

Suprajit Engineering

Strong margin performance; key beneficiary of 2W upcycle



analysis adds up

India Equity Research | Auto & Auto Ancillaries

May 31, 2016

Results Update

- Results are not comparable due to Phoenix lamps (PHLL IN) acquisition in Jun15. Cons revenues/PAT grew 77%/37% y-y to Rs2.7bn/Rs183mn (quant: Rs192 mn). PAT was below forecast due to lower margins in Cables division.
- Standalone (Cables) sales grew 18% y-y to Rs1.6bn, led by market share gains in 2Ws and growth in other segments. EBITDA margin fell 70bp y-y to 15.4% due to QIP related expenses (~Rs35mn) and OEM discounts (~Rs30mn).
- PHLL (Lamps) witnessed positive growth of 3% y-y, post few quarters of decline. EBITDA margin rose 830bp y-y to 17.2% due to forex gains, better mix & low base.
- We expect cons earnings to grow at 31% over FY16-18E, led by earnings accretive acquisition of PHLL, demand recovery in OEM segment and robust exports.
- Tapering our FY17E/FY18E EPS forecast by 13%/11% to Rs7.9/Rs10.1, factoring 10% equity dilution, lower revenues and rise in input prices.
- We maintain BUY with a revised PT of Rs182 (from Rs204), factoring 18x FY18E (unchanged) EPS of Rs10.1.

Cons. earnings slightly below estimates: Results are not comparable to previous periods, due to acquisition of PHLL in Jun15. Cons revenues grew 77% y-y to Rs2.7bn, while EBITDA margin grew 70bp y-y to 17.3%, driven by higher margins in Lamps division. PAT grew 37% y-y to Rs183mn (quant: Rs192 mn), below estimates due to one-off expenses in Cables business. **Tapering our FY17E/FY18E EPS forecast by 13%/11% to Rs7.9/Rs10.1, factoring 10% equity dilution, lower revenues and rise in input prices. Overall, we expect cons earnings to grow at 31% over FY16-18E, led by acquisition of PHLL, demand recovery in OEM segment and robust exports.**

Strong revenues growth in Cables division: Standalone Revenues grew 18% y-y to Rs1.6bn, outpacing 7% growth in underlying 2W industry, led by ramp up in supplies to Honda 2Ws and strong performance in other segments. EBITDA margin declined 70bp y-y to 15.4% due to QIP related expenses (~Rs35mn) and OEM discounts (~Rs30mn). Overall, PAT grew by only 4% y-y to Rs112mn. SEL has gained market share with Honda for 2W cables and Volkswagen/ Renault for 4W cables. The company is catering to ~35% of Honda's cable requirements, and expects to cater to 40-50% of requirements in FY17. **Overall, we expect 19% growth in the cable division revenues over FY16-18E.**

Turnaround in PHLL: PHLL's (Lamps) revenues witnessed positive growth of 3% y-y, post decline for last few quarters. EBITDA margin grew 100bp y-y to 17% led by forex gains, better mix & low base. Accordingly, PAT grew 10% y-y to Rs75mn. To regain market share, the company has undertaken quality improvement initiatives, customer engagement exercises by leveraging SEL's relationships and exploring cross-selling opportunities by utilizing SEL's dealership network in domestic/overseas markets. **Overall, we expect 13% growth in Lamps division revenues over FY16-18E and EBITDA margin of 15.5% by FY18E.**

Valuation: We maintain BUY with a revised PT of Rs182 (from Rs204), factoring 18x FY18E (unchanged) EPS of Rs10.1.

Risks: Below normal monsoon impacting auto demand, delay in ramp up of supplies to Honda, EUR depreciation and adverse commodity prices are the key risks to our call and estimates.

Exhibit 1: Financials and valuation

YE	Revenue		EBITDA		Adj PAT		EPS	PE	EV/EBITDA	ROCE	ROE
	(Rs mn)	Growth (%)	(Rs mn)	Margin (%)	(Rs mn)	Growth (%)					
March											
FY14	5,452	17.9	924	17.0	508	16.9	4.2	38.3	21.0	26.9	27.4
FY15	6,118	12.2	961	15.7	503	(1.0)	4.2	38.7	19.9	22.5	22.6
FY16	9,525	55.7	1,543	16.2	776	54.4	5.9	27.4	13.5	26.0	22.6
FY17E	11,928	25.2	2,004	16.8	1,041	34.1	7.9	20.4	11.1	27.6	21.4
FY18E	13,885	16.4	2,430	17.5	1,331	27.9	10.1	16.0	9.1	33.9	23.1

Note: pricing as on 31 May 2016; Source: Company data, quant Global Research estimates

BUY

Rs162

Reuters: SUPE.NS

Bloomberg: SEL IN

Price Target

Rs182

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Market cap	Rs 21 bn (US\$0.3bn)
52-week high/Low	Rs 166/117
Share o/s (fully diluted):	131 (mn)
Avg daily trading vol (3m):	72 ('000)
Avg daily trading val (3m):	Rs 10 mn (US\$0 mn)
Source: Bloomberg	

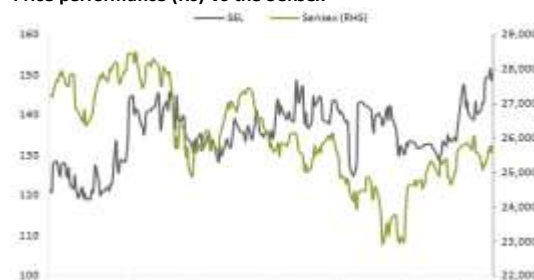
quant vs Consensus (Rs)

	PT	EPS (FY18E)		
Mean	174			9.7
High	204			12.6
Low	164			6.9
quant	182			10.1
	Buy(s)	Hold(s)	Sell(s)	
Nos	12	-	-	
Source: Bloomberg				

Shareholding pattern (%)

	Mar16	Dec15	Sep15
Promoters	47.4	51.8	51.8
FII's	5.9	4.8	4.6
MFs/FIs/Banks	8.4	2.8	2.6
Others	38.3	40.6	41.0
Source: BSE			

Price performance (Rs) vs the Sensex"



Source: Bloomberg

Exhibit 2: Consolidated 4Q FY16 results

YE March (Rs mn)	4Q FY16	4Q FY15	3Q FY16	y-y (%)	q-q (%)	Comment
Net Revenues	2,743	1,548	2,605	77.2	5.3	Above estimates led by robust growth in Cables, positive growth in Lamps
Raw materials	1,643	912	1,468	80.2	11.9	
(% of sales)	59.9	58.9	56.4			
Employee cost	331	181	360	83.1	(7.9)	
(% of sales)	12.1	11.7	13.8			
Others	295	198	348	48.7	(15.3)	Lower due to forex gains in Lamps division
(% of sales)	10.8	12.8	13.4			
EBITDA	473	257	429	84.0	10.4	
EBITDA margin (%)	17.3	16.6	16.5			Expect margins to improve from current levels
Other income	(7)	(5)	78	43.1	(109.4)	
PBIDT	466	252	507	84.9	(8.1)	
Depreciation	40	17	41			
Interest	79	39	61			
PBT	347	196	405	77.5	(14.2)	
Tax	124	62	142			
ETR (%)	35.7	31.8	35.0			Company expects tax rate of 33% ahead
Minority Interest	40.3	0.0	28.2			
Adjusted PAT	183	133	235	37.3	(22.2)	
PAT margin	6.7	8.6	9.0			
Extraordinary income/ (exp.)	(11)	0	(10)			PHLL acquisition related expenses
Reported PAT	172	133	225	29.1	(23.5)	
No. of shares (mn)	131.3	120.0	120.0			
Adj EPS (Rs)	1.4	1.1	2.0			Modelling EPS of Rs7.9/Rs10.1 for FY17E/FY18E

Source: Company data, quant Global Research

Exhibit 3: Standalone (cables) earnings grew 4% y-y

YE March (Rs mn) (P)	4Q FY16	4Q FY15	3Q FY16	y-y (%)	q-q (%)
Net Revenues	1,572	1,333	1,591	18.0	(1.2)
Raw materials	956	846	981	13.0	(2.6)
(% of sales)	60.8	63.4	61.7		
Employee cost	185	157	192	17.4	(4.0)
(% of sales)	11.8	11.8	12.1		
Others	189	107	133	76.7	42.2
(% of sales)	12.0	8.0	8.4		
EBITDA	243	223	284	9.0	(14.5)
EBITDA margin (%)	15.4	16.7	17.8		
Other income	4	30	35	(86.4)	(88.3)
PBIDT	247	252	319	(2.2)	(22.5)
Depreciation	20	21	23	(1.9)	(9.8)
Interest	45	47	64	(3.8)	(29.3)
PBT	181	185	232	(1.8)	(21.9)
Tax	65	83	79		
ETR (%)	35.7	44.7	34.1		
Adjusted PAT	112	108	163	3.7	(31.5)
PAT margin	7.1	8.1	10.3		
Extraordinary income/ (exp.)	(11)	0	(10)		
Reported PAT	101	108	153	(6.4)	(34.1)
No. of shares (mn)	131.3	120.0	120.0		
Adj EPS (Rs)	0.9	0.9	1.4		

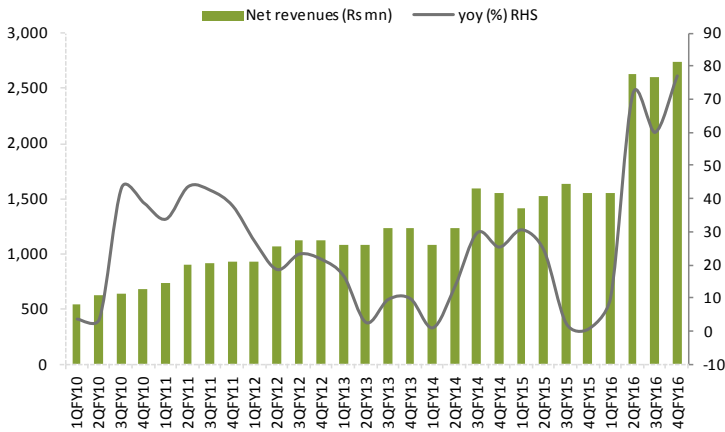
Source: Company data, quant Global Research

Exhibit 4: PHLL (Lamps) earnings grew 404% y-y

YE March (Rs mn)	4Q FY16	4Q FY15	3Q FY16	y-y (%)	q-q (%)
Net Revenues	927	900	784	3.0	18.3
Raw materials	547	513	415	6.6	31.8
(% of sales)	59.1	57.0	53.0		
Employee cost	115	144	124	(20.3)	(7.8)
(% of sales)	12.4	16.0	15.9		
Others	106	163	111	(35.4)	(4.6)
(% of sales)	11.4	18.1	14.1		
EBITDA	159	79	133	100.4	19.6
EBITDA margin (%)	17.2	8.8	17.0		
Other income	18	3	13		
PBIDT	177	82	146	115.2	21.4
Depreciation	13	29	17		
Interest	12	18	10		
PBT	152	36	119	327.1	27.6
Tax	47	15	43		
ETR (%)	31.1	41.6	36.5		
Minority Interest	0.0	0.0	0.0		
Adjusted PAT	105	21	75	403.9	38.5
PAT margin	11.3	2.3	9.6		

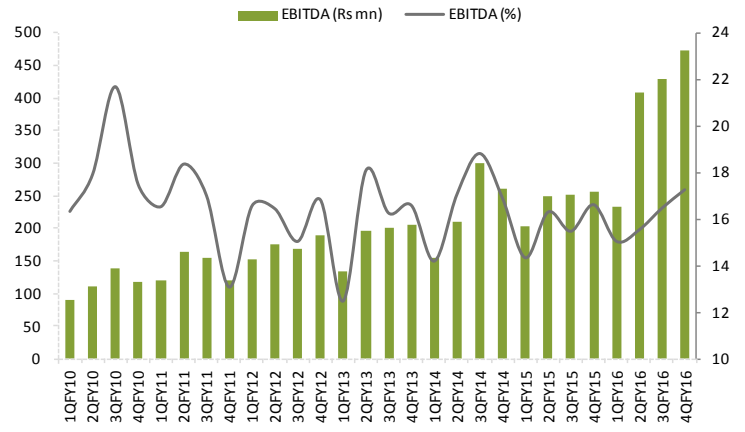
Source: Company data, quant Global Research

Exhibit 5: Cons revenues grew 77% y-y to Rs2.7bn



Source: Company data, quant Global Research

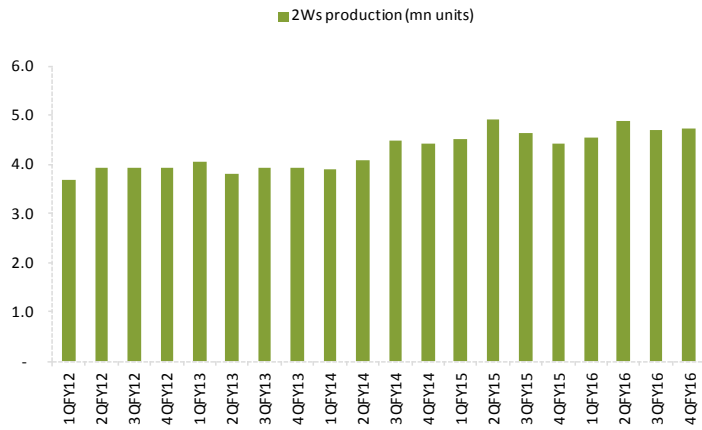
Exhibit 6: EBITDA margin improved by 70bp y-y to 17.3%



Source: Company data, quant Global Research estimates

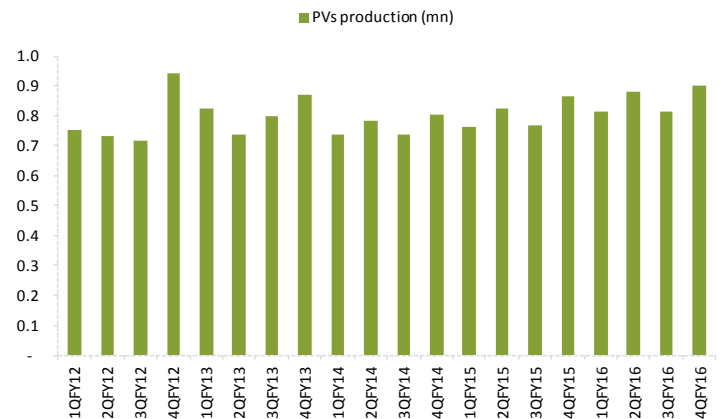
Performance of underlying revenue segments

Exhibit 7: 2W production grew 7% y-y



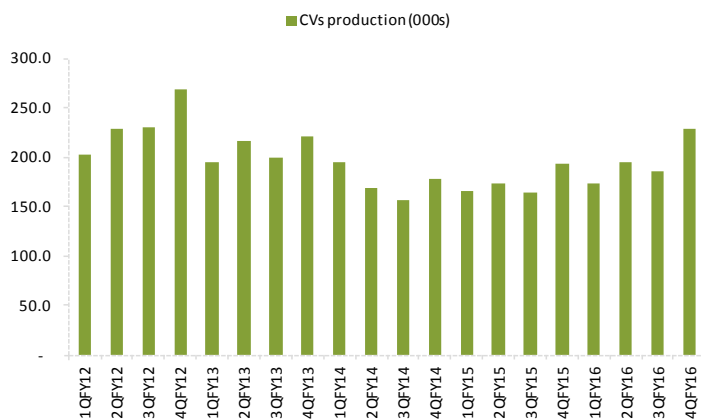
Source: SIAM, quant Global Research

Exhibit 8: PV production up 4% y-y



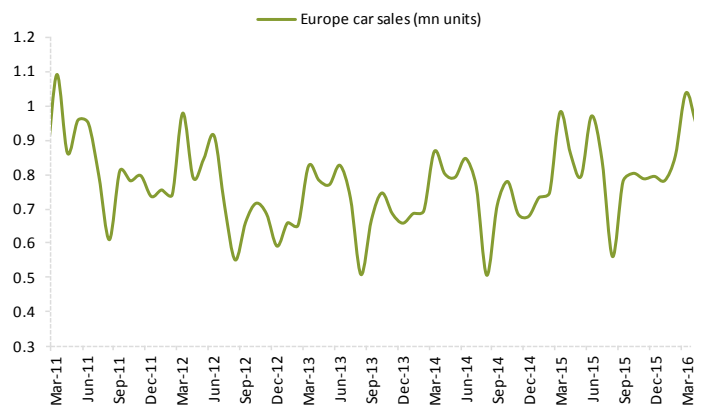
Source: SIAM, quant Global Research

Exhibit 9: CV production up 18% y-y



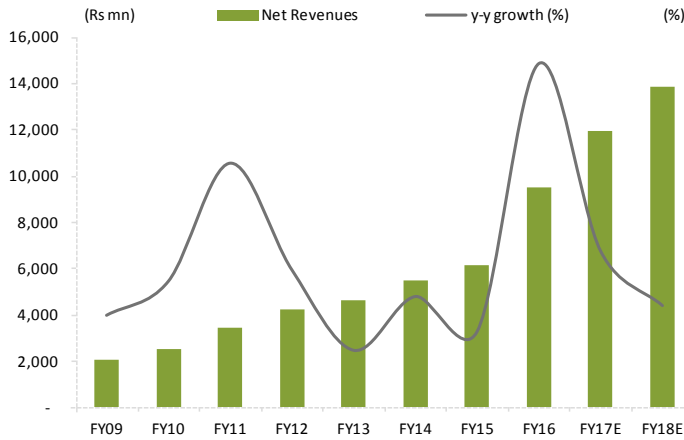
Source: SIAM, quant Global Research

Exhibit 10: European car sales up 9% in 4QFY16



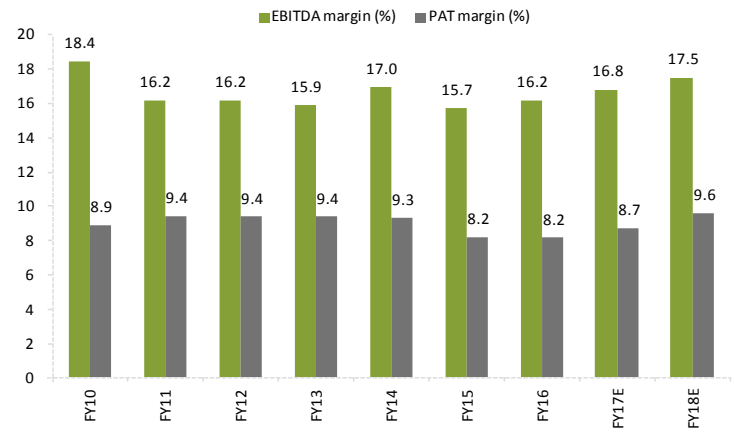
Source: Bloomberg, quant Global Research estimates

Exhibit 11: Expecting 21% revenues CAGR over FY16-18E



Source: Company data, quant Global Research

Exhibit 12: Expecting EBITDA margin of 17.5% by FY18E



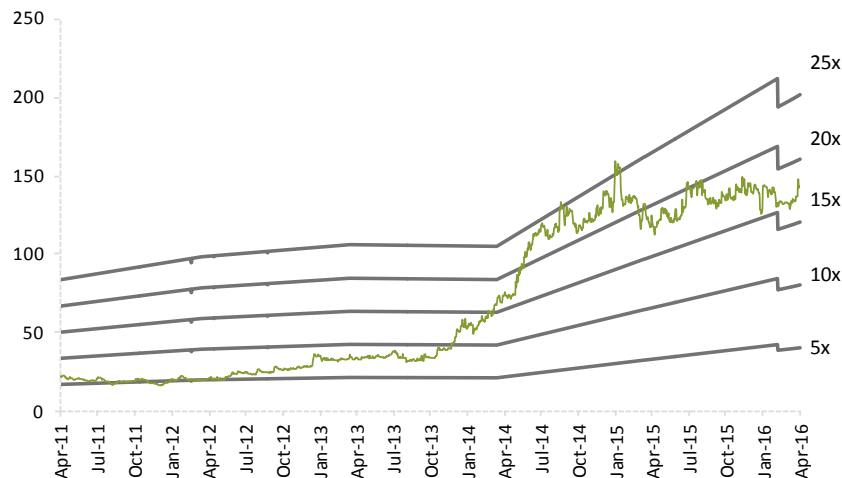
Source: Company data, quant Global Research estimates

Exhibit 13: Revision in estimates – Earnings remain broadly unchanged

(Rs mn)	Old		Revised		% change	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Revenue	12,283	14,645	11,928	13,885	(3)	(5)
EBITDA	2,125	2,563	2,004	2,430	(6)	(5)
EBITDA margin (%)	17.3	17.5	16.8	17.5		
Net profit	1,099	1,363	1,041	1,331	(5)	(2)
EPS (Rs)	9.2	11.4	7.9	10.1	(13)	(11)
Price target (Rs)		204		182		(11)
Rating		Buy		BUY		

Source: quant Global Research estimates

Exhibit 14: Valuation band shifting higher over past two years



Source: Bloomberg, quant Global Research estimates

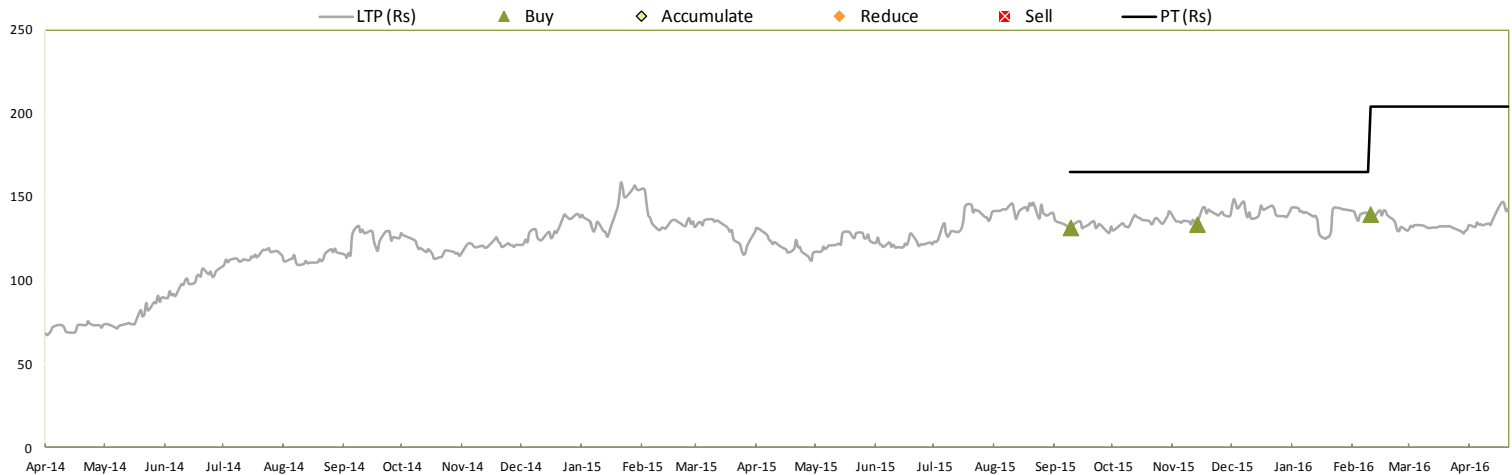
Key financials

Exhibit 15: Financial statements (YE March)

Income Statement (Rs mn)	FY14	FY15	FY16	FY17E	FY18E	Balance Sheet (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Net revenue	5,452	6,118	9,525	11,928	13,885	Equity capital	120	120	131	131	131
Expenditure	4,528	5,157	7,982	9,924	11,455	Reserves and surplus	1,927	2,288	4,344	5,142	6,131
Raw Materials	3,352	3,729	5,635	7,097	8,261	Total equity	2,047	2,408	4,476	5,273	6,262
Employee Expenses	701	826	1,253	1,515	1,736	Deferred tax liability (net)	75	90	86	80	71
Other expenditure	475	603	1,093	1,312	1,458	Long term borrowings	565	932	1,034	757	557
EBITDA	924	961	1,543	2,004	2,430	Short term borrowings	997	1,005	1,829	477	-
Depreciation and a amortization expense	84	90	158	181	199	Total borrowings	1,562	1,937	2,864	1,234	557
EBIT	841	871	1,386	1,822	2,230	Minority interest	-	-	542	660	800
Non-operating income	38	41	155	113	55	Current liabilities	877	850	1,593	2,042	2,440
Interest including finance charges	134	164	250	205	90	Total liabilities	4,561	5,286	9,560	9,289	10,130
Adjusted pre-tax profit	744	747	1,291	1,731	2,196	Cash and cash equivalents	76	56	189	125	(89)
Unusual or infrequent items	-	-	-	-	-	Inventory	774	799	1,669	2,091	2,434
Reported pre-tax profit	744	747	1,291	1,731	2,196	Trade receivables	1,189	1,250	2,096	2,624	3,055
Less: taxes	236	245	431	571	725	Other current assets	243	212	637	798	928
Reported net profit	508	503	860	1,160	1,471	Total current assets	2,281	2,318	4,591	5,638	6,328
Add: extraordinary items	-	-	(57)	-	-	Gross block	2,244	2,473	4,397	4,747	5,097
Less: minority/associate earnings	-	-	(84)	(118)	(140)	Less: depreciation and amortization	721	794	951	1,133	1,332
Reported net profit for shareholders	508	503	719	1,041	1,331	Add: capital work-in-process	7	170	35	35	35
Adjusted net profit for shareholders	508	503	776	1,041	1,331	Total fixed assets	1,531	1,850	3,481	3,649	3,800
EPS (Rs), based on wtd avg shares	4.2	4.2	6.2	7.9	10.1	Investments	748	1,118	1,487	-	-
EPS (Rs), based on fully diluted shares	4.2	4.2	5.9	7.9	10.1	of which, liquid investment	743	1,118	1,487	-	-
Year-end shares outstanding (mn)	120	120	131	131	131	Other assets	1	1	2	2	2
Weighted average shares outstanding (mn)	120	120	126	131	131	Total assets	4,561	5,286	9,560	9,289	10,130
Fully diluted shares outstanding (mn)	120	120	131	131	131	Net working capital	1,328	1,412	2,809	3,470	3,977
Cash Flow Statement (Rs mn)	FY14	FY15	FY16	FY17E	FY18E	Growth Ratios (%)	FY14	FY15	FY16	FY17E	FY18E
Operating cashflow						Net revenue	17.9	12.2	55.7	25.2	16.4
Pre-tax income	744	747	1,234	1,731	2,196	EBITDA	25.7	3.9	60.7	29.8	21.3
Add: depreciation and amortization	84	90	158	181	199	Adjusted net profit	7.8	(1.0)	43.0	44.7	27.9
Add: interest expense (net)	133	164	250	205	90						
Less: other adjustments	(16)	-	-	-	-	Ratios (%)					
Less: taxes paid	(225)	(245)	(431)	(578)	(733)	Effective tax rate	32	33	33	33	33
Add: working capital changes	(344)	(93)	(1,398)	(744)	(606)	EBITDA margin	17.0	15.7	16.2	16.8	17.5
Total operating cashflow	375	664	(188)	795	1,146	Adjusted net income margin	9.3	8.2	8.2	8.7	9.6
Investing cashflow						Net debt/equity	0.4	0.4	0.3	0.2	0.1
Capital expenditure	(250)	(392)	(1,789)	(350)	(350)	ROaCE	26.9	22	26	28	34
Investments	(280)	(369)	(370)	1,487	-	ROaE	27.4	23	23	21	23
Others	4	-	-	-	-	Total asset turnover ratio (x)	1.4	1.3	1.3	1.3	1.4
Total investing cashflow	(526)	(761)	(2,158)	1,137	(350)	Inventory days	52	48	64	64	64
Financing cashflow						Debtor days	80	75	80	80	80
Share issuances	-	-	1,500	-	-	Creditor days	40	34	36	36	36
Loans	392	375	1,464	(1,629)	(677)	Per share numbers (Rs)					
Less: Others	(242)	(297)	(485)	(366)	(333)	Diluted earnings	4.2	4.2	5.9	7.9	10.1
Total financing cashflow	150	77	2,479	(1,996)	(1,010)	Free cash	1.0	2.3	(15.0)	3.4	6.1
Net change in cash	(1)	(20)	133	(63)	(215)	Book value	17.1	20.1	34.1	40.2	47.7
Opening cash	76	76	56	189	125	Valuations (x)					
Add: other adjustments	-	-	-	-	-	Price to diluted earnings	38.3	38.7	27.4	20.4	16.0
Closing cash	75	56	189	125	(89)	EV/EBITDA	21.0	19.9	13.5	11.1	9.1
						Price to book	9.5	8.1	4.8	4.0	3.4

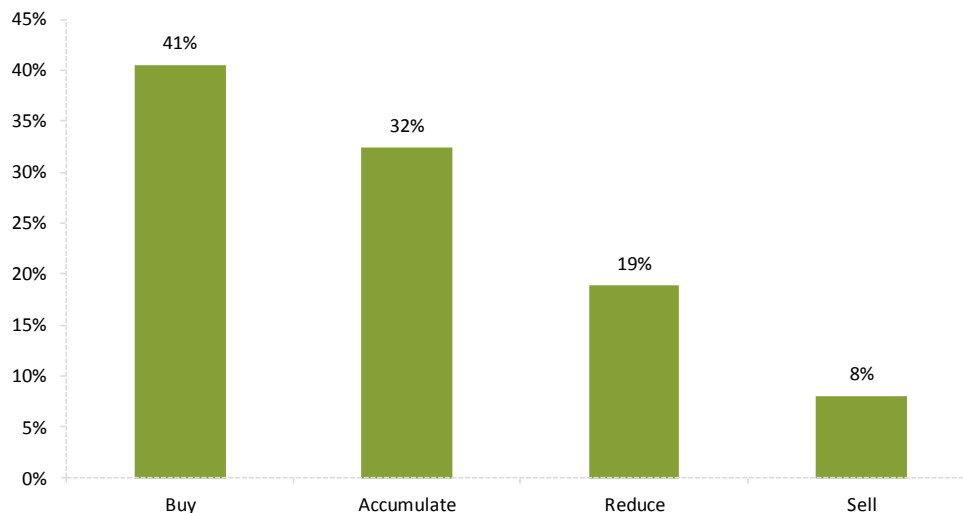
Note: pricing as on 31 May 2016; Source: Company data, quant Global Research estimates

Rating history – Suprajit Engineering



Source: quant Global Research estimates

Institutional Equities Research coverage universe – distribution of ratings



RATINGS AND OTHER DEFINITIONS

STOCK RATING SYSTEM

BUY. We expect the stock to deliver >15% absolute returns.

ACCUMULATE. We expect the stock to deliver 6-15% absolute returns.

REDUCE. We expect the stock to deliver +5% to -5% absolute returns.

SELL. We expect the stock to deliver negative absolute returns of >5%.

Not Rated (NR). We have no investment opinion on the stock.

SECTOR RATING SYSTEM

Overweight. We expect the sector to relatively outperform the Sensex.

Underweight. We expect the sector to relatively underperform the Sensex.

Neutral. We expect the sector to relatively perform in line with the Sensex.

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