.5			10.2	10.9		12.0

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: We increase our FY2017-18E consol net profit estimates by 6-7%; dilution led to cut in EPS estimates

Earnings revision table, March fiscal year-ends, 2017-18E (₹ mn)

	New estimates		Old estimates		% change	
	2017E	2018E	2017E	2018E	2017E	2018E
Standalone						
Net sales	6,891	7,948	7,026	8,123	(1.9)	(2.2)
EBITDA	1,190	1,392	1,275	1,491	(6.7)	(6.6)
Margin (%)	17.3	17.5	18.2	18.4		
Net Profit	743	892	731	883	1.6	1.0
EPS (Rs/share)	5.7	6.8	6.1	7.4	(7.3)	(8.2)
Consolidated						
Net sales	11,672	13,231	11,667	13,252	0.0	(0.2)
EBITDA	1,862	2,143	1,959	2,232	(4.9)	(4.0)
Margin (%)	16.0	16.2	16.8	16.8		
Net Profit	1,007	1,198	943	1,116	6.8	7.3
EPS (Rs/share)	7.7	9.1	7.9	9.3	(3.0)	(1.9)

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: We expect standalone net profit to grow at 30% CAGR over FY2016-19E

Standalone profit model, balance sheet and cash flow statement, March fiscal year-ends, 2011-19E (₹ mn)

	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
Profit model (Rs mn)									
Net sales	3,005	3,787	4,210	4,823	5,222	5,879	6,891	7,948	9,242
EBITDA	510	665	728	851	839	992	1,190	1,392	1,652
Other income	26	22	31	28	35	126	158	168	178
Interest and finance charges	(61)	(86)	(96)	(118)	(135)	(194)	(190)	(179)	(161)
Depreciation	(49)	(51)	(57)	(69)	(75)	(84)	(97)	(107)	(118)
Pre-tax profits	426	550	607	692	665	839	1,061	1,274	1,551
Extraordinary items	—	—	50	—	—	(57)	—	—	—
Income tax	(122)	(157)	(183)	(216)	(219)	(282)	(318)	(382)	(465)
Net profits	305	392	475	477	446	500	743	892	1,086
Earnings per share (Rs)	2.5	3.3	3.6	4.0	3.7	3.8	5.7	6.8	8.3
Balance sheet (Rs mn)									
Total equity	978	1,280	1,649	1,993	2,301	4,144	4,664	5,288	6,048
Deferred tax liability	35	41	53	66	80	96	96	96	96
Total borrowings	368	675	876	1,158	1,418	1,814	1,814	1,764	1,464
Other liabilities	654	648	710	882	966	1,253	1,412	1,522	1,656
Total liabilities and equity	2,035	2,645	3,288	4,099	4,765	7,307	7,986	8,670	9,264
Cash	20	29	60	40	45	24	284	441	443
Current assets	992	1,349	1,739	2,455	2,809	3,509	3,825	4,160	4,569
Total fixed assets	788	1,021	1,205	1,340	1,641	1,927	2,030	2,222	2,404
Other long term assets	236	246	284	263	269	1,847	1,847	1,847	1,847
Total assets	2,035	2,645	3,288	4,099	4,765	7,307	7,986	8,670	9,264
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	403	518	563	658	644	715	872	1,010	1,187
Working capital	18	(282)	(107)	(245)	(38)	(44)	(156)	(225)	(276)
Capital expenditure	(256)	(285)	(194)	(205)	(380)	(400)	(200)	(300)	(300)
Investments	4	(92)	(252)	(280)	(349)	(1,938)	—	—	—
Free cash flow	166	(49)	263	207	226	272	515	485	611
Ratios (%)									
EBITDA margin (%)	17.0	17.6	17.3	17.7	16.1	16.9	17.3	17.5	17.9
Gross margin (%)	34.8	34.4	35.7	37.1	36.6	38.2	38.0	38.0	38.0
Debt/equity (X)	0.4	0.5	0.5	0.6	0.6	0.4	0.4	0.3	0.2
Net debt/equity (X)	0.4	0.5	0.5	0.6	0.6	0.4	0.3	0.3	0.2
RoAE (%)	35.6	34.7	32.4	26.2	20.8	15.5	16.9	17.9	19.2
RoACE (%)	25.3	27.9	24.3	24.3	21.1	17.6	16.2	17.8	19.5

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: We expect consolidated net profit to grow at 26% CAGR over FY2016-19E
 Consolidated profit model, balance sheet and cash flow statement, March fiscal year-ends, 2011-19E (₹ mn)

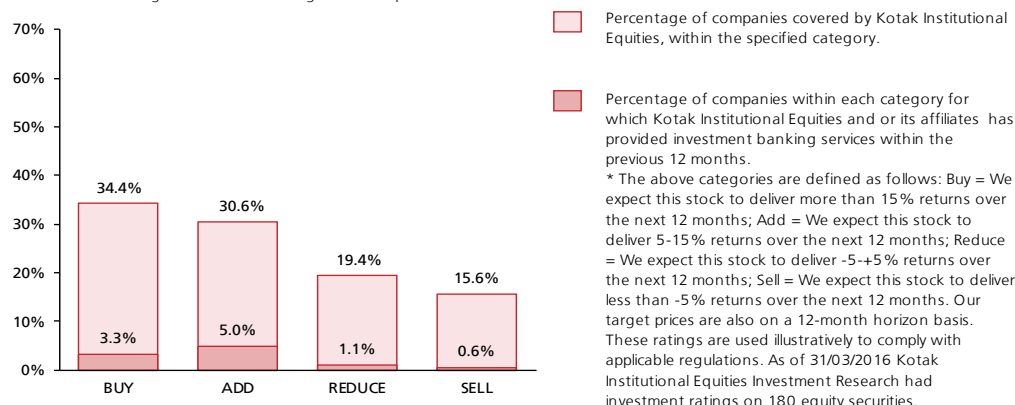
	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
Profit model (Rs mn)									
Net sales	3,467	4,238	4,625	5,452	6,118	9,525	11,672	13,231	15,080
EBITDA	566	686	774	924	961	1,543	1,862	2,143	2,490
Other income	48	29	28	38	41	155	221	243	266
Interest and finance charges	(74)	(93)	(102)	(134)	(164)	(250)	(262)	(251)	(233)
Depreciation	(72)	(75)	(81)	(84)	(90)	(158)	(220)	(235)	(250)
Pre-tax profits	468	548	618	744	747	1,291	1,602	1,901	2,273
Extraordinary items	—	—	50	—	—	(57)	—	—	—
Income tax	(135)	(150)	(197)	(236)	(245)	(431)	(482)	(573)	(686)
Minority interest	—	—	—	—	—	(84)	(113)	(129)	(148)
Net profits	332	398	471	508	503	719	1,007	1,198	1,439
Earnings per share (Rs)	2.7	3.3	3.5	4.2	4.2	5.5	7.7	9.1	11.0
Balance sheet (Rs mn)									
Total equity	969	1,292	1,667	2,047	2,408	4,476	5,260	6,190	7,304
Deferred tax liability	38	46	60	75	91	107	107	107	107
Total borrowings	463	744	1,029	1,421	1,660	2,586	2,957	2,957	2,557
Other liabilities	733	735	762	1,018	1,128	2,411	2,014	2,100	2,287
Total liabilities and equity	2,203	2,818	3,519	4,561	5,286	9,580	10,338	11,354	12,254
Cash	27	31	76	76	56	189	1,243	1,535	1,485
Current assets	1,233	1,578	1,968	2,885	3,312	5,655	6,221	6,657	7,336
Total fixed assets	910	1,134	1,365	1,531	1,850	2,415	2,619	2,906	3,178
Other long term assets	33	74	110	70	69	1,321	255	255	255
Total assets	2,203	2,818	3,519	4,561	5,286	9,580	10,338	11,354	12,254
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	480	562	596	719	753	2,210	1,976	1,683	1,922
Working capital	(114)	(299)	(139)	(344)	(81)	(1,495)	(383)	(351)	(492)
Capital expenditure	(263)	(300)	(331)	(253)	(412)	(723)	(424)	(522)	(522)
Free cash flow	103	(37)	126	122	260	(8)	1,169	811	908
Ratios (%)									
EBITDA margin	16.3	16.2	16.7	17.0	15.7	16.2	16.0	16.2	16.5
Gross margin	36.4	34.9	37.5	38.5	39.0	40.8	39.9	39.9	39.8
Debt/equity (X)	0.5	0.6	0.6	0.7	0.7	0.6	0.6	0.5	0.4
Net debt/equity (X)	0.4	0.6	0.6	0.7	0.7	0.5	0.3	0.2	0.1
RoAE	39.7	35.2	31.8	27.4	22.6	20.9	20.7	20.9	21.3
RoACE	26.5	28.2	24.4	23.8	21.1	21.8	21.1	23.0	24.0

Source: Company, Kotak Institutional Equities estimates

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Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of March 31, 2016

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BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5-+5% returns over the next 12 months.

SELL. We expect this stock to deliver <-5% returns over the next 12 months.

Our target prices are also on a 12-month horizon basis.

Other definitions

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