ANANDRATHI

India I Equities

Auto Components
Result Update

Change in Estimates ☐ Target ☑ Reco ☐

18 August 2016

Suprajit Engineering

Sharper focus on exports to expand margins further; Buy

Rating: **Buy**
Target Price: ₹232
Share Price: ₹197

Healthy growth in 2W helped Suprajit to 16.3% yoy revenue growth. With steady commodity prices, margins grew modestly. The company is expanding business in North America. We maintain a Buy.

Decent top line growth. Suprajit's Q1 sales rose 16.3% yoy to ₹1.43bn (3.6% above our estimate). Two-wheelers grew ~11%. The aftermarket, two-wheelers, automotive and non-automotive contributed respectively 10%, 52%, 33% and 5%. Domestic sales were 81%, exports 19%. Consolidated revenue rose 63.9% yoy to ₹2.54bn, with domestic and exports being 65% and 35% respectively.

Better gross margin resulted in higher margins. The 169-bp yoy drop in raw material cost pushed up the operating margin 58bps yoy to 16.9%. The consolidated EBIDTA margin climbed 107bps yoy to 16.1%. This was due to a higher gross margin on account of steady commodity prices and lower employee costs.

Modest profit growth. PAT inched up 3% yoy to ₹128m, driven by better operational efficiency. Consolidated profit climbed 42.2% yoy to ₹197m. aided by robust sales and margin growth.

Ongoing expansions. Suprajit has set up a wholly-owned subsidiary in the US to explore opportunities to expand its business in North America. For FY17, planned capex for Phoenix is ~₹130m; for Suprajit ~₹100m. Commercial production at the Chennai plant has commenced and it is expected to receive contracts from BMW, etc., in H2.

Valuation. With the capacity expansions and acquisitions, asset turnover is likely to improve. The company will focus only on cables in the export market for better positioning. At our price target, we value the stock at 25x Mar'18e PE and maintain a Buy. At present, it quotes at FY18e EV/EBITDA of 11.8x. **Risks:** Higher interest rates, commodity price rises and keener competition.

Quarterly results(YE Mar)	Q1 FY16	Q1FY17	% yoy	FY15	FY16	% yoy
Sales (₹ m)	1,234	1,435	16.3	5,222	5,879	12.6
EBITDA (₹ m)	201	242	20.4	840	992	18.1
EBITDA margin (%)	16.3	16.9	58bps	16.1	16.9	79bps
Interest (₹ m)	39	49	26.7	135	194	43.8
Depreciation (₹ m)	20	23	14.2	75	84	12.5
Other income (₹ m)	57	21	(64.3)	35	126	255.7
PBT (₹ m)	180	190	5.4	665	839	26.1
Tax (₹ m)	56	62	10.8	219	282	29.2
Tax rate (%)	31.1	32.6	159bps	32.9	33.7	80bps
PAT (₹ m)	124	128	3.0	447	500	11.9

Source: Company

Key data	SEL IN /SUPE.BO
52-week high / low	₹220 / ₹120
Sensex / Nifty	28005 / 8624
3-m average volume	$0.3m
Market cap	₹26bn / $393m
Shares outstanding	131.3m

Shareholding pattern(%)	Jun'16	Mar'16	Dec'15
Promoters	47.4	47.4	51.8
- of which, Pledged	-	-	-
Free Float	52.6	52.6	48.2
- Foreign Institutions	7.5	5.9	4.8
- Domestic Institutions	8.0	8.4	2.8
- Public	37.1	38.4	40.6

Financials (YE Mar)	FY17e	FY18e
Sales (₹ m)	11,526	14,057
Net profit (₹ m)	936	1,217
EPS (₹)	7.1	9.3
Growth (%)	23.8	30.0
PE (x)	27.9	21.5
PBV (x)	5.0	4.2
RoE (%)	21.7	24.0
RoCE (%)	20.5	23.9
Dividend yield (%)	0.8	0.8
Net gearing (%)	0.3	0.3

Source: Anand Rathi Research

Girish Solanki
Research Analyst
+9122 6626 6712
girishsolanki@rathi.com

Quick Glance – Consolidated Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
Net revenues	5,452	6,118	9,525	11,526	14,057
Revenue growth (%)	17.9	12.2	55.7	21.0	22.0
- Oper. expenses	4,528	5,157	7,982	9,632	11,681
EBIDTA	924	961	1,543	1,894	2,376
EBITDA margin (%)	17.0	15.7	16.2	16.4	16.9
- Interest expenses	134	164	250	303	342
- Depreciation	84	90	158	245	280
+ Other income	38	41	155	152	192
- Tax	236	245	431	449	584
Effective tax rate (%)	31.7	32.7	34.9	30.0	30.0
Reported PAT	508	503	719	936	1,217
+/- Extraordinary items	-	-	(57)	-	-
Adjusted cons. PAT	508	503	756	936	1,217
Adj. FDEPS (₹ / sh)	4.2	4.2	5.8	7.1	9.3
Adj. FDEPS growth (%)	16.9	(1.0)	37.8	23.8	30.0
DPS (Rs/share)	1.0	1.0	1.1	1.5	1.5

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
Share capital	120	120	131	131	131
Reserves & surplus	1,927	2,288	4,344	5,050	6,037
Shareholders' fund	2,047	2,408	4,476	5,182	6,169
Debt	1,421	1,943	2,598	2,498	2,398
Minority interests	-	-	541.86	541.86	541.86
Deferred tax Liab (net)	75	91	86	86	86
Capital employed	**3,543**	**4,442**	**7,702**	**8,308**	**9,195**
Net fixed assets	1,531	1,850	3,481	3,370	3,390
Investments	748	1,118	1,487	2,093	2,699
- of which Liquid					
Working capital	1,188	1,419	2,546	2,305	2,707
Cash	76	56	189	540	399
Capital deployed	**3,543**	**4,442**	**7,702**	**8,308**	**9,195**
Net debt	597.6	769.5	922.3	(134.6)	(700.3)
Net debt / equity (%)	0.66	0.78	0.54	0.38	0.32
W C turn (days)	68.6	77.8	76.0	76.8	65.1

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
Consolidated PAT	508	503	719	936	1,217
+ Non-cash Items	98	106	153	245	280
Cash profit	606	609	873	1,182	1,498
- Incr. / (decr.) in WC	327	230	1,127	(240)	402
Operating cash-flow	279	379	(254)	1,422	1,096
- Capex	250	409	1,789	135	300
Free cash-flow	29	(30)	(2,043)	1,287	796
- Dividend	134	137	161	230	230
+ Equity raised	-	(0)	11	-	-
+ Debt raised	392	521	655	(100)	(100)
- Investments	294	369	370	606	606
+ Others	5.3	(5.2)	2,040.2	-	-
Net cash-flow	(1)	(20)	133	351	(140)
+ Opening cash	76	76	56	189	540
Closing cash	76	56	189	540	399

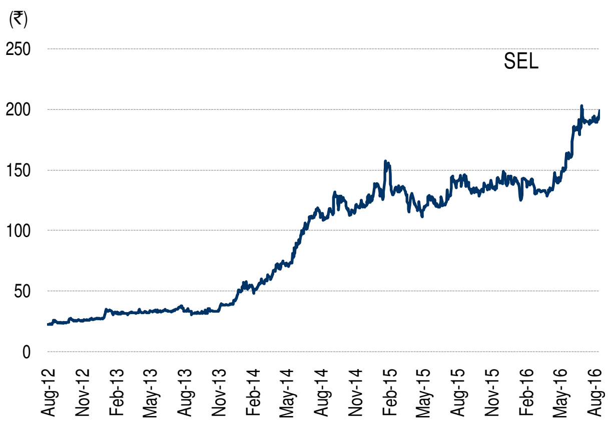
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹197

Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	47.1	47.6	36.3	27.9	21.5
Cash P/E (x)	40.5	40.4	29.8	22.1	17.5
EV / EBITDA (x)	26.5	25.7	17.5	13.7	10.7
EV / sales (x)	4.5	4.0	2.8	2.3	1.8
P/B (x)	11.7	9.9	5.8	5.0	4.2
RoAE (%)	27.4	22.6	23.3	21.7	24.0
RoACE (%)	26.7	21.8	22.8	20.5	23.9
Dividend yield (%)	0.5	0.5	0.5	0.8	0.8
Dividend payout (%)	26.3	26.6	22.4	24.6	18.9
Debt / equity (x)	0.7	0.8	0.6	0.5	0.4
Receivable days	70.9	72.8	64.1	63.0	63.0
Inventory days	42.2	46.9	47.3	48.9	40.9
Payable days	86.5	79.8	76.5	65.0	65.0
Working capital days	68.6	77.8	76.0	76.8	65.1
Fixed asset T/O (x)	3.8	3.6	3.6	3.4	4.2

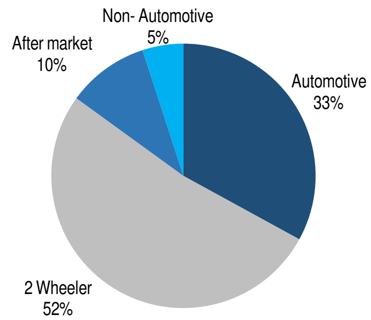
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Revenue breakup



Source: Anand Rathi Research

Result Highlights

Healthy operating performance

For Q1 FY17 Suprajit's revenue came at ₹1.43bn (up 16.3% yoy), 3.6% above our estimate. In Q1, excluding Phoenix, its two-wheeler, automotive, the aftermarket and non-automotive businesses brought respectively 52%, 33%, 10% and 5% to revenue. (Including Phoenix figures were respectively 40%, 25%, 32% and 3%.) The consolidated Q1 EBITDA margin climbed up 107bps yoy to 16.1%.

Standalone profit increased 3% due to the better margins, and consolidated net profit rose 42.2% yoy due to healthy margins and sales growth. To cater to domestic demand and to increase its market share, Suprajit is expanding capacities. Of the standalone revenue, exports comprised 19%, domestic sales the balance.

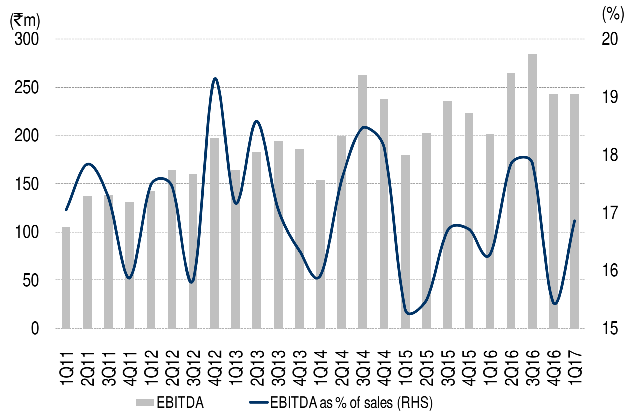
Fig 7 – Quarterly results

Quarterly results	Q1 FY16	Q1 FY17	% var	Q4 FY16	% var	Q1 FY17e	% var
Sales	1,234	1,435	16.3	1572.4	(8.8)	1385.3	3.6
EBIDTA	201	242	20.4	242.8	(0.4)	242.4	(0.2)
PBT	180	190	5.4	180.1	5.6	178.0	6.8
PAT	124	128	3.0	101.0	26.7	119.3	7.3

Source: Company, Anand Rathi Research

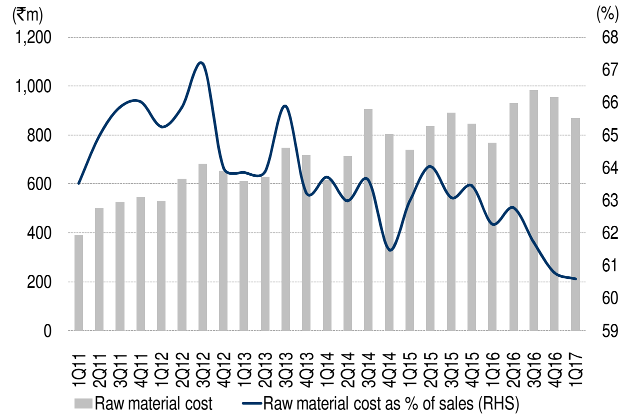
The new plant at Chennai has started commercial production. The tax rate ahead is likely to be ~33%. Also, in order to explore opportunities to expand the business in North America, the company has established a wholly-owned subsidiary there.

Fig 8 – EBITDA margin increases yoy



Source: Company, Anand Rathi Research

Fig 9 – Declining raw material cost



Source: Company, Anand Rathi Research

Valuation

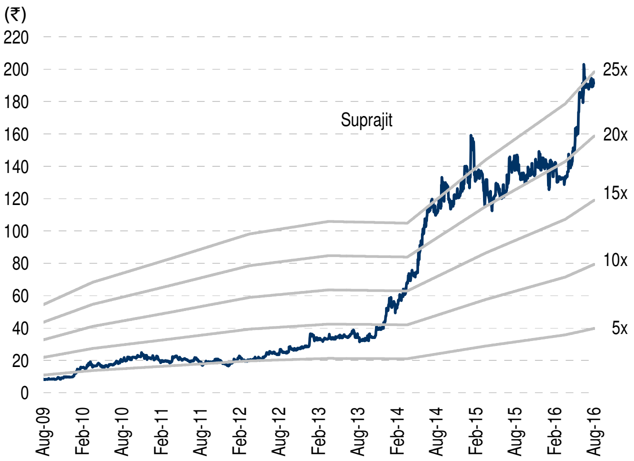
The Phoenix acquisition is likely to bring in operating synergies. We expect steady demand from specific OEMs and the shoring up of control-cable growth in the auto and non-auto markets, exports and replacements. Along with domestic demand, the company's sharper focus on exports and the aftermarket would lead to revenue growth. We expect a comparatively healthy EBITDA margin and return ratios.

At the ruling price of ₹197, the stock quotes at PE of 27.9x and 21.5x FY17e and FY18e earnings respectively, and EV/EBITDA of 13.7x and 10.7x.

We expect the greater capacity, export growth and thrust on setting up plants at new locations would propel revenue at a 21.5% CAGR over FY16-18. Due to the greater operating leverage, the operating margin is projected to come at a high ~17%. We believe that increased traction in the company's exports and its after-market business are likely to keep the RoCE over FY16-18 at around 23%.

We are positive about Suprajit and maintain our Buy recommendation. We assign a one-year-forward PE of 25x (FY18) and arrive at a price target of ₹232.

Fig 10 – PE band



Source: Bloomberg, Anand Rathi Research

Risks

- **Slowdown in OEMs:** Nearly 83% of Suprajit's sales are to OEMs; the rest to the replacement, non-auto and export markets. Hence, low volume growth for OEMs could trim the company's revenue.
- **Higher interest rates:** A substantially high percentage of vehicles is purchased through auto finance. In today's high-interest-rate regime, financing costs have risen, trimming volume growth of auto manufacturers and, thereby, Suprajit. Any further rise in interest rates could prove to be a significant negative.
- **Rise in input costs:** Raw-material costs (primarily of steel and PVC), being as high as 65% of sales, play a large part in pricing and margins.
- Any adverse movement in prices could erode margins.

Appendix

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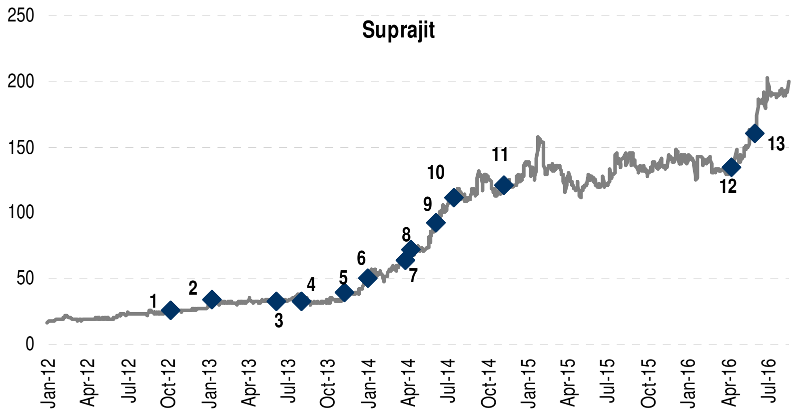

	Date	Rating	TP (₹)	Share Price (₹)
1	24-Sep-12	Buy	32	24
2	07-Jan-13	Buy	41	34
3	03-Jun-13	Buy	42	34
4	02-Aug-13	Buy	40	34
5	08-Nov-13	Buy	47	39
6	31-Dec-13	Buy	58	55
7	26-Mar-14	Buy	73	63
8	07-Apr-14	Buy	78	73
9	03-Jun-14	Buy	99	87
10	14-Jul-14	Buy	126	112
11	05-Nov-14	Buy	141	121
12	07-Apr-16	Buy	185	134
13	01-Jun-16	Buy	190	158

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