

Suprajit Engineering Ltd.

BSE SENSEX
26668
NIFTY
8160
CMP: INR162
TP: INR195 (+20)
Buy

		YEAR	SALES	RPAT	A.EPS	EPS	PE	P/BV	EV/EBITDA	Div yld	ROE	ROCE
		END	(INRCr)	(INRCr)	(INR)	Gr.(%)	(X)	(X)	(X)	(%)	(%)	(%)
Shares O/s (cr)	12.0	FY15A	612	50	4.2	-1	37.9	7.9	20.7	0.6	23	23
52-W H/L Range (INR)	166/ 117	FY16A	953	72	5.5	31	29.0	4.7	14.2	0.7	21	25
1/6/12m Rel. Perf. (%)	9 / 11 / 32	FY17E	1,109	97	7.4	35	21.5	4.0	11.4	0.7	20	24
Market Cap. (INR Cr)	1908											
Market Cap. (US\$ m)	284											

Result Highlights

- Suprajit's 4Q is not comparable as Phoenix has been consolidated since 3Q while we do not have comparable numbers from the prior period.
- Standalone revenues have risen 17% and EBITDA is up 24% while profits are down 6% on sharp rise in interest cost.
- Consolidated results have received a boost from Phoenix acquisition with 77% revenue growth and doubling of profit.
- Margins have been stable with marginal QoQ and YoY growth, while standalone margins have risen 100bps.
- Acquisition cost of INR1cr is factored into 4Q earnings. Numbers are marginally higher than our estimates.
- Dividends - Final dividend of INR.0.55/share and interim dividend of INR.0.50/share.

INR Cr. (Cons)	QE Mar-15	QE Dec-15	QE Mar-16	% y/y	% q/q
Revenue	155	261	274	77%	5%
Expenditure	129	219	228	77%	4%
EBITDA (excl. Other inc.)	26	42	46	80%	10%
Other Income	-5	8	-1	-86%	N.A.
Interest	4	6	8	102%	30%
Depreciation	2	4	4	129%	-4%
Profit before tax	15	39	34	128%	-15%
Tax	6	14	12	99%	-12%
Minority Interest	0	3	4	N.A.	N.A.
RPAT	9	23	17	103%	-24%
EBIDTA (%)	16.6	16.1	16.9		
Tax rate (%)	42.3	35.8	36.8		



Valuation and view

- Exports a key driver: Exports was 34% of revenues (19% of standalone sales) for FY16 vs 14% in FY15. Supplies to premium customers such as BMW for their plant in Germany speaks volumes of the company's quality of operations \ product. Also, OEMs internationally and especially in EU have held up new model launches until the situation and sentiments improve and hence we expect back-ended gains for Suprajit's exports business. The management expects a scale-up in exports in FY17 on the back of supplies for new models that customers will launch.
- Raising capacity: Suprajit is raising capacity to 225 M cables from 150M cables. The 1st phase is already in with 200M cable capacity at the end of FY16. The new capacity at Sanand will drive capacity further as the company adds customers.
- Acquisition of Phoenix Lamps: Suprajit's acquisition of Phoenix Lamps brings in a Automotive lamp business in India and Europe + 82million units capacity with 75% utilization + Deeper relationship with existing customers in 2&4 wheelers + ~80% market-share in 2&3wheeler, 51% market-share in car business and 50-71% in HCV segment; Phoenix brings in a new product line to this single product company. These two products find wide usage across the Auto space and hence will bring in more Revenue/vehicle and Revenue/Customer. OEM as well as after-market sales present opportunities for cross-sales. A new line for better quality products, long-life products for OEMs and Trade goods will driver revenues.
- Strong earnings growth likely: We expect a 33% EPS CAGR over FY16-18E driven by 17% revenue CAGR, stable margins and lower debt levels. Investors should now be happy with returns that are marginally lower than the earnings growth.
- BUY for a target of INR190: We recommend to BUY Suprajit for a target of INR 195 (20x FY18E EPS). At 20x, the company will be fairly valued given that ROEs on the expanded equity will be sub-20% given that the acquisition was done at more than 4x P/BV pre-issuance. ROEs will need to bounceback to 25-30% range for higher valuations.

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