



Suprajit Engineering Ltd

Consistency & outperformance to continue in the coming years!

Posted near in-line set of numbers and stable outlook provided for existing businesses. Expect new acquisition and new products from STC to be new gems in the coming few years for Suprajit, that will increase export growth opportunities & will further reduce dependency on domestic 2Ws. Despite input cost pressures, the company managed to maintain margin at 16%+, passing on RMC & other costs is expected to support atleast a similar level of margin in the coming quarters. In LDC, low hanging fruits are visible on the costs side and multiple synergies in terms of manufacturing, engineering & business development to support continuation of the company's outperformance in the coming years. We maintain ACCUMULATE rating and target price of Rs 405 per share.

Transformational LDC acquisition, outperformance expected

- LDC will help Suprajit to diversify further from two-wheelers and will emerge as a global leader in mechanical cables with wider footprints across the USA, EU, China and other major nations.
- The management is confident of turning around Kongsberg automotive business/financials by enhancing scale, productivity improvement and cross selling products to clients.
- Apart from visible low hanging fruits on the cost side, significantly superior growth expected in the coming years from a combined LDC & Suprajit business. Exports expected to further improve.

Suprajit Technical Centre (STC) started yielding results

- The STC work of the last few years on new products has now started yielding better results. It has now 15 patents, developed new products viz. Digital speedometer, Throttle position sensor, Rotary sensor, CBS mechanisms & Seeder gear boxes with electromechanical clutches.
- They are in the final stage of commercial launch & Rs 1bn of business is visible from new products.

Stable business performance from existing three segments

- Auto cable exports done well & winning new businesses, despite chip shortage issues. Domestic cables business expects to rebound due to improvement in chips in PVs, while 2Ws to see gradual improvement. Phoenix lamps business numbers expected to remain consistent in coming quarters.
- Non-auto volumes picked up, expect good growth as a change in the strategy is yielding results.

Margin consistency remained despite input cost pressures

- Despite higher gas prices, key raw materials costs, freight/container costs, chip issues, etc the company managed to prove its consistency by reporting 16%+ margin in these tough times.
- The company at one go is unable to pass-on the complete cost pressures specially to export clients and it's an ongoing process. We expect Q2FY22 level of margin to continue in Q3 & Q4.

Valuations

- Suprajit should get a scarcity premium for its dominant leadership position and its year-on-year outperformance is noticeable. Assigned multiple of 21x FY23e EPS of Rs 19.3 to arrive at a TP of Rs 405 per share. Recommend Accumulate!

Y/E Mar (Rs mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Q2FY22e	Var. (%)
Total Income	4,937	4,431	11.4	3,616	36.5	5,241	(5.8)
Gross margin (%)	42.6	41.2	136 bps	44.7	(210) bps	-	-
EBITDA	801	735	8.9	492	62.6	841	(4.8)
EBITDA margin (%)	16.2	16.6	(37) bps	13.6	261 bps	16.0	17 bps
Other income	152	86	76.6	66	129.7	-	-
PBT	726	622	16.7	529	37.3	-	-
Taxes paid	231	141	63.3	97	137.2	-	-
Effective tax rate (%)	31.7	22.7	905 bps	18.4	1,337 bps	-	-
Reported PAT	496	481	3.1	432	14.8	-	-
PAT margin (%)	10.0	10.8	(81) bps	11.9	(190) bps	-	-
Adjusted PAT (adj. exceptional items)	540	481	12.4	270	99.8	546	(1.1)

Source: Company, SMIFS research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY19	15,899	11.1	2,328	14.6	1,338	-3.4	9.6	18.7	16.3	24.6	15.5
FY20	15,628	-1.7	2,187	14.0	1,040	-22.3	7.4	12.8	13.6	25.2	13.0
FY21	16,409	5.0	2,367	14.4	1,427	37.3	10.2	15.5	14.2	35.7	22.3
FY22e	19,718	20.2	3,029	15.4	2,020	41.6	14.6	19.3	18.2	24.9	16.9
FY23e	29,939	51.8	4,381	14.6	2,669	32.1	19.3	21.9	20.2	18.9	12.2

Source: Company, SMIFS research estimates

Rating: Accumulate Upside: 11.3%
Current Price: 364 Target Price: 405

Earlier recommendation

Previous Rating: Buy
Previous Target Price: 405

Market data

Bloomberg: SEL IN
52-week H/L (Rs): 411/179
Mcap (Rs bn/USD bn): 50/0.67
Shares outstanding (mn): 138.4
Free float: 55.0%
Daily vol. (3M Avg): 0.33 mn
Face Value (Rs): 1
Group: BSE 500

Source: Bloomberg, SMIFS research

Shareholding pattern (%)

	Sep-21	Jun-21	Mar-21	Dec-20
Promoter	44.6	44.6	44.6	44.6
FIs	4.7	4.4	4.3	3.4
DIs	13.3	13.1	12.3	12.8
Public/others	37.4	37.9	38.8	39.2

Source: BSE

Price performance (%) *

	1M	3M	12M	36M
BSE 500	0%	11%	49%	73%
SEL	-1%	17%	86%	56%

*As on 11th Nov 2021; Source: AceEquity, SMIFS research

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Q2FY22– Key takeaways from the management call

Auto cables business

- Margins came in better than estimates as the company has received price increases of previous quarters in Q2FY22. Reasonably passed on the prices, but cost pressures still exist.
- Facing material cost pressures, container cost issues and are in discussion with customers to take the burden, which is an ongoing process.
- Expect chip shortage issues to continue till March 2022, however supplies in FY23 is expected to be much better than FY22.
- Done well in cable exports, but predictability is poor due to chip supply fluctuations globally and poor demand for entry level cars in domestic.

Non-auto cables business

- Volumes picked up here and approaching customer to get compensation for the cost increase.
- Non-auto will continue to do well with stable double-digit margin and good growth.

Phoenix lamps division

- Gas, glass & other key RM prices shoot up. Able to pass on a price increase in domestic aftermarket, but yet to pass on prices with OEMs and exports, which is an ongoing process.
- Luxlite is a challenge and the management is working on it. Taken impairment of goodwill, which was there as a part of the transaction. Historically, goodwill was overstated and came as part of the deal.
- For Luxlite and Trifa, the management is working on changing the strategy and making some final restructuring of operation, some cleaning up is required over the next one year.

Light Duty Cable (LDC) division

- It's a transformational transaction done and Suprajit will become the preferred supplier for a lot of customers across the globe. There is no impact of EV on this business.
- Received good manufacturing, engineering and business development through LDC acquisition.
- Significantly superior growth is expected for Suprajit with LDC as compare to the industry.
- There are many overheads and low hanging fruits sitting in LDC, which management believes can be reduced.
- Initial 1st year work will be about cleaning-up, however looking at beyond a year, the margins for this business will improve to double-digit. RoCE will be similar to an India cable business.
- Acquisition funding will be 50% debt and 50% internal accruals. No other liabilities like pension, etc. will come to the company.

Suprajit Technical Centre (STC)

- Developed multiple products and a few are in the final stage of commercial launch in the next one year. STC have 15 patents now and expect overall business to pick up now.
- New products are Digital speedometer, Throttle position sensor, Rotary sensor, CBS mechanisms and Seeder gear boxes with electromechanical clutches.
- Work done in the last 2-3 years is now fructifies in specific businesses. As per the management, LDC and STC are going to be the game changer for Suprajit in the next five years.

Margin outlook

- Strong headwinds due to input cost pressures, freight/container & other costs, however, able to pass on some of these cost increases and working on other areas.
- 14-16% EBITDA margin guidance maintained despite an increase in key raw material prices.

Capex plans

- It will do capex of Rs 1.25bn towards buildings & facilities, plant & machinery and other key areas. This will be funded by taking 50% debt and balance via internal accruals.
- Big chunk will go in putting the building to consolidate the aftermarket division. Consolidating manufacturing facility for an aftermarket business, bringing in a centralized facility to manufacture, store, service & cater to the aftermarket business.
- Setting up HS1 line for Phoenix, another line putting for electronic business. Additionally, setting up solar energy to generate power for plants. This Rs 1.25bn of capex will get spread across six quarters.

Other key highlights

- Other income increased substantially, mainly due to forex gains.
- Presently not looking for any more acquisitions and the focus will be more on growing and streamlining existing businesses including LDC.

Outlook and Valuations

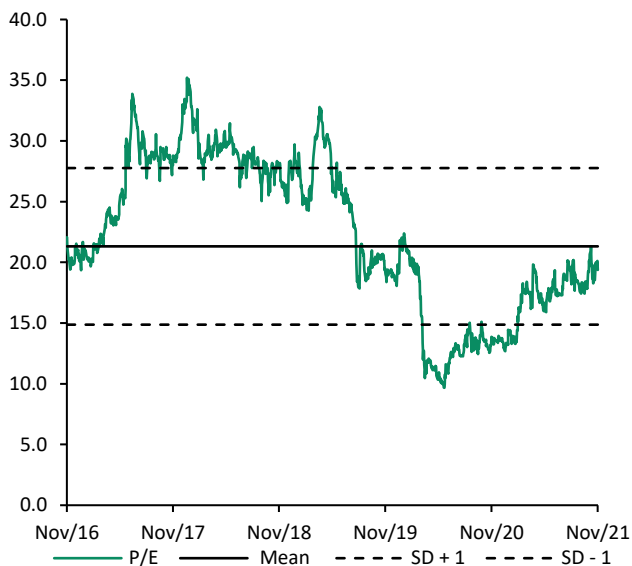
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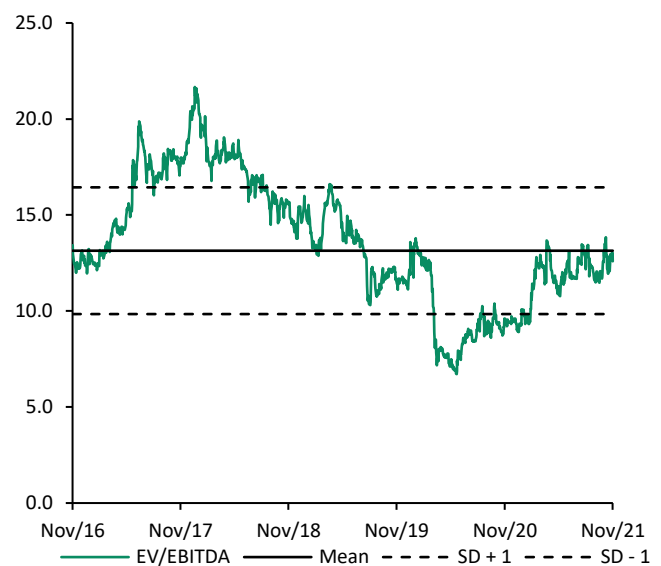
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Fig 1: 1-year forward P/E



Source: AceEquity, SMIFS research

Fig 2: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS research

Quarterly financials, operating metrics & key performance indicators

Fig 3: Quarterly Financials

Consolidated (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Sales	4,123	3,890	1,775	4,431	5,073	5,130	3,616	4,937
Raw Materials	2,430	2,283	987	2,606	2,942	3,013	2,001	2,836
Employee Costs	770	712	596	730	884	874	778	866
Other Expenditure	422	347	241	361	384	426	344	434
EBITDA	501	549	-48	735	864	817	492	801
Depreciation	149	145	138	144	143	143	143	146
Interest	52	57	55	55	54	28	47	35
Other Income	53	42	58	86	70	122	66	152
Exceptional items		-274		0	0	0	161	-45
PBT	353	115	-183	622	736	768	529	726
Tax	41	86	-38	141	220	193	97	231
Tax rate (%)	12	74	21	23	30	25	18	32
Reported PAT	312	30	-145	481	516	575	432	496
Adjusted PAT	312	304	-145	481	516	575	270	540
YoY Growth (%)								
Revenue	1.6	-9.8	-51.2	11.3	23.0	31.9	103.8	11.4
EBITDA	-17.4	-13.6	NA	31.8	72.4	48.8	-	8.9
Adj. PAT	-20.4	-27.1	NA	6.9	65.6	89.1	-	12.4
QoQ Growth (%)								
Revenue	3.5	-5.6	-54.4	149.7	14.5	1.1	-29.5	36.5
EBITDA	-10.2	9.7	-	-	17.5	-5.4	-39.8	62.6
Adj. PAT	-30.7	-2.5	-	-	7.4	11.4	-53.0	99.8
Margin (%)								
RMC/revenue (%)	58.9	58.7	55.6	58.8	58.0	58.7	55.3	57.4
Gross margin (%)	41.1	41.3	44.4	41.2	42.0	41.3	44.7	42.6
Employee cost/revenue (%)	18.7	18.3	33.6	16.5	17.4	17.0	21.5	17.5
Other expenses/revenue (%)	10.2	8.9	13.6	8.1	7.6	8.3	9.5	8.8
EBITDA margin (%)	12.1	14.1	-2.7	16.6	17.0	15.9	13.6	16.2
PAT margin (%)	7.6	0.8	-8.2	10.8	10.2	11.2	11.9	10.0

Source: Company, SMIFS research estimates

Fig 4: Key Assumptions

Operating Details	FY19	FY20	FY21	FY22e	FY23e
Auto cable division					
Revenue (Rs mn)	9,319	9,358	9,751	11,966	18,160
YoY Growth (%)	15.3%	0.4%	4.2%	22.7%	51.8%
% of total revenues	58.6%	59.9%	59.4%	60.7%	60.7%
EBITDA Margin (%)	15.7%	16.3%	15.9%	17.3%	15.6%
Non-Auto cable division					
Revenue (Rs mn)	3,395	3,145	3,375	4,017	7,355
YoY Growth (%)	13.2%	-7.4%	7.3%	19.0%	83.1%
% of total revenues	21.4%	20.1%	20.6%	20.4%	24.6%
EBITDA Margin (%)	14.6%	11.1%	14.4%	14.8%	14.2%
Phoenix lamps division					
Revenue (Rs mn)	3,184	3,125	3,283	3,735	4,424
YoY Growth (%)	-1.4%	-1.9%	5.1%	13.8%	18.5%
% of total revenues	20.0%	20.0%	20.0%	18.9%	14.8%
EBITDA Margin (%)	11.6%	9.8%	10.2%	9.9%	11.5%

Source: Company, SMIFS research estimates

Financial Statements

Income Statement					
YE March (Rs mn)	FY19	FY20	FY21	FY22e	FY23e
Revenues	15,899	15,628	16,409	19,718	29,939
% Growth	11.1	(1.7)	5.0	20.2	51.8
Raw Materials	9,148	9,151	9,547	11,277	16,047
% of sales	57.5	58.6	58.2	57.2	53.6
Personnel	3,037	2,927	3,083	3,747	5,371
% of sales	19.1	18.7	18.8	19.0	17.9
Manufacturing & Other Expenses	1,386	1,364	1,411	1,664	4,140
% of sales	8.7	8.7	8.6	8.4	13.8
EBITDA	2,328	2,187	2,367	3,029	4,381
EBITDA Margin (%)	14.6	14.0	14.4	15.4	14.6
Other Income	380	224	336	437	477
Depreciation & Amortization	410	581	568	591	1,021
EBIT	2,298	1,830	2,136	2,875	3,836
Finance Cost	246	227	192	174	270
PBT From Operations	2,052	1,603	1,943	2,700	3,567
Exceptional Income/(Expense)	0	-274	0	0	0
PBT	2,052	1,329	1,943	2,700	3,567
Tax-Total	714	289	516	680	898
Effective tax rate (%)	34.8	21.8	26.6	25.2	25.2
Reported PAT	1,338	1,040	1,427	2,020	2,669
PAT Margin	8.4	6.7	8.7	10.2	8.9
% Growth	(3.4)	(22.3)	37.3	41.6	32.1

Source: Company, SMIFS research estimates

Key Ratios					
YE March	FY19	FY20	FY21	FY22e	FY23e
Growth Ratios (%)					
Net Sales	11.1	(1.7)	5.0	20.2	51.8
EBITDA	(1.6)	(6.0)	8.2	27.9	44.6
Adjusted Net Profit	(3.4)	(22.3)	37.3	41.6	32.1
Margin Ratio (%)					
EBITDA Margin	14.6	14.0	14.4	15.4	14.6
EBIT Margin	14.5	11.7	13.0	14.6	12.8
PBT margins	12.9	10.3	11.8	13.7	11.9
PAT Margin	8.4	6.7	8.7	10.2	8.9
Return Ratios					
ROE	18.7	12.8	15.5	19.3	21.9
ROCE	16.3	13.6	14.2	18.2	20.2
ROIC	14.0	13.2	13.0	17.7	18.7
Turnover Ratios (days)					
Gross Block Turnover (x)	2.5	2.2	2.2	2.5	2.9
Inventory	108	110	108	107	106
Debtors	67	64	63	61	59
Creditors	70	85	86	86	86
Cash Conversion Cycle	105	89	85	82	79
Solvency ratio (x)					
Debt-equity	0.5	0.4	0.3	0.3	0.3
Net Debt-Equity	0.2	0.1	(0.1)	(0.2)	(0.0)
Gross Debt/EBITDA	1.6	1.7	1.4	1.0	1.0
Current ratio	1.7	1.5	1.8	2.0	1.9
Interest coverage ratio	9.4	8.1	11.1	16.5	14.2
Dividend					
DPS (Rs.)	1.6	1.8	1.8	2.5	3.3
Dividend Yield (%)	0.4	0.5	0.5	0.7	0.9
Dividend Payout (%)	16.2	23.5	17.2	17.5	17.5
Per share (Rs.)					
Basic EPS (reported)	9.6	7.4	10.2	14.6	19.3
FDEPS (Adjusted)	9.6	7.4	10.2	14.6	19.3
CEPS	12.5	11.6	14.3	18.9	26.7
BV	55.4	61.0	70.8	80.1	96.0
Valuation					
P/E	24.6	25.2	35.7	24.9	18.9
P/BV	4.3	6.0	5.1	4.6	3.8
EV/EBITDA	15.5	13.0	22.3	16.9	12.2
EV/Sales	2.3	1.8	3.2	2.6	1.8

Source: Company, SMIFS research estimates

Balance Sheet					
YE March (Rs mn)	FY19	FY20	FY21	FY22e	FY23e
Sources of funds					
Capital	140	140	140	138	138
Reserves & Surplus	7,611	8,398	9,757	10,946	13,148
Shareholders' Funds	7,751	8,538	9,897	11,084	13,286
Total Loan Funds	3,621	3,803	3,277	2,975	4,598
Deferred tax liabilities	635	563	552	664	1,008
Other liabilities	2,466	2,901	3,406	3,907	5,569
Total Liabilities	14,472	15,805	17,133	18,629	24,461
Application of funds					
Gross Block	6,576	7,489	7,749	8,248	12,282
Accumulated Dep.	1,038	1,610	2,099	2,691	3,712
Net Block	5,539	5,878	5,649	5,557	8,570
Capital WIP	266	145	42	42	80
Net Assets	5,805	6,024	5,691	5,599	8,650
Investments	0	890	348	348	348
Other non current assets					
Inventories	2,710	2,762	3,145	3,306	4,660
Sundry Debtors	2,916	2,750	3,320	3,295	4,839
Cash & Bank Balances	534	694	945	1,722	1,102
Loans and Advances	6	10	10	12	18
Other current Assets	2,124	2,268	3,188	3,831	4,247
Total Current Assets	8,290	8,483	10,608	12,167	14,868
Sundry Creditors	1,751	2,140	2,476	2,657	3,781
Other Current Liabilities	3,159	3,531	3,415	3,384	3,803
Provisions	102	118	135	162	246
Total Current Liabilities	5,012	5,789	6,025	6,203	7,830
Net Current Assets	3,278	2,695	4,583	5,964	7,037
Total Assets	14,472	15,805	17,133	18,629	24,461

Source: Company, SMIFS research estimates

Cash Flow					
YE March (Rs mn)	FY19	FY20	FY21	FY22e	FY23e
Operating profit before WC changes					
Operating profit before WC changes	2,651	2,292	2,519	3,465	4,856
Net chg in working capital	(526)	499	(427)	316	(909)
Income taxes paid	(677)	(470)	(482)	(680)	(898)
Cash flow from operating activities (a)	1,448	2,320	1,610	3,101	3,049
Capital expenditure	(587)	(664)	(251)	(499)	(4,072)
Free Cash Flow	860	1,656	1,359	2,601	(1,023)
Cash flow from investing activities (b)	(890)	(1,565)	(598)	(1,098)	(2,746)
Cash flow from financing activities (c)	(418)	(607)	(860)	(1,227)	(927)
Net chg in cash (a+b+c)	140	148	152	775	(624)

Source: Company, SMIFS research estimates

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