SUPRAJIT ENGINEERING LIMITED

...connecting globally

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Suprajit Engineering (SEL) is the market leader in domestic automotive cables, a leading player in global automotive and non-automotive cable space. The company has grown leaps and bounds through its organic and inorganic growth over the past years. We are positive on SEL due to (1) The positivity in the underlying domestic automobile industry, where SEL is a dominant player with market share in 2Ws (~75%) and 4Ws (~32%). (2) Synergies with LDC to help add new clients and products to its portfolio. This will lead to a significant jump in the financials within our time horizon. (3) New products to help drive content per vehicle. (4) Likely recovery in non-auto business (84% is Wescon) and product portfolio expansion. (5) The advantages of scale and India-based production helps SEL maintain cost leadership vis-a-vis its peers on the global platform thus growing the margin profile. Furthermore, SEL maintains a strong free cash flow generating model with nominal capex requirements along with a minimal net debt balance sheet. We are building in Revenue/ EBITDA CAGR of 12%/ 26% over FY23–25E along with RoE/ RoCE of 18.4%/ 21% for FY25E. We value SEL at 23x FY25E EPS (currently trading at 17x FY25E EPS) to arrive at a TP of ₹488.

Abundant gains expected from the domestic automobile industry

SEL is the market leader in automotive cables with ~75% market share in 2W OEMs (48% of segment revenue) and ~32% in 4W OEMs (18% of segment revenue). We believe SEL will benefit from the recovery in 2W and 4W OEMs. In the aftermarket cable segment, a large part of the business lies with unorganized players. Aftermarket accounts for ~16% of the cable division's revenue. However, over the last few years, SEL has gained from the shift in business from the unorganized to the organized players. However, exports, which contribute ~18% of the segment revenue, are impacted by the adverse macro conditions. We believe a recovery in the foreign markets will further add to the growth. We expect SEL's auto cables revenue to clock a 14% CAGR over FY23–25E.

LDC acquisition, a synergic fit!

With the acquisition of Light Duty Cables (LDC), SEL became the second largest player in cables globally. The huge scale of operation, close proximity to customers, cost leadership, and complementary customer & product portfolio will further aid SEL in the export market. Currently, LDC is facing the challenge of delayed cost pass-through from customers, which has impacted profitability; however, the company under SEL is negotiating with customers. We expect profitability to recover going ahead and estimate a 10% margin in FY25E. We also expect SEL and LDC to gain a significant market share in the global automotive cable industry (~5% currently) and the latter to post revenues of ₹7.6bn / ₹8.8 bn in FY24E/ FY25E.

Key Financials	FY 22	FY 23	FY 24E	FY 25E
Total Sales (₹ mn)	18,405	27,524	30,375	34,810
EBITDA margins (%)	14.5%	11.9%	13.2%	14.6%
PAT margins (%)	9.2%	6.0%	7.5%	8.5%
EPS (₹)	14.1	12.0	16.5	21.5
P/E (x)	28.0	32.9	24.0	18.4
P/BV (x)	4.4	4.5	3.9	3.3
EV/EBITDA (x)	17.0	17.2	13.8	10.7
ROE (%)	15.6	13.6	16.2	18.0
ROCE (%)	17.6	14.4	17.8	20.5

Rating	BUY
Current Market Price (₹)	389
12 M Price Target (₹)	488
Potential upside (%)	25

Stock Data	
Sector :	Auto Components
FV (₹) :	1
Total Market Cap (₹ bn) :	54
Free Float Market Cap (₹ bn) :	30
52-Week High / Low (₹) :	446 / 317
BSE Code / NSE Symbol :	532509 / SUPRAJIT
Bloomberg :	SEL IN

Shareholding Pattern

(%)	Jun-23	Mar-23	Dec-22	Sep-22
Promoter	44.64	44.64	44.64	44.64
MFs	14.73	14.65	14.18	13.13
FPIs	5.11	5.07	5.10	5.42
Bodies Corporate	3.73	3.77	3.74	3.78
AIF	1.09	1.22	1.36	1.99
Others	30.70	30.65	30.98	31.04

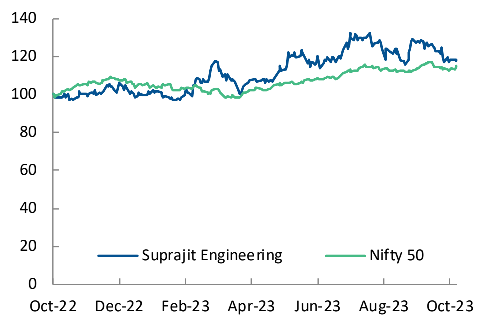
Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
Suprajit	-8.0%	-10.6%	8.7%	19.2%
Nifty 50	-0.9%	1.9%	11.8%	16.7%

** To date / current date : October 11, 2023*

Suprajit vs Nifty 50



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Non-traditional business to act as the next phase of growth

Suprajit Electronics Division (SED) and Suprajit Technology Center (STC) have developed several new products like digital clusters, electromechanical actuators, rotary sensors, throttle position sensors, etc. These products have been received very well by customers. In a short span, it has received orders worth ₹1.5 bn from traditional and new-age OEMs. The company has started its first supply to a leading E2W OEM, where the content is significantly higher than the ICE business. SEL started a new facility for electronic products in Bengaluru in Nov 2022. We see a huge potential for SEL in the electronics business and believe it can cross-sell these products to its existing customers owing to its strong customer relations.

Non Auto business is facing headwinds currently, long term outlook looks good

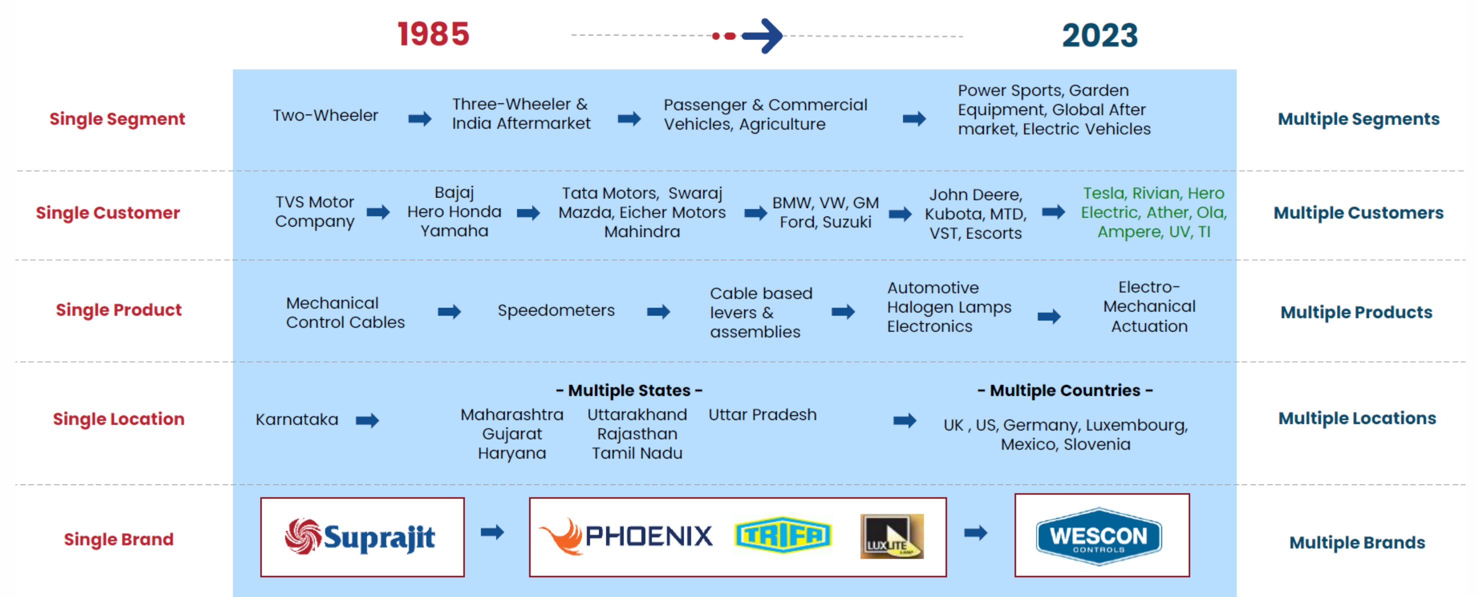
SEL derives ~90% of the non-auto business revenue from the overseas markets (Wescon Controls & Shanghai Lonestar). It is the largest cable manufacturer for the OPE segment in the USA. The company is facing challenges in the non-automotive business due to the macro headwinds in its operating markets. However, we foresee the situation improving from H2 FY24. Further, expanding its geographic footprint in markets like Brazil, Mexico, China, and the EU (via LDC) should aid growth. We expect revenue CAGR of 8% in the non-auto business over FY23–25E.

Company Background

Suprajit Engineering Ltd (SEL) was incorporated in 1985 in Bengaluru by Mr. Ajith Kumar Rai to manufacture automotive cables for mechanical control applications. The company initially started as a supplier of single liner cable to a single customer, TVS. Over the years, it has added several products to its kitty and has expanded its product portfolio. It has strengthened its market position by increasing its customer and geographical base. The company over a period of time through organic and inorganic growth is primarily into manufacturing mechanical control cables for the automotive and non-automotive segments, speedometers for 2Ws, halogen lamps for 2Ws, 3Ws, PV, CV, off-road applications, and non-auto control cables for outdoor power equipment. SEL's customer profile comprises marquee domestic OEMs in 2W & 3W space; under the PV segment, it caters to domestic and international OEMs. Along with OEMs, the company also has a significant presence in the aftermarket segment.

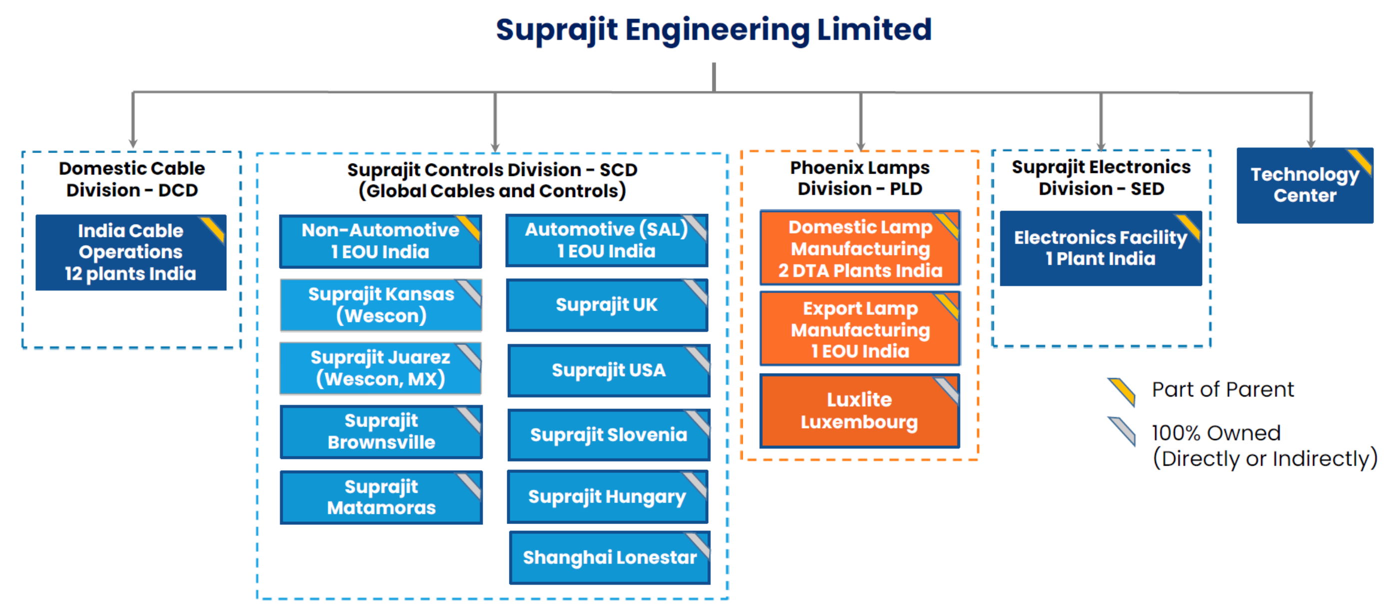
The group has four major sources of revenue i.e. Automotive Cables Division, Phoenix Lamps Division, LDC and non-automotive Cables (SENA division). However, from Q1 FY24 onwards, the company has regrouped its segments as 1). Suprajit Controls Division (SCD), comprising Automotive and non-automotive exports from India and businesses outside India. 2). Domestic Controls Division (DCD), categorizing domestic cables and certain new products manufactured in India. 3). Phoenix Lamps Division (PLD) and 4). Suprajit Electronics Division (SED) & Suprajit Technology Centre (STC) which have developed electromechanical actuators, digital clusters, rotary sensors, throttle position sensors etc.

Growth Journey



Source: SEL

Group Structure



Source: SEL

Subsidiaries Overview

Subsidiary	Overview
Suprajit Automotive Pvt Ltd.	SAPL was incorporated as 'CTP Suprajit Automotive Pvt. Ltd.' dated December 21, 2004, its name was then changed to 'Suprajit Automotive Pvt. Ltd.' in Feb 2007. It was initially set up to be a joint venture that would function as a 100% export-oriented unit, it acquired the entire shareholding of the joint venture partner in the entity in fiscal 2007. Consequently, SAPL became and remains a wholly-owned Subsidiary.
Suprajit Europe Limited (UK)	Suprajit Europe was first incorporated as 'COBCO 750 Ltd.' on February 2, 2006, its name was subsequently changed to 'Gills Cables Ltd.' on March 22, 2006. Its name was changed to 'Suprajit Europe Ltd.' on June 1, 2011. Suprajit Europe was set up to acquire the business of CTP Gills Cables Ltd., UK, which it completed in fiscal 2007. Currently owns 100% of the share capital of Suprajit Europe.
Phoenix Lamps Ltd.	Incorporated in 1991, Phoenix Lamps Ltd. (PLL) primarily manufactures halogen lamps for the automobile industry. The company has a strong presence in the international aftermarket with a high proportion of consolidated sales arising from overseas markets. PLL has two international subsidiaries, Luxlite Lamps S.A.R.L and Trifa Lamps GmbH. PLL was promoted as an Indo-Japanese JV by Mr. B.K. Gupta and co-promoted by Pradeshiya Industrial & Investment Corporation of UP Ltd. (PICUP) in technical and financial collaboration with Phoenix Electric Co. Ltd. and Soei Tsusho Company Ltd. In FY07, Actis acquired a 66% ownership stake in the company through a mix of stake purchases from previous promoters, preferential allotment, and an open offer. Subsequently, in August 2013, PLL transferred its general lighting business to its subsidiary Halonix Technologies Ltd. (HTL) and sold it to Actis. During FY16, SEL acquired a 61.93% stake in PLL for a total consideration of ₹1.54 bn, post which it acquired the rest of the stake through an open offer. Consequent to this acquisition, PLL became a subsidiary of SEL.
Wescon Controls LLC	During September 2016, the group acquired 100% shares in the US-based Wescon Controls LLC (WCL), through its wholly-owned US-based subsidiary, Suprajit USA Inc. (SUI) for a consideration of USD 44.4 million. WCL manufactures mechanical control cables used in non-automotive and outdoor power equipment. The acquisition was expected to aid the group in diversifying its products and geographic profile, and also provide crossselling opportunities. SEL funded the acquisition through internal accrual and liquid funds of ₹1.27 billion and external debt of ₹1.68 billion, respectively.

Source: SEL

Key Management Profile

Mr. Ajith Kumar Rai

Mr. Rai has been the Executive Chairman of Suprajit Engineering Ltd. since April 1, 2019 and served as the Managing Director until March 31, 2019. Prior to that Mr. Rai served as the Chief Executive Officer of Suprajit Engineering Ltd. until February 2017. He has been the Non-Executive Chairman of Phoenix Lamps Ltd. since June 18, 2015. He holds a bachelor's degree in mechanical engineering from the National Institute of Engineering, University of Mysore and a Master of Applied Science Degree in Industrial Engineering from Dalhousie University (formerly known as the Technical University) of Nova Scotia, Canada. He is also a Member of the American Institute of Industrial Engineers, CII, ACMA.

Mr. Mohan N. S.

Mr. Mohan has been the Managing Director of Suprajit Engineering Ltd. since April 1, 2019. He is also the Chief Executive Officer of Phoenix Lamps Ltd. since June 2015. He has served as the Group Chief Executive Officer of Suprajit Engineering Ltd. since February 13, 2017, and as its President since December 5, 2013 until February 13, 2017. He started his career with BOSCH Bangalore and thereafter Visteon and Hansen/ ZF Transmissions. He has held various positions including that of Chief Operations Officer, Country Manager, Executive Director, and Managing Director. He has managed businesses in India, Thailand, China, Belgium, and USA.

Mr. Akhilesh Rai

Mr. Rai is the Chief Strategy Officer and Whole-Time Director at Suprajit Engineering Ltd. since June 12, 2020. He served as Head of Information Technology at Suprajit Engineering Ltd. from May 29, 2012 until June 12, 2020 and served as its Group CSO. Mr. Rai worked for a short period in a start-up IT company in Dallas, USA and in India. He joined Suprajit Automotive Pvt. Ltd. in August 2011 as an 'Executive -IT'. He has good exposure to IT & ITrelated areas. He worked in Grant Thornton, Kushers, Yagna, and Varaha. Mr. Rai holds a Bachelors in Electrical Engineering (minor in Economics) from Purdue University, USA and Masters in Business Administration from London Business School, UK.

Mr. J. Medappa Gowda

Mr. Gowda is the Chief Financial Officer of Phoenix Lamps Ltd. since May 27, 2017. Mr. Gowda serves as the Chief Financial Officer, Compliance Officer, and Company Secretary of Suprajit Engineering Ltd. Mr. Gowda served as its Senior General Manager and Vice President of Finance of Finance at Suprajit Engineering Ltd.

Key Milestones in Journey

1985

- Commencement of operations

1985-95

- Two new cable plants in Bangalore

1996-2005

- Listing of shares in NSE and BSE
- India's largest cable marker
- **Acquisition of Shah Concabs – 4W cable competitor**
- Plants in Bangalore, Manesar and Chakan
- 'Enterprise of the state' award by KSFC

2006-10

- New plants in Pantnagar, Haridwar and Manesar
- 100% EOU for non-automotive cables in Bangalore
- Best Enterprise of the State Award by Karnataka State
- Twin Awards by CNBC/ICICI/CRISIL- SME of the year & Auto Ancillary of the year
- **Acquisition of CTP Gills Cables, marquee global customers – now renamed as Suprajit Europe**

2011-23

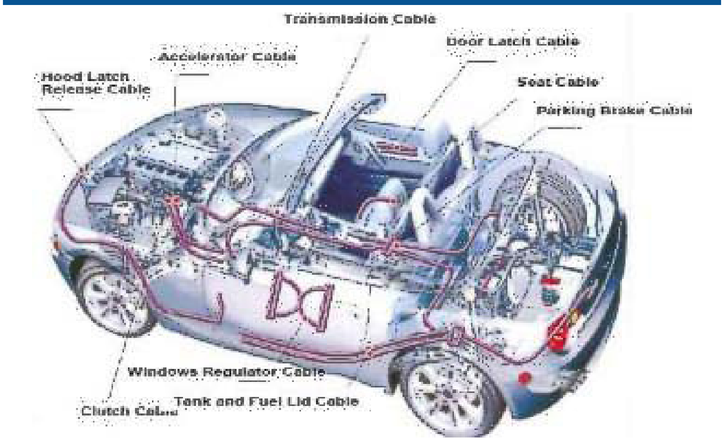
- Consolidating position as established global mechanical cable marker; diversifying and de-risking revenue profile
- New plant at SAL, Bangalore and Pathredi
- **Acquisition of Speedo Cable Business (PV) of Pricol**
- **Acquisition of Phoenix Lamps Limited**
- **Acquisition of Wescon Controls, Wichita, USA.**
- Launched two new plants in Chennai and Sanand
- Launched capex of Rs.100 crores to expand cable capacity to 300 million with 2 new plants.
- **Acquisition of Osram Karnai Plant (Phoenix Division)**
- **Acquisition of Cable Division (LDC) of Kongsberg Automotive**
- **Inauguration of Suprajit Electronics Division and Experience Centre.**

› **7 acquisitions – 5 in cable space / 2 in Halogen bulbs space**
› **Proven track record of integration**
› **Strong Organic growth**

Source: SEL

Cables in 2Ws

Cables in PVs



Source: SEL

Key Customers across segments

Segment	Customers
Two & Three-wheeler cables	TVS Motor, Bajaj Auto, Hero MotoCorp, Honda Motors, Yamaha, Piaggio, Harley Davidsson, Atul Group, Mahindra, Royal Enfield, KTM, Suzuki
Automotive	BMW, VW, Renault, Nissan, GM, Toyo Seat, Maruti Suzuki, ISRI Seats, M&M, Suzuki, Ford, Skoda, Swaraj Mazda, Hyundai, Force Motors, Inteva, Bosch, J-Ushin, Land Rover, PHA, Lear, Benteler, BOS GmbH & Co. KG, ITW, Toyota, Edscha, Brose, Minda Industries, Ashok Leyland, Tata Motors, Aston Martin, Witte, Magna, BEHR, Jaguar, VECV
Lighting	Unitech Machines Ltd., Varroc, Rinder India, Fiem, Valeo, Magneti Mareli, Hella, Neolite, IJL
Non-Automotive	John Deere, Husqvarna, Piaggio, MTD, TORO, Honda Power Equipment, Jacobsen, EZGO, TAFE, Kubota, Codica Automotive, JCB, New Holland, Whirlpool, Briggs & Stratton

Source: SEL

Strong Customer Traction

Source: SEL

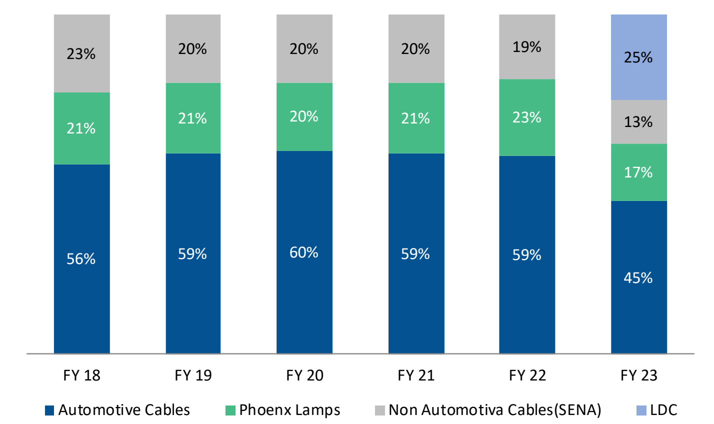
Product & Application per Vehicle

		Applications per Vehicle			
	Core Product	Part Numbers	Passenger Vehicles (PV)	2/3 Wheelers	Off-Highway (OFH) Agri, Powersports
	Push/Pull/Push-Pull Control Cables	15000+	15+	3-6	3-6
	Vehicle Lighting Halogen Lamps	80+	2	2	2

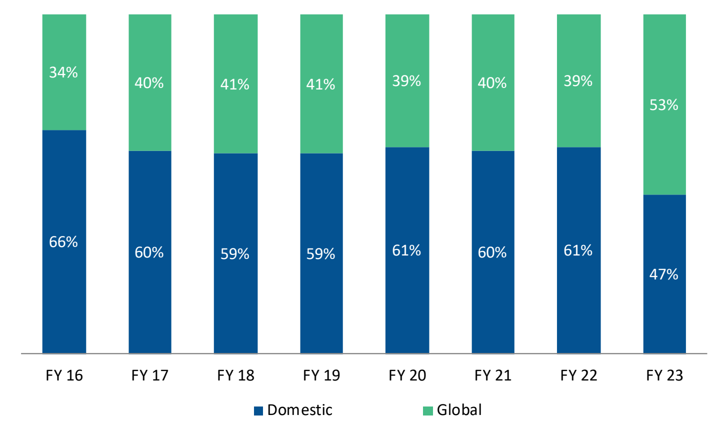
Source: SEL

Revenue break-up

Consolidated Reveunes - Business divisions wise distribution

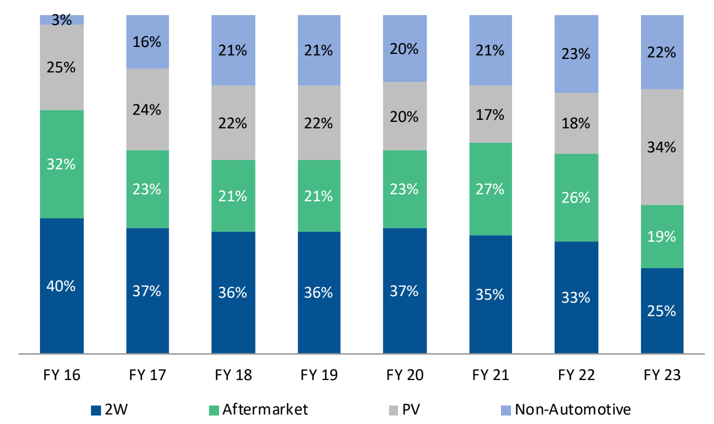


Geography wise

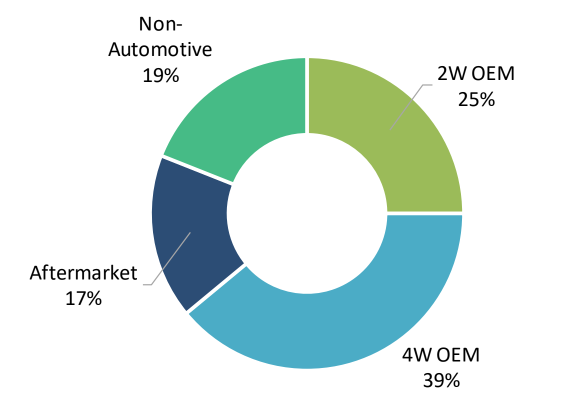


Source: SEL, LKP Research

Client verticals wise



Client verticals - Q1 FY24



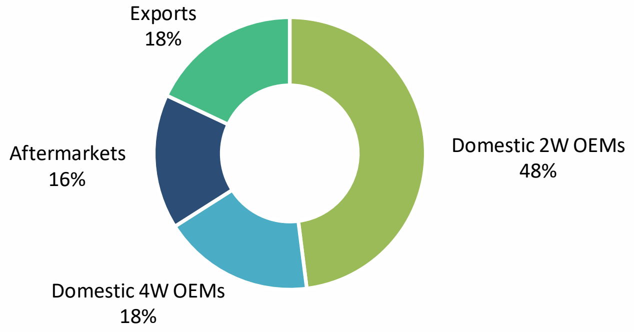
Source: SEL, LKP Research

Investment Argument

Domestic Cables Division – An Ace in the Pack

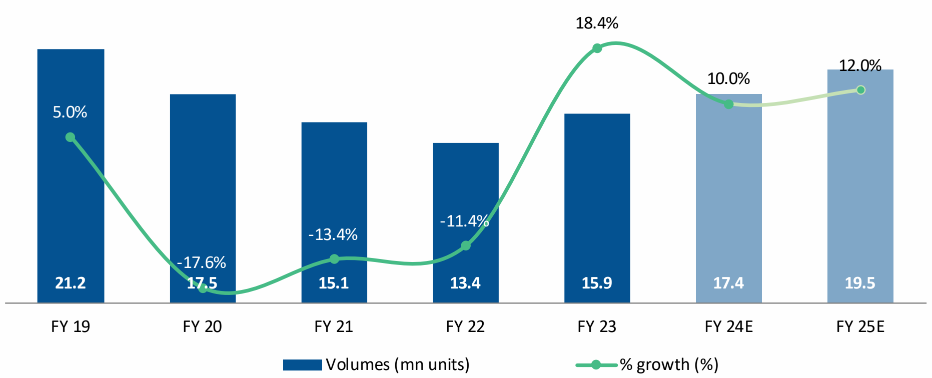
TVS was the very first and single client of SEL in 1985. Since then, it has strategically expanded its footprint, gaining significant SOBs with key OEMs including TVS (100%), Hero (~80%), Bajaj Auto (~80%), HMSI (70%), RE, and Yamaha. 2W OEMs contribute 48% to the automotive cables revenue. SEL holds a dominant position as the market leader in Indian 2W OEMs, commanding a market share of over 75%. While SEL's dominance in the cable division for 2W OEMs is substantial, the potential for further wallet share gains with existing OEMs remains limited. Nevertheless, we are factoring in a robust recovery of approximately ~11% CAGR in 2W sales from FY23 to FY25E. This growth is underpinned by several factors, including improved rural incomes driven by - a). Higher crop yields and better MSPs, b). Increased demand in the premium motorcycle segment, and c). The emergence of replacement demand. Furthermore, SEL's strong presence among new-age OEMs presents an additional upside to our revenue projections. Typically, an ICE 2W has ~5–7 cables, used mainly for the clutch, speedometer, seat, brakes, throttle, and lid opening. Whereas EVs don't require cables for throttle and clutch; thus, increasing electrification can have a marginal impact on the content per vehicle of cables over the longer term. However, new-age electronic products will compensate for the loss of cable business in EVs.

Break-up of Automotive Cables division



Source: SEL, LKP Research

2W Industry - Volumes & Growth

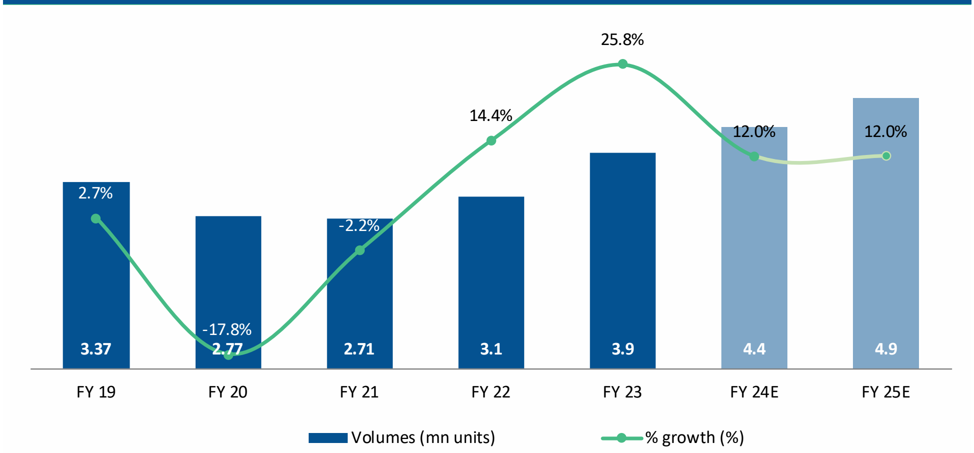


Source: LKP Research

PV business to see a strong growth, SEL's PV business to grow at par with the industry

SEL commands a market share of approximately 32%, a significant increase from the 20% in FY15, primarily achieved through inorganic expansion. It entered the 4W Auto Cables business with the acquisition of Shah Concabs Pvt. Ltd. in 2002 and further scaled up the business with the acquisition of the Speedo cables business from Pricol in FY15. We expect 4W OEM revenue to grow at ~12% CAGR over FY23–25E ahead of industry. It currently has a marginal presence in Maruti Suzuki India (MSIL), where there is scope for industry to gain traction. Currently, MSIL's main supplier is Hi-Lex, the Japanese player. Moreover, in the medium term, we anticipate an increase in the content of cables in 4W vehicles, driven by the growing trend of premiumization. On an average, a PV contains 15– 20 cables, which are used for actuating various mechanisms like seats, windows, sunroofs, doors, boots, etc. We believe that even with the increasing premium features and increasing electrification in PVs, OEMs will continue to favor Cables as they represent the most cost effective means of actuation.

Passenger Vehicle Industry & growth



Source: LKP Research

Robust presence in the global markets to make an easy expansion of business segment

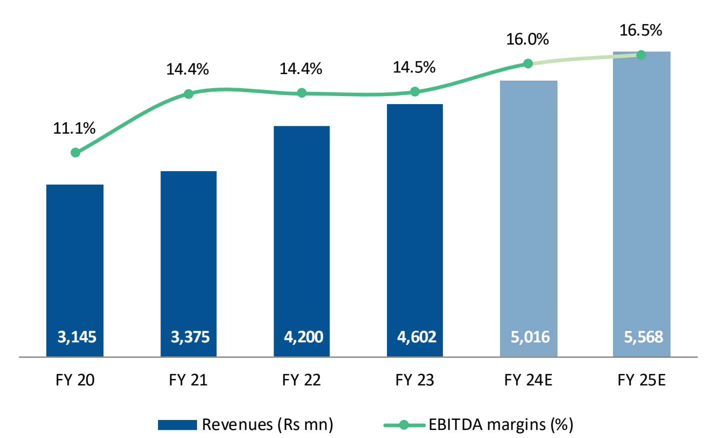
SEL's non-auto business derives a majority of its revenue from Wescon Controls which caters to the US non-auto market and Lonestar Shanghai caters to the Chinese Open Power Equipment (OPE) industry. ~80% of the non-automotive revenue comes from the OPE segment. It is the largest cable manufacturer for the OPE segment in the USA, which includes lawn movers, trimmers & edgers, snow throwers, etc. and serves customers like MTD, Husqvarna, John Deere, TORO, Honda, etc. The overseas market contributes ~90% of the non-automotive revenue. SEL acquired Wescon in FY17. Wescon traditionally operated and maintained a presence largely in the OPE segment, but failed to expand in other product segments due to lack of focus from the previous promoter (a PE fund). There lies a sizeable opportunity in the allied segments like agriculture, construction, power-sports, medical equipment, home segments, etc., which SEL is looking to tap. Each of these segments is estimated to have a market size of USD 25–75 mn per year. It has already started making cables for tractors, construction machines, and electrical appliances (washing machines), and is currently supplying to players like Tafe, Kubota, Whirlpool, JCB, etc. Additionally, SEL also plans to expand its geographic footprint besides venturing into new markets like Brazil and Mexico.

About 28% of LDC's revenue comes from the non-auto segment, of which 20% is from the OPE segment in different geographies and 8% from motorcycles and other end-user segments. Post-acquisition, LDC would help increase SEL's OPE business presence in China and Europe besides adding newer non-auto segments.

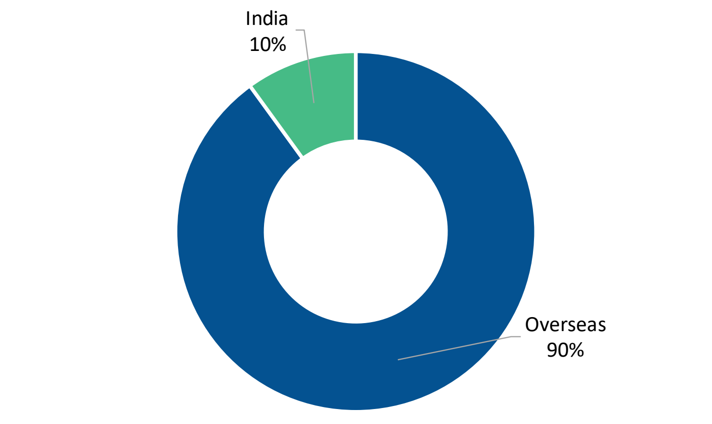
Cost competitiveness and market share gains to anchor SEL well in the US markets

The non-auto market in North America is highly fragmented with smaller players dominating a particular product category. We believe that SEL will be able to expand its presence in different categories, led by its cost competitiveness and strong balance sheet. Over the last three years, the US non-auto market has seen significant consolidation, with financially weaker players going out of business. Management has guided that it would continue with the three-plant strategy of supplying low-cost products out of India, medium-cost products out of Mexico, and high-cost products out of the US. The company's manufacturing presence in India and large scale of operations give Wescon a significant cost advantage over its competitors in the US/ EU. However, currently this business is facing challenges due to rising interest rates in the US markets. However, management believes this to settle down in the ensuing quarters.

Non Automotiva Cables (SENA)



Non Automotive revenues brak-up



Source: LKP Research

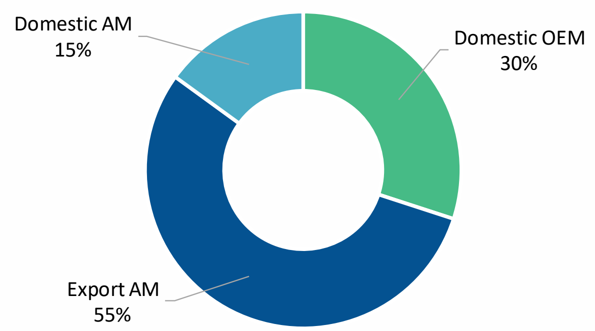
Largest domestic halogen lamps supplier Phoenix Lamps will be driven by Replacement growth

Phoenix Lamps is the largest automotive halogen bulb manufacturer in India with ~80% share in 2W, 50% in PV, and ~75% in CV OEM segments. After the acquisition of Osram's Chennai facility (23mn capacity), Phoenix Lamps is the only remaining large manufacturer of halogen headlamps in India with a total capacity of 110mn bulbs per annum. The halogen lamp industry is seeing consolidation, largely led by the increasing adoption of LEDs. OEMs contribute~30% to the segment revenue for PLD, which is a declining business due to the shift towards LEDs. Halogen bulbs are being replaced by LEDs across the industry. LEDs are superior to halogen in terms of technology and offer greater flexibility in terms of design; they have better aesthetic properties and are also superior in terms of energy efficiency. We believe that LEDs will capture a dominant share in the automotive lighting space over the medium term. The possibility of obsolescence of halogen lamps is driving consolidation in the industry.

We expect consolidation to play out in the global halogen market. Over the last three years, a few of the small and financially weaker players have already exited the market; we believe that over the next 2–3 years, a few more players will exit, leading to a reduction in capacity. Even the larger bulb manufacturing players like Osram have started focusing on the LED opportunity. Phoenix is one of the stronger players and the third largest player in the auto halogen lighting business globally. It is well positioned to benefit from the ongoing industry consolidation. It has already started supplying halogen lamps to competitors like Osram. PLD primarily caters to the aftermarket segment in the overseas market. Exports contribute ~55% to the segment revenue. The company operates the overseas business through two wholly-owned subsidiaries i.e. Trifa and Luxlite. PLD supplies to most countries in Europe and select regions in South America and East Africa. Going forward, management intends to increase its geographic presence by entering the markets of North America, Russia, and China, which are significantly larger markets for halogen bulbs. These markets are expected to be serviced directly from India, thus giving it a cost advantage.

In FY20, PLD acquired the assets of Osram Lighting. Osram is the world's largest manufacturer of halogen bulbs and competes with SEL in the Indian market. As part of this acquisition, SEL signed a sale-back agreement with Osram, under which SEL manufactures bulbs under the 'Osram' brand and sells in the domestic market, thus replacing a part of its competition. The collaboration with Osram also benefits SEL in terms of getting access to Osram's global customer base. Furthermore, SEL has started supplying to Osram in the overseas market. In the domestic aftermarket segment, which is largely dominated by unorganized players, SEL has ~70% market share in the organized market. SEL serves aftermarket through two distribution channels similar to the Auto Cables business - OEM aftermarket sales & Own distribution network.

PLD revenue distribution



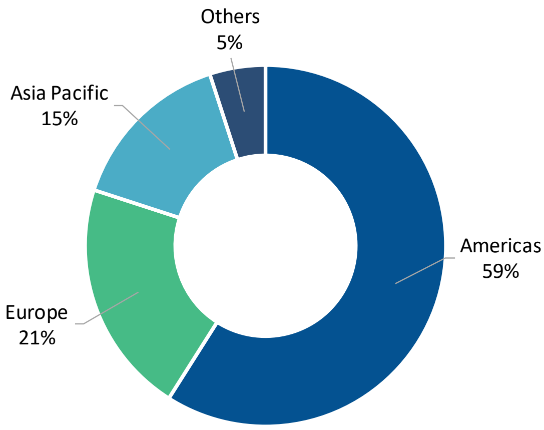
Source: SEL

LDC acquisition, a big driver for growth in the coming years

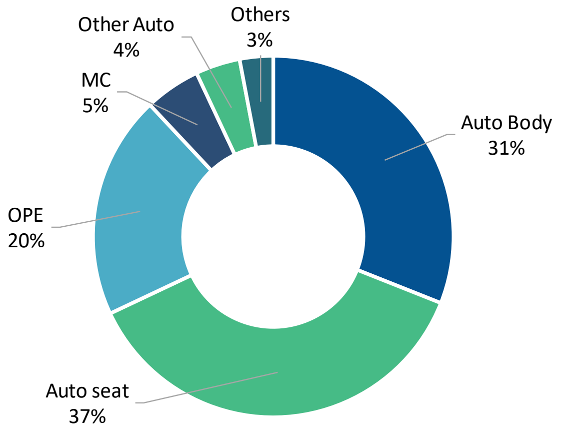
In October 2021, SEL entered into an agreement to acquire the assets of Kongsberg Automotive's Light Duty Cables (LDC) business unit. The asset-purchase deal was valued at an EV of USD 42 mn. LDC is a prominent player in the cable and cable-based actuation systems market, serving major OEMs and Tier-1 suppliers. Its product portfolio consists of a broad range of mechanical cables and electromechanical actuation (EMA) systems. LDC can manufacture ~106 mn cables per annum through its three production facilities in Mexico, China, and Hungary (low-cost manufacturing locations) while it also has nine sales offices located in close proximity to major customers. Over the years, SEL has strengthened its presence in the domestic Auto Cables business by leveraging its cost competitiveness, economies of scale, and robust customer relationships.

With the acquisition of LDC, SEL aims to replicate this stellar performance on the global stage, with a focus on enhancing its market share. The combined entity is the world's second largest cable manufacturer (410 mn p.a. combined capacity, operating at 75-80% capacity utilization) with presence across four continents (Asia, NA, SA, and Europe). This provides it huge scale of operations and a diversified geographic presence, enabling it to post better margins and greater cost competitiveness. Globally, the Automotive Cables market is significantly large and is valued at ~₹200 bn, providing significant growth opportunities. Moreover, LDC's acquisition also provides SEL access to complementary products and technologies and cross-selling opportunities. LDC has a major share in automotive seat-related products (~38% of revenue) and EMA (15% of revenue) where SEL has limited presence. SEL mainly supplies body and interior cables. Additionally, SEL would also have access to the US auto OEMs. LDC has been working with OEMs like Tesla, FCA, Land Rover, Honda, and Husqvarna, and ancillary companies like Adient, Lear Corporation, Magna, and Chinese EV players, etc. while SEL has a double-digit wallet share with OEMs like VW and BMW. On the other hand, LDC benefits from sharper management focus, efficient operations with reduced overheads and joint RM procurement post-integration with SEL. We expect LDC to add ~₹8.8 bn to the company's top-line with an operating margin of 10% in FY25E.

LDC: Revenue break-up - By geography



LDC: Product mix



Source: SEL

Suprajit Electronics Division (SED) is the driver for future innovative products

SEL, through its technology center in Bengaluru (STC), has developed several new products that are complementary and allied to its current product offerings, thus expanding its overall product portfolio. A few of these products like the electronic throttle unit are also replacements for the current product (throttle cable). These newly launched products are also expected to increase SEL's kit value due to higher realizations. For instance, the throttle cable (eThrottle ASP is 3–4x higher) and analog speedometer (launched Digital Speedometer) and increase in the number of products. Furthermore, SEL is also focused on developing sub-assemblies, which can be cross-sold to OEMs and in the aftermarket. Till date, SEL has developed products such as the Electronic Throttle Control Unit, CBS Systems, and Drop in LED solution (aftermarket), Digital Instrument Clusters, Brake Shoe, and Seeder Gear Boxes with electromechanical clutches.

The company has several products awaiting approval from various OEMs. The order book from the newly developed products stands at ₹1.5 bn as of Q1 FY24. The company has started its first supply to a leading E2W OEM. Along with STC, the company also has R&D centers located in the US and the UK, which it acquired through Suprajit USA and Suprajit Europe, respectively. Moreover, it has also now acquired the requisite technology know-how besides enhancing its R&D capabilities for products like EMA post the acquisition of LDC. LDC also has its own Technology Center in Detroit, USA and the combined entity thus has four R&D centers located in Detroit (USA), Wichita (USA), Tamworth (UK), and Bengaluru (India).

New product portfolio

	Products	Customers	Price (INR)	Growth Potential
Clusters & Displays		TVS, Hero Electric, Tork Motors, VST, Ultraviolette Automotive, Escorts, TI India	700-7500	PV + 2W + OFH
Electromechanical Actuation Systems		CNH Industrial, Ather	400-15000	PV + 2W + OFH
Braking & Brake Release Systems		Alstom, Kubota, TI India, Bombardier, John Deere, Hero Electric	3000 - 20000	2W + OFH + Rail
Throttle & Rotary Sensors		MTD, John Deere, Toro	200-1500	2W + OFH

Source: SEL

Economies of scale and lean cost structure leads to good bargaining power

SEL has established itself as the cost leader in the Auto Cables industry. It is the largest Auto Cable manufacturer in India and the second largest in the world, thus benefitting from economies of scale. Furthermore, it has adopted the strategy of manufacturing from low-cost locations like India, Mexico, Hungary, and China and selling in other geographies through its warehouses near the customer base, making the cost structure lean through lower employee costs and lower overheads. Thus, being a cost leader, SEL is able to gain greater traction in the cost-conscious OEM market. For instance, the closest competitor (Hi-Lex), a Japanese supplier, suffers from high employee costs due to the highly paid foreign Japanese expats that it employs and higher overheads thus limiting its ability to develop cables at a low cost and compete effectively in the cable industry.

Strategically located facilities to reduce transit time and strengthen customer relations

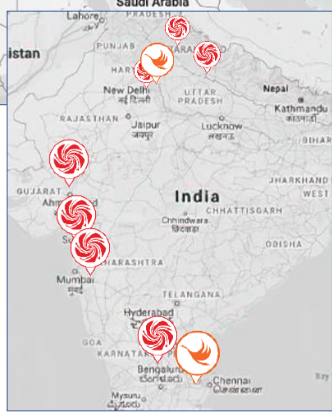
SEL has been strategically expanding its capacities in order to gain from new business opportunities and has been setting up satellite plants closer to the OEMs. Moving closer to the customer is imperative for a player like SEL since Auto Cables are the bigger components having lower stock level norms at the OEM's end. Thus, they have to be delivered in smaller batches at frequent intervals. In the last 10 years, SEL has tripled its cable manufacturing capacity. Furthermore, it is efficiently deploying its assets with capacity utilization ranging north of 80%. The company has 15 plants located across the auto hubs in India while Hi-Lex (SEL's closest competitor in 4W cables) has only five. A smaller plant having an anchor customer also helps in terms of higher utilization of resources as these are low variety high-volume facilities leading to streamlined production plans leading to lesser changeovers, thus also helping in cost restriction.

Plant Location

Manufacturing Plants	
India	18
US	1+Warehouse
Mexico	2
Hungary	1
UK	1
Slovenia	Warehouse

Phoenix Lamps
- Noida 2 Plants, SEZ & DTA
- Chennai – 1 Plant
- Distribution Center Luxembourg

Suprajit – India:
- Headquarters, Global Manufacturing Hub
- 15 Strategically located plants



Source: SEL

SEL's Facilities in India

State	Suprajit	Hi-Lex
Karnataka	6	
Tamil Nadu	2	1
Haryana	1	2
Rajasthan	1	-
Utarrakhand	2	-
Maharashtra	1	-
Gujarat	2	2
Total	**15**	**5**

Source: SEL

Aftermarket business in India to grow higher than OEM

The domestic aftermarket for Auto Cables is largely dominated by unorganized players, with SEL having a 17%–18% market share, as per the management. Also, the aftermarket is largely centered around the 2W segment. SEL has a network of more than 400 dealers and has over 20,000 retail touch-points in India. Aftermarket contributes ~16% to the company's total Auto Cables revenue, up from ~10% in FY15. Management expects the share of the aftermarket to rise to 25% over the medium term, led by market share gains as customers are increasingly opting for organized branded players. We expect the auto cables aftermarket segment to grow ahead of the OEM business over the medium term.

Inorganic expansion opens a plethora of products and markets for SEL

Over the years, SEL has successfully grown and diversified the business through acquisitions. These acquisitions have strengthened the core automotive business along with diversifying into newer products such as Automotive Headlight Lamps (Phoenix Lamps) and the non-auto segment (US-based Wescon Controls).

SEL did its first acquisition of Shah Concabs in FY03 to enter the cable manufacturing business for 4Ws. Then in April 2006 it acquired CTP Gills Cables Ltd., a UK-based cable manufacturer to enter the 4W cables export business and expand into the EU automotive markets. Through this acquisition, SEL gained access to customers like BMW, VW, GM, etc. mainly based in Europe. It ramped up Auto Cables export revenue (SAL & SEU) from ₹410 mn in FY10 to ₹1,925 mn in FY21.

It then acquired Pricol's Speedo business and started supplying 4W cables to MSIL in Sep 2014 for ~₹52 mn. Further, SEL entered the lighting business with the acquisition of Phoenix Lamps, which was the largest manufacturer of halogen lamps in India and among the top five globally. This acquisition helped SEL expand its footprint in the domestic aftermarket by providing access to retail touch-points and the distributor network. Post this acquisition, SEL's management focused on increasing its presence in the global aftermarket segment by investing in modern technology (₹300 mn in a new H7 line), diversifying into the aftermarket segment in other geographies, and optimizing European subsidiary operations. However, this segment was largely affected by pricing pressure, lower auto sales in the EU, and transition to LEDs.

SEL acquired Wescon from Nova Capital (PE fund) to enter the non-auto market of North America. Wescon was a market leader in the OPE segment. It is now striving to tap several niche non-auto segments with market sizes each of USD 25–75 mn in America. Also, through Wescon, SEL got an opportunity to supply to the European operations of its existing customers. Meanwhile, management has successfully turned around Wescon over the last three years.

The company purchased the halogen light assets of Osram Chennai in FY20 at a reasonable valuation, thus expanding its capacity to 110 mn lamps and becoming the third-largest automotive lamp manufacturer globally, besides adding a new customer in Osram global.

Latest acquisition is Norway's Kongsberg Automotive's light-duty cables business, which was acquired at EV/sales of 0.47x and EV/EBITDA of 4.5–5x in CY21E. It provides a huge opportunity in the global Auto Cables market, with revenue at USD 72 mn (3% market share) and a huge available capacity located at cost competitive locations (Hungary, China, and Mexico). SEL plans to turn around its performance by providing more management focus to grow its revenue and reduce overheads. Earlier, it was not a core business area for Kongsberg, thus it led to lack of management focus. Moreover, it is a synergistic acquisition with a lot of value unlocking prospects for the company's core Auto Cable and SENA (Suprajit Engg Non Auto) businesses.

SEL has always been prudent in acquisitions and has consciously acquired companies where it can improve operational performance and turn it around through its expertise and increased management focus. It has been scouting to acquire companies with a dominant market position and a decent financial profile at fair value.

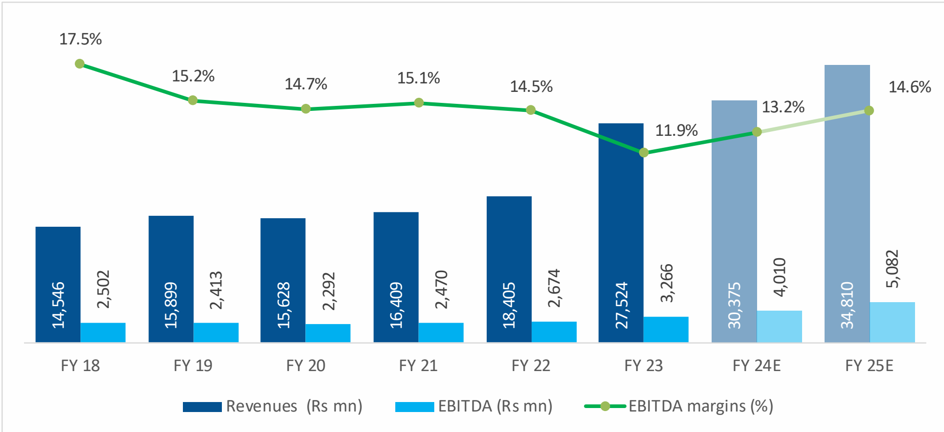
Additionally, the acquisitions were done with minimal impact on the company's financials and SEL has consistently maintained stable return ratios over the last 11 years. Also, it has largely funded the acquisitions through internal accruals, thus keeping the balance sheet in good shape.

Financial Capsule

Revenue Outlook

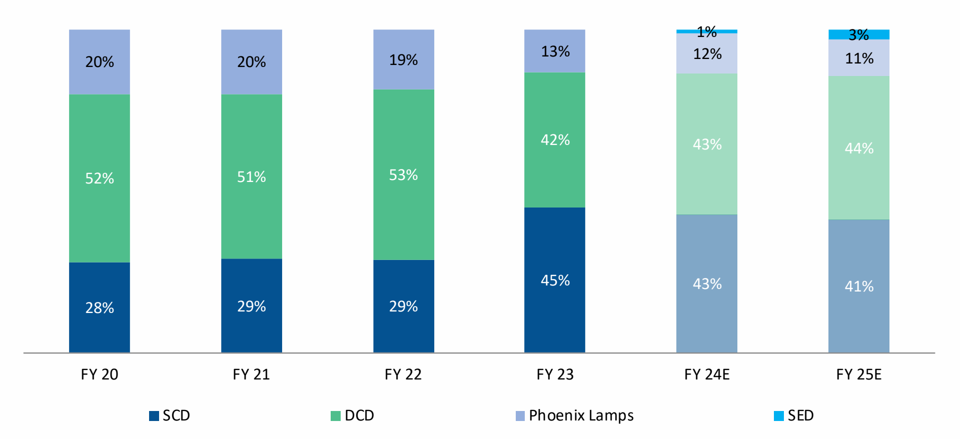
We expect 12% revenue CAGR for SEL over FY23–25E, led by all-round growth across business segments and an incremental ₹8.7 bn from LDC revenue. Auto Cable business is expected to grow at 15% largely driven by 16% growth in the domestic cable business (DCD), while SCD is expected to grow at 7% CAGR impacted by macro challenges in foreign markets in FY24 followed by a sharp recovery in FY25. We further expect LDC to contribute ~₹8.7 bn in FY25 with a growth of 13% CAGR FY23–25. We also foresee PLD's performance remaining muted at 7% CAGR on the back of restructuring and slowdown in the EU market.

Revenues/ EBITDA/ EBITDA margins



Source: LKP Research

Revenue break-up trend : Business wise

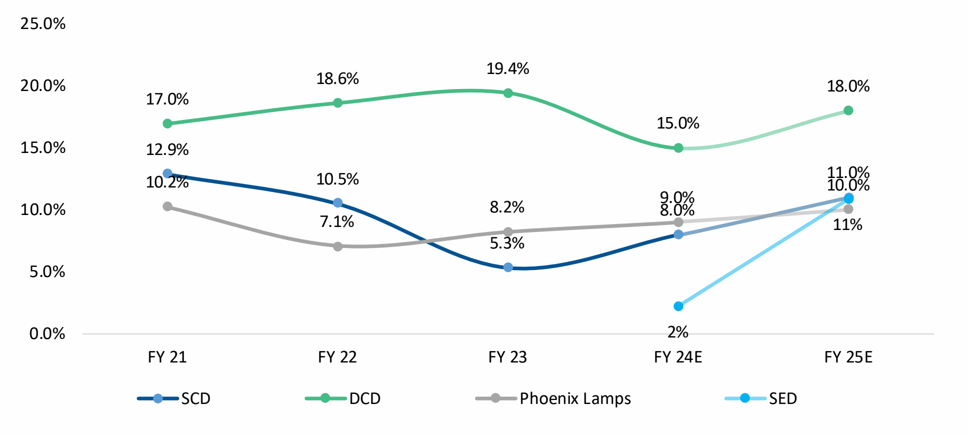


Source: LKP Research

Margin expansion to happen on LDC consolidation

SEL has been a highly cost-conscious company and has kept strict controls on costs over the years. While we expect margin expansion of ~120 bps/ 60 bps in matured businesses like Auto Cables and SENA on the back of improvement in product mix and softening commodity prices, the overall margin is expected to grow by 270 bps between FY23-25E largely due to recovery in LDC's margin. We expect LDC's margin profile to improve with business synergies coming into play, getting the cost pass-through from customers, and improving management focus. Historically also SEL has been successful in turning around investments with its cost control initiatives and streamlining of operations.

Margin Trend

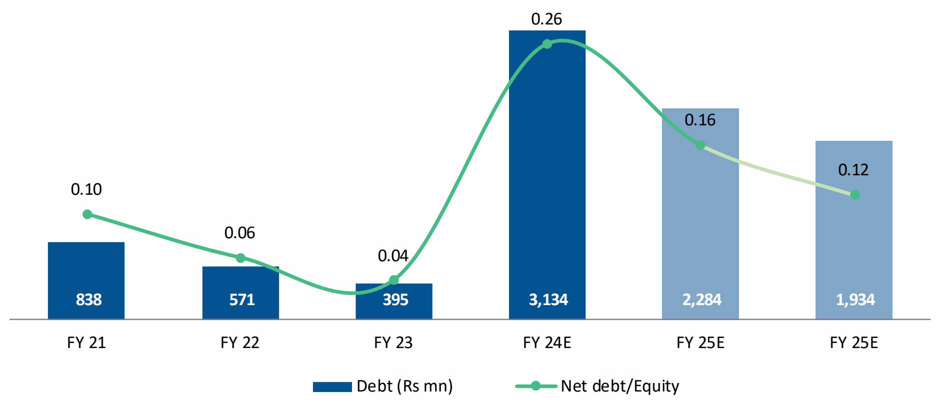


***SCD** - *Automotive and Non Automotive exports from India and businesses outside India*
***DCD** - *Cables and certain new products in India*
Source: LKP Research

Balance Sheet to remain healthy, to be aided by strong cash flow generation

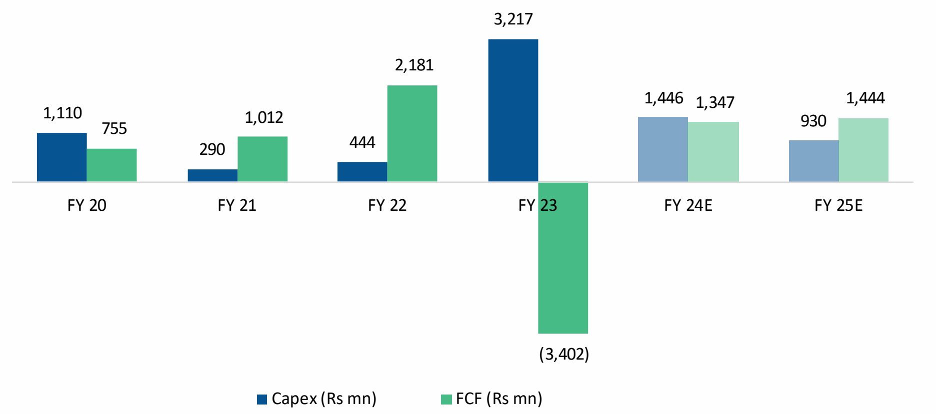
Over FY13-22, SEL has generated ~₹15 bn as operating cash flow and has spent ~₹10 bn in capex and investments. Over these years, the company has also acquired Pricol's Speedo business, Wescon, Phoenix Lamps, Osram's Chennai facility, and Kongsberg's LDC business between FY14 and FY22. Over FY23–25E, we expect capex requirements to remain moderate, which along with strong operating cash flow generation will lead to a reduction in debt. FY23 debt has gone up owing to the costs related to the LDC acquisition. Management has also indicated that most of the capacity expansion is complete, and over the next two years, a majority of the capex will be towards maintenance. However, it has also indicated that it continues to scout for inorganic opportunities in related technologies. We thus factor in ~₹1.2 bn debt repayment over FY23–25E leading to lower interest costs.

Debt Reduction



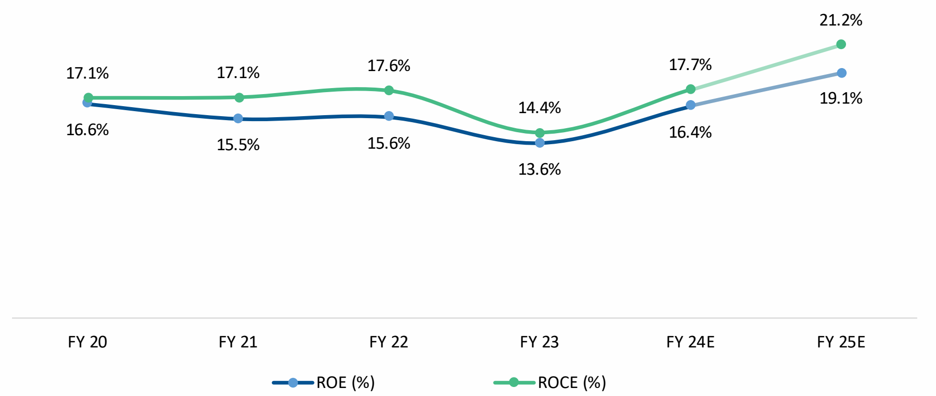
Source: LKP Research

Capex



Source: LKP Research

ROE (%) Versus ROCE (%)



Source: LKP Research

Risks

Risk of product obsolescence:LEDs are gaining prominence and are preferred over halogen lamps by OEMs. With an increasing preference for LEDs, the price difference between LEDs and halogen lamps has significantly narrowed. The price differential in FY19 was at ~7–10x, which has reduced to ~2–2.5x. Increasing adoption of LEDs poses a risk to PLD. However, we believe that demand from the aftermarket segment, where PLD has a dominant position, will continue. Also, the company has introduced LEDs in the aftermarket segment, which it can expand going ahead.

Delayed recovery in the automobile industry: A large part of SEL's revenue is dependent on the automobile industry. We believe that the auto industry is set for a recovery, but any delay in this recovery can affect the company's top-line estimates.

Geopolitical Risks: SEL has significant exposure to foreign markets like the EU and the US. Geopolitical issues, if they are prolonged, can affect the company's growth prospects. Furthermore, inflation and recessionary risks can further hurt exports.

Currency Risk: About 40% of SEL's revenue comes from exports. The company exports primarily to the US and the EU. Any adverse currency movements can affect the top-line. However, the company has a natural hedge for part of this revenue as the costs in foreign subsidiaries are in the same currency. Also, SEL hedges a part of its exposure on a rolling basis.

Income Statement

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
Total Revenues	**18,405**	**27,524**	**30,375**	**34,810**
Raw Material Cost	10,787	16,169	17,618	20,016
Employee Cost	3,364	5,744	6,227	6,927
Other Exp	1,580	2,344	2,521	2,785
EBITDA	**2,674**	**3,266**	**4,010**	**5,082**
EBITDA Margin(%)	*14.5%*	*11.9%*	*13.2%*	*14.6%*
Depreciation	585	955	1,010	1,226
EBIT	**2,089**	**2,312**	**3,000**	**3,856**
EBIT Margin(%)	11.3%	8.4%	9.9%	11.1%
Other Income	366	386	410	440
Interest	145	356	247	172
PBT	**2,310**	**2,343**	**3,162**	**4,124**
PBT Margin(%)	12.6%	8.5%	10.4%	11.8%
Tax	621	681	885	1,155
Adjusted PAT	**1,689**	**1,661**	**2,277**	**2,969**
APAT Margins (%)	9.2%	6.0%	7.5%	8.5%
Exceptional items	0	0	0	0
PAT	**1,689**	**1,661**	**2,277**	**2,969**
PAT Margins (%)	9.2%	6.0%	7.5%	8.5%

Key Ratios

YE Mar	FY 22	FY 23	FY 24E	FY 25E
Per Share Data (₹)				
Adj. EPS	14.1	12.0	16.5	21.5
CEPS	16.3	21.8	23.8	30.3
BVPS	90.5	88.5	101.5	119.1
DPS	0.7	2.3	2.0	2.8
Growth Ratios(%)				
Total revenues	12.2%	49.5%	10.4%	14.6%
EBITDA	8.3%	22.2%	22.8%	26.8%
EBIT	9.8%	10.7%	29.7%	28.6%
PAT	10.4%	-1.7%	37.1%	30.4%
Valuation Ratios (X)				
PE	28.0	32.9	24.0	18.4
P/CEPS	24.3	18.1	16.6	13.0
P/BV	4.4	4.5	3.9	3.3
EV/Sales	2.5	2.0	1.8	1.6
EV/EBITDA	17.0	17.2	13.8	10.7
Operating Ratios (Days)				
Inventory days	116.2	108.9	103.0	105.0
Recievable Days	58.9	61.1	62.0	65.0
Payables day	38.5	38.8	40.0	40.0
Net Debt/Equity (x)	0.01	0.22	0.12	0.07
Profitability Ratios (%)				
ROCE	17.6%	14.4%	17.8%	20.5%
ROE	15.6%	13.6%	16.2%	18.0%
Dividend payout ratio (%)	16.3%	17.1%	17.0%	17.0%
Dividend yield (%)	0.2	0.6	0.5	0.7

Balance Sheet

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
Equity and Liabilities				
Equity Share Capital	138	138	138	138
Reserves & Surplus	10,701	12,106	13,913	16,346
Total Networth	**10,840**	**12,245**	**14,052**	**16,484**
Total debt	138	2,648	1,648	1,148
Deferred tax assets/liabilities	554	482	482	482
Other curent liabilities	311	691	691	691
Total non-current liab & provs	**1,003**	**3,822**	**2,822**	**2,322**
Current Liabilities				
Trade payables	1,940	2,923	3,329	3,815
Short term provs+ borrowings	3,063	3,540	3,890	4,240
Other current liabilities	540	1,691	1,291	1,091
Total current liab and provs	**5,542**	**8,154**	**8,510**	**9,146**
Total Equity & Liabilities	**17,385**	**24,220**	**25,383**	**27,951**
Assets				
Gross block	8,587	11,624	12,624	13,624
Accumulated depreciation	2,710	3,549	4,559	5,785
Net block	5,876	8,075	8,065	7,839
Capital WIP	94	274	220	150
Other non current assets	13	41	41	41
Total fixed assets	**6,209**	**8,598**	**8,534**	**8,238**
Current Investments	2,588	4,427	4,927	5,627
Cash and cash equivalents	1,879	1,068	1,098	1,436
Inventories	3,433	4,826	4,972	5,758
Trade receivables	2,972	4,608	5,160	6,199
Other current assets	304	693	693	693
Total current Assets	**11,176**	**15,622**	**16,848**	**19,713**
Total Assets	**17,385**	**24,220**	**25,383**	**27,951**

Cash Flow

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
PBT	2,352	2,202	3,162	4,124
Depreciation	585	955	1,010	1,226
Interest	145	356	247	172
Chng in working capital	(432)	(147)	(291)	(1,340)
Tax paid	584	847	885	1,155
Cash flow from operations	**1,816**	**2,391**	**3,228**	**2,996**
Capital expenditure	**(527)**	**(919)**	**(946)**	**(930)**
Chng in investments	888	(1,718)	(500)	(700)
Other investing activities	2	(3,159)	-	-
Cash flow from investing	**365**	**(5,793)**	**(1,446)**	**(1,630)**
Free cash flow (a+b)	**2,181**	**(3,402)**	**1,782**	**1,366**
Inc/dec in borrowings	(474)	2,778	(1,000)	(500)
Dividend paid (incl. tax)	(275)	(284)	(387)	(505)
Interest paid	(150)	(335)	(247)	(172)
Other financing activities	(591)	-	-	-
Cash flow from financing	**(1,115)**	**2,232**	**(1,684)**	**(1,027)**
Net chng in cash	**1,431**	**(6,963)**	**(1,349)**	**(1,291)**
Closing cash & cash equivalents	**1,860**	**1,000**	**1,098**	**1,436**

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