

Suprajit Engineering | BUY

Strong performance despite multiple headwinds; long-term growth intact

Suprajit Engineering (SEL) reported consolidated EBITDA margin of 16.2% (-40bps YoY, +260bps QoQ), 140bps above JMFe driven by strong margin performance in automotive cable division. Management expects the headwinds such as chip shortage, weak demand for domestic 2W, container costs, shipment delays and high commodity prices to continue in near-term. However, long-term profitability would be driven by a) recovery in 2W sales, b) new business on vendor consolidation by global OEMs, c) new product development and d) exposure to the replacement market. In addition, inorganic revenue growth (33%+) is expected to be driven by the recent agreement to acquire LDC division of Kongsberg. We believe that strong operating cash flows would majorly fund the requirement for the new acquisition and fresh capex (INR 1.3bn). We expect revenue/EPS CAGR of 18%/30% over FY21-24E. We maintain BUY with revised Sep'22 TP of INR 400 (1-yr forward PE of 20x). We believe that LDC acquisition is EPS accretive and completion of transaction (Jan'22) is likely to add INR 40/share to our fair value. Technological obsolescence of halogen bulbs in the long term, prolonged Covid/semiconductor disruption, inability to deliver healthy performances in subsidiaries and currency movement are the key risks to our call.

- 2QFY22 – strong performance:** In 2QFY22, net sales stood at INR4.9bn (+11.4% YoY, +36.5% QoQ), 7% above JMFe, driven by 9%/8% higher revenue in automotive cable/phoenix lamp division. EBITDA margin stood at 16.2% (-40bps YoY, +260bps QoQ), 140bps above JMFe driven by strong margin performance in automotive cable division. EBITDA stood at INR 801mn (+9% YoY, +63% QoQ), 17% above JMFe driven by higher revenue and margin. Adj. PAT came-in at INR 540mn (+12% YoY, +73% QoQ), 26% above JMFe. The company has announced additional capex of INR 1.3bn over next 18 months for various new projects. Net debt increased INR 151mn during 2QFY22 to INR 3.2bn.
- Automotive cables division:** Automotive cable division revenue stood at INR 3bn (+10% YoY, +52% QoQ), 9% below JMFe. As per the company, selective customer shutdowns due to IC shortages continue to impact sales. Company expects disruption to continue during the rest of FY22. Margin came in at record high 19.9% (+230bps YoY, +500bps QoQ), 440bps above JMFe driven by price hikes pertaining to previous quarter RM inflation. New order wins in Europe, revival of 2W OEM demand in India and launch of new trade schemes in aftermarket are expected to drive revenue from 2H. Planned expansion at Narsapura is expected to be completed by FY22-end.
- Phoenix Lamps division (PLD):** Revenue stood at INR 925mn (flat YoY, +52% QoQ), 8% above JMFe. Margin remained low at 9.6% (-520bps YoY, +330bps QoQ), 340bps lower than JMFe, driven by pricing pressure owing to steep RM inflation. Special gas prices have increased 5x+ and margins are likely to remain muted in near term as material cost will be passed with a lag of 6 months on renewal of long- term contracts. Restructuring efforts in Trifa/Luxlite entities are not yielding results owing to high operational costs, price competition vs. Chinese/Korean peers and increasing sale on online platforms. Management has fully written down the investment value of INR 485mn in Luxlite (in standalone) and made an impairment provision of INR 127mn towards goodwill (in consolidated).



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	400
Upside/(Downside)	10.0%
Previous Price Target	370
Change	8.1%

Key Data – SEL IN

Current Market Price	INR364
Market cap (bn)	INR50.3/US\$0.7
Free Float	51%
Shares in issue (mn)	138.4
Diluted share (mn)	138.4
3-mon avg daily val (mn)	INR111.3/US\$1.5
52-week range	411/179
Sensex/Nifty	60,353/18,017
INR/US\$	74.4

Price Performance

%	1M	6M	12M
Absolute	4.0	44.2	88.2
Relative*	3.5	18.3	34.9

* To the BSE Sensex

JM Financial Research is also available on:
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY22E	FY23E	FY24E
Net Sales	23,238	27,182	18,001	22,208	25,046
Sales Growth (%)	23.4	17.0	9.7	23.4	12.8
EBITDA	3,663	4,408	2,672	3,425	4,026
EBITDA Margin (%)	15.8	16.2	14.8	15.4	16.1
Adjusted Net Profit	2,450	3,082	1,706	2,304	2,816
Diluted EPS (INR)	17.7	22.3	12.3	16.6	20.4
Diluted EPS Growth (%)	29.3	25.8	20.8	35.0	22.2
ROIC (%)	20.8	23.8	16.3	21.0	24.4
ROE (%)	20.1	20.9	16.4	19.3	19.7
P/E (x)	20.6	16.3	27.4	20.3	16.6
P/B (x)	3.8	3.1	4.3	3.6	3.0
EV/EBITDA (x)	13.2	10.5	17.1	12.8	10.3
Dividend Yield (%)	0.4	0.4	0.5	0.5	0.5

Source: Company data, JM Financial. Note: Valuations as of 10/Nov/2021

- **Non-automotive cable division (including Wescon):** Revenue sustained at record high levels of INR 1bn (+29% YoY, -3% QoQ), in-line with JMFe. Margin stood at 11.4% (-370bps YoY, -420bps QoQ), 310bps below JMFe. Management highlighted that higher logistics costs, container availability and commodity inflation (engineering plastics, etc.) are leading to volatility in margin. However, outlook remains positive and company has guided FY22 margin to be similar to FY21.
- **New products to drive growth:** Suprajit Technology Centre is now fully operational and has multiple products under development. The products which are at final stage of commercial launches are digital speedometer, throttle position sensor, rotary sensor, CBS mechanisms, etc. Initial business order won are above INR 1bn annually.

Exhibit 1. Quarterly financial result (consolidated)

(INR mn)	2QFY22	2QFY21	% YoY	1QFY22	% QoQ	2QFY22e	% A/E
Sales	4,937	4,431	11.4	3,616	36.5	4,627	6.7
RM cost	2,836	2,606	8.8	2,001	41.7	2,739	3.5
As a % of sales	57.4	58.8	-136bps	55.3	210bps	59.2	-175bps
Employee cost	866	730	18.7	778	11.2	833	3.9
As a % of sales	17.5	16.5	107bps	21.5	-399bps	18.0	-46bps
Other cost	434	361	20.4	344	26.2	370	17.3
As a % of sales	8.8	8.1	65bps	9.5	-72bps	8.0	80bps
Expenditure	4,136	3,697	11.9	3,124	32.4	3,942	4.9
EBITDA	801	735	8.9	492	62.6	685	16.9
EBITDA Margin (%)	16.2	16.6	-37bps	13.6	261bps	14.8	142bps
Other Income	152	86	76.6	66	129.7	70	116.9
Interest	35	55	-35.9	47	-25.2	35	1.0
Depreciation	146	144	1.8	143	2.0	148	-1.2
PBT	771	622	23.9	368	109.7	572	34.8
Tax	231	141	63.3	97	137.2	143	61.3
Tax rate (%)	29.9	22.7	721bps	26.4	347bps	25.0	491bps
Exceptional (gain)/loss	45	0		-161		0	
PAT Reported	496	481	3.1	432	14.8	429	15.6
PAT (Adjusted)	540	481	12.4	313	72.6	429	26.0
PAT Margin (%)	10.9	10.8	10bps	8.7	229bps	9.3	168bps
EPS (INR)	3.9	3.5	12.4	2.3	72.6	3.1	27.4

Source: Company, JM Financial

Exhibit 2. Consolidated - segmental performance

	2QFY22	2QFY21	% YoY	1QFY22	% QoQ	2QFY22e	% A/E
Automotive cable business							
Net sales	3,001	2,724	10.2	1,969	52.4	2,756	8.9
EBITDA	596	480	24.3	292	104.2	427	39.6
EBITDA Margin	19.9	17.6	226bps	14.8	504bps	15.5	437bps
Phoenix lamps							
Net sales	925	922	0.4	610	51.7	854	8.4
EBITDA	89	136	-34.5	39	130.5	111	-19.6
EBITDA Margin	9.6	14.8	-515bps	6.3	329bps	13.0	-336bps
Non-automotive cable business							
Net sales	1,011	786	28.6	1,038	-2.6	1,017	-0.6
EBITDA	115	119	-3.2	162	-28.8	147	-21.9
EBITDA Margin	11.4	15.1	-374bps	15.6	-419bps	14.5	-311bps

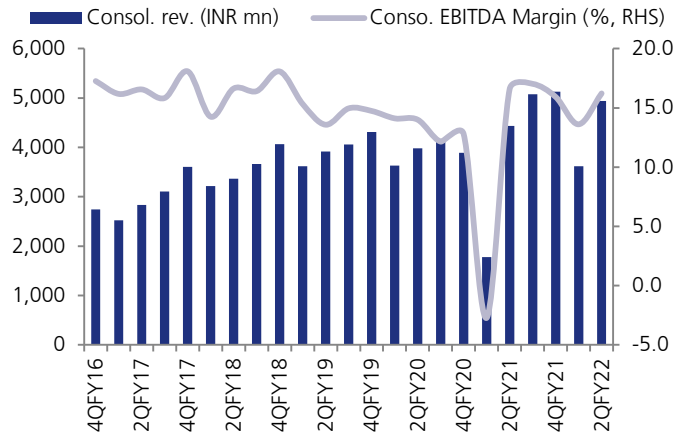
Source: Company, JM Financial

Exhibit 3. Quarterly financial result (standalone)

(INR mn)	2QFY22	2QFY21	% YoY	1QFY22	% QoQ	2QFY22e	% A/E
Sales	3,548	3,117	13.8	2,091	69.7	2,927	21.2
RM cost	2,169	1,977	9.7	1,256	72.7	1,859	16.7
As a % of sales	61.1	63.4	-231bps	60.1	105bps	63.5	-238bps
Employee cost	434	378	15.1	344	26.2	396	9.8
As a % of sales	12.2	12.1	13bps	16.5	-422bps	13.5	-128bps
Other cost	221	182	21.4	171	29.1	205	8.0
As a % of sales	6.2	5.9	39bps	8.2	-196bps	7.0	-76bps
Expenditure	2,824	2,537	11.3	1,772	59.4	2,459	14.8
EBITDA	723	580	24.7	319	126.6	468	54.7
EBITDA Margin (%)	20.4	18.6	178bps	15.3	512bps	16.0	441bps
PAT (Adjusted)	529	432	22.5	246	114.8	367	44.2
EPS (INR)	3.8	3.1	22.5	1.8	114.8	2.6	45.7

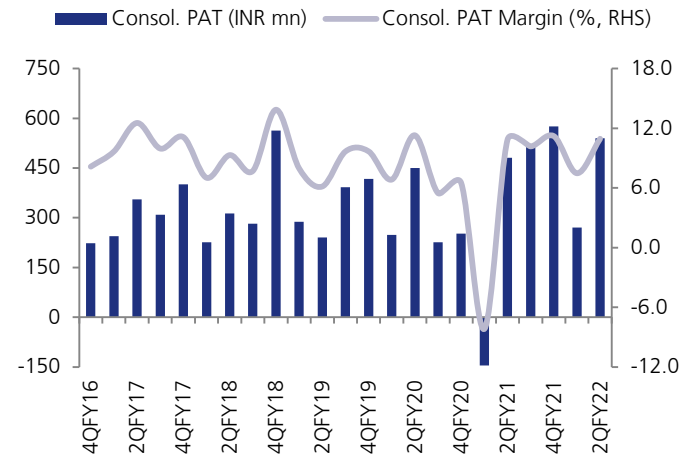
Source: Company, JM Financial

Exhibit 4. Consolidated revenue and margin trend



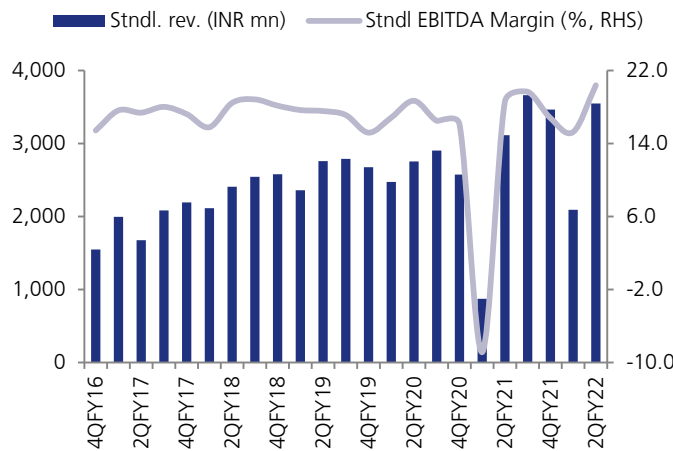
Source: Company, JM Financial

Exhibit 5. Consolidated profit trend



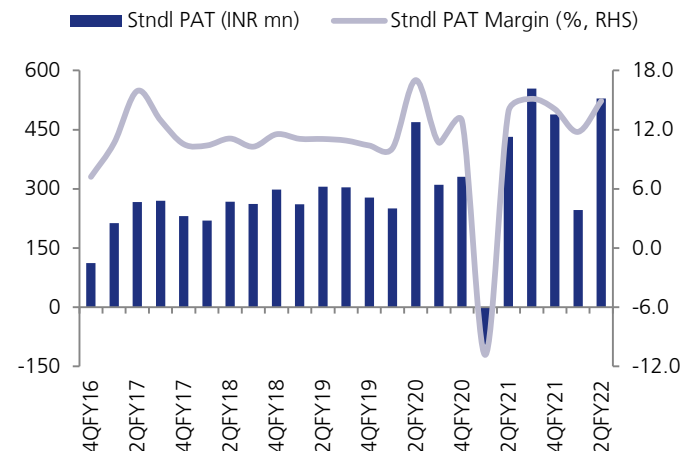
Source: Company, JM Financial

Exhibit 6. Standalone revenue and margin trend



Source: Company, JM Financial

Exhibit 7. Standalone profit trend



Source: Company, JM Financial

Exhibit 8. Suprajit Engineering - change in assumptions (Consolidated)

	New assumption			Old assumption			% Change		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue (INR mn)	18,835	23,238	27,182	18,001	22,208	25,046	4.6%	4.6%	8.5%
EBITDA (INR mn)	2,929	3,663	4,408	2,672	3,425	4,026	9.6%	6.9%	9.5%
margin (%)	15.6%	15.8%	16.2%	14.8%	15.4%	16.1%			
PAT (INR mn)	1,895	2,450	3,082	1,706	2,304	2,816	11.1%	6.3%	9.5%
EPS (INR)	13.7	17.7	22.3	12.3	16.6	20.4	11.1%	6.3%	9.5%

Source: JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)			
Y/E March	FY23A	FY24A	FY22E	FY23E	FY24E
Net Sales	23,238	27,182	18,001	22,208	25,046
Sales Growth	23.4%	17.0%	9.7%	23.4%	12.8%
Other Operating Income	0	0	0	0	0
Total Revenue	23,238	27,182	18,001	22,208	25,046
Cost of Goods Sold/Op. Exp	13,350	15,524	10,505	12,959	14,488
Personnel Cost	4,297	4,997	3,330	3,996	4,467
Other Expenses	1,928	2,253	1,494	1,829	2,064
EBITDA	3,663	4,408	2,672	3,425	4,026
EBITDA Margin	15.8%	16.2%	14.8%	15.4%	16.1%
EBITDA Growth	25.0%	20.4%	12.9%	28.2%	17.6%
Depn. & Amort.	688	727	609	653	687
EBIT	2,975	3,681	2,064	2,772	3,339
Other Income	406	467	370	406	447
Finance Cost	158	94	188	147	81
PBT before Excep. & Forex	3,223	4,055	2,245	3,031	3,705
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	3,223	4,055	2,245	3,031	3,705
Taxes	774	973	539	727	889
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	2,450	3,082	1,706	2,304	2,816
Adjusted Net Profit	2,450	3,082	1,706	2,304	2,816
Net Margin	10.5%	11.3%	9.5%	10.4%	11.2%
Diluted Share Cap. (mn)	138.4	138.4	138.4	138.4	138.4
Diluted EPS (INR)	17.7	22.3	12.3	16.6	20.4
Diluted EPS Growth	29.3%	25.8%	20.8%	35.0%	22.2%
Total Dividend + Tax	214	214	214	214	214
Dividend Per Share (INR)	1.6	1.6	1.6	1.6	1.6

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY23A	FY24A	FY22E	FY23E	FY24E
Profit before Tax	3,223	4,055	2,245	3,031	3,705
Depn. & Amort.	688	727	609	653	687
Net Interest Exp. / Inc. (-)	158	94	188	147	81
Inc (-) / Dec in WCap.	-1,405	-1,726	-711	-1,363	-1,473
Others	0	0	0	0	0
Taxes Paid	-774	-973	-539	-727	-889
Operating Cash Flow	1,891	2,177	1,792	1,741	2,112
Capex	-1,200	-400	-652	-400	-400
Free Cash Flow	691	1,777	1,141	1,341	1,712
Inc (-) / Dec in Investments	0	0	0	0	0
Others	-158	-94	-188	-147	-81
Investing Cash Flow	-1,358	-494	-840	-547	-481
Inc / Dec (-) in Capital	0	0	-2	0	0
Dividend + Tax thereon	-214	-214	-214	-214	-214
Inc / Dec (-) in Loans	-800	-1,551	-300	-1,200	-1,200
Others	0	0	-479	0	0
Financing Cash Flow	-1,014	-1,765	-994	-1,414	-1,414
Inc / Dec (-) in Cash	-482	-82	-42	-220	216
Opening Cash Balance	657	175	941	898	678
Closing Cash Balance	175	93	898	678	894

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY23A	FY24A	FY22E	FY23E	FY24E
Shareholders' Fund	13,333	16,200	10,909	12,998	15,599
Share Capital	138	138	138	138	138
Reserves & Surplus	13,194	16,062	10,770	12,859	15,461
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	2,477	926	3,277	2,077	877
Def. Tax Liab. / Assets (-)	515	515	515	515	515
Total - Equity & Liab.	16,325	17,641	14,701	15,590	16,991
Net Fixed Assets	6,777	6,451	6,074	5,820	5,533
Gross Fixed Assets	8,885	9,285	7,485	7,885	8,285
Intangible Assets	1,357	1,357	1,357	1,357	1,357
Less: Depn. & Amort.	3,515	4,242	2,819	3,472	4,159
Capital WIP	51	51	51	51	51
Investments	4,195	4,995	3,395	4,195	4,995
Current Assets	8,998	10,368	8,207	9,134	10,408
Inventories	4,138	4,841	3,354	3,955	4,460
Sundry Debtors	4,138	4,841	3,452	3,955	4,460
Cash & Bank Balances	175	93	898	678	894
Loans & Advances	478	526	435	478	526
Other Current Assets	68	68	68	68	68
Current Liab. & Prov.	3,645	4,173	2,975	3,560	3,945
Current Liabilities	2,961	3,438	2,338	2,876	3,211
Provisions & Others	684	735	637	684	735
Net Current Assets	5,352	6,196	5,232	5,574	6,463
Total - Assets	16,325	17,641	14,701	15,590	16,991

Source: Company, JM Financial

Dupont Analysis		FY23A	FY24A	FY22E	FY23E	FY24E
Net Margin		10.5%	11.3%	9.5%	10.4%	11.2%
Asset Turnover (x)		1.5	1.6	1.2	1.5	1.5
Leverage Factor (x)		1.3	1.2	1.4	1.3	1.1
RoE		20.1%	20.9%	16.4%	19.3%	19.7%

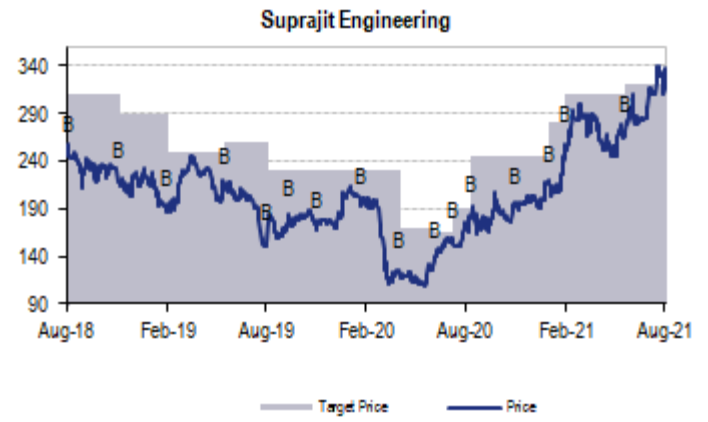
Key Ratios		FY23A	FY24A	FY22E	FY23E	FY24E
BV/Share (INR)		96.4	117.1	78.8	93.9	112.7
ROIC		20.8%	23.8%	16.3%	21.0%	24.4%
ROE		20.1%	20.9%	16.4%	19.3%	19.7%
Net Debt/Equity (x)		-0.1	-0.3	-0.1	-0.2	-0.3
P/E (x)		20.6	16.3	27.4	20.3	16.6
P/B (x)		3.8	3.1	4.3	3.6	3.0
EV/EBITDA (x)		13.2	10.5	17.1	12.8	10.3
EV/Sales (x)		2.1	1.7	2.5	2.0	1.7
Debtor days		65	65	70	65	65
Inventory days		65	65	68	65	65
Creditor days		55	55	55	55	55

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
16-Aug-18	Buy	310	
15-Nov-18	Buy	290	-6.5
12-Feb-19	Buy	250	-13.8
29-May-19	Buy	260	4.0
14-Aug-19	Buy	230	-11.5
23-Sep-19	Buy	230	0.0
14-Nov-19	Buy	230	0.0
3-Feb-20	Buy	230	0.0
13-Apr-20	Buy	170	-26.1
16-Jun-20	Buy	165	-2.9
20-Jul-20	Buy	190	15.2
24-Aug-20	Buy	245	28.9
13-Nov-20	Buy	245	0.0
14-Jan-21	Buy	280	14.3
11-Feb-21	Buy	310	10.7
31-May-21	Buy	320	3.2

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for large-cap stocks* and REITs and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for large-cap* stocks and REITs and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* Large-cap stocks refer to securities with market capitalisation in excess of INR200bn. REIT refers to Real Estate Investment Trusts.

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