

# Suprajit Engineering

**BUY**

<b>INDUSTRY</b>	<b>AUTOS</b>
<b>CMP(as on 30 May 2017)</b>	<b>Rs 256</b>
<b>Target Price</b>	<b>Rs 279</b>
Nifty	9,625
Sensex	31,159
<b>KEY STOCK DATA</b>	
Bloomberg	SEL IN
No. of Shares (mn)	131
MCap (Rsbn) / (\$ mn)	34/521
6m avg traded value (Rs mn)	17
<b>STOCK PERFORMANCE (%)</b>	
<b>52 Week high / low</b>	<b>Rs 264 / 154</b>
	3M 6M 12M
Absolute (%)	21.3 37.0 60.2
Relative (%)	12.9 20.1 43.6
<b>SHAREHOLDING PATTERN (%)</b>	
Promoters	47.37
FIs & Local MFs	10.71
FPIs	7.47
Public & Others	34.45
<i>Source : BSE</i>	

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## Strong at the core

Suprajit Engineering's (SEL) consolidated 4QFY17 results were a strong beat, with robust performance of SEL's cable business. PLL's performance was weak owing to absence of sale of H7 bulbs.

We remain positive on all SEL's brands, as each enjoys a low-cost locational advantage, which will aid in improving operating efficiencies. The company has a proven track record of prudent capital allocation across its organic and inorganic cap. This reflects in strong return ratios (average ROCE of 18% over last 5 years).

Led by consolidation in the cable business, PLL's performance to come through in 2HFY18, ramp-up in non-auto revenues through Wescon Controls, we estimate consol earnings to witness a CAGR of 34% over FY17-19E vs 16% CAGR over the last 5 years. **Maintain BUY with a revised TP of Rs 279 (18x SEL's consol FY19E EPS).**

### Financial Summary (Consolidated)

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY16	FY17P	FY18E	FY19E
Net Sales	3,646	2,743	32.9	3,132	16.4	9,525	12,138	14,930	18,643
EBITDA	653	473	37.9	478	36.5	1,543	2,009	2,568	3,263
PAT	430	223	92.3	213	102.0	719	1,115	1,507	2,028
Diluted EPS (Rs)	3.3	1.6	104.7	1.9	72.3	5.5	8.5	11.5	15.5
P/E (x)						43.1	29.6	22.2	16.5
EV / EBITDA (x)						23.2	18.2	13.8	10.9
RoE (%)						20.9	22.3	24.3	26.1

Source: Company, HDFC sec Inst Research

### Highlights of the quarter

- **Decreasing dependence on 2Ws:** Post acquisition of Wescon Controls, SEL has reduced its dependence on 2Ws, and expects to decrease it further over the next 1-2 years. Within 5 months of the consolidation of Wescon, the consolidated revenue mix has come down to 2W-37%, 4W-24%, Aftermarket-23%, Non-auto-16%.
- **New products to add to revenue:** Management is adding new products in both businesses. SEL has taken an exclusive license for a patented product (CBS), which acts as a standalone device to its existing cables range. Company has sent samples to OEMs, and is awaiting approval. PLL is planning to introduce RGS lights (version of a halogen lamp) and drop-in LED headlamps, similar to its existing halogen headlamps.
- **Near-term outlook:** 1Q will be a strong quarter for the cable business, while PLL could witness a muted quarter on the back of lower sales of H7 bulbs.

*YoY numbers are not comparable, as Wescon was acquired on Sep 18, 2016*

*EBITDA margins expanded by 8bps QoQ, owing to lower employee costs*

*The management indicated European subsidiaries have performed better than the standalone, and their profitability has also improved with the addition of several clients*

*HMSI's SOB currently is flat at 50%, and the management hopes to scale this up to 55-60% in the medium-term*

### Quarterly Financials Snapshot: SEL (Consolidated)

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
<b>Net sales</b>	<b>1,647</b>	<b>1,572</b>	<b>4.8</b>	<b>1,537</b>	<b>7.2</b>
Material Expenses	1,023	956	7.0	948	7.9
Employee Expenses	198	185	7.0	195	1.3
Other Operating Expenses	138	189	(27.1)	125	10.3
<b>EBITDA</b>	<b>289</b>	<b>243</b>	<b>19.1</b>	<b>269</b>	<b>7.7</b>
Depreciation	27	23	19.0	27	1.5
<b>EBIT</b>	<b>262</b>	<b>220</b>	<b>19.1</b>	<b>242</b>	<b>8.4</b>
Other Income	3	35	(91.5)	10	(71.4)
Interest Cost	40	64	(37.3)	58	(30.9)
<b>PBT</b>	<b>225</b>	<b>191</b>	<b>17.9</b>	<b>194</b>	<b>15.8</b>
Tax	74	79	(6.0)	61	22.5
<b>PAT</b>	<b>151</b>	<b>112</b>	<b>34.8</b>	<b>134</b>	<b>12.8</b>
EO Items (Adj For Tax)	6	(11)	(153.1)	-	-
<b>APAT</b>	<b>157</b>	<b>101</b>	<b>55.1</b>	<b>134</b>	<b>17.1</b>
<b>Adj EPS</b>	<b>1.7</b>	<b>0.8</b>	<b>121.8</b>	<b>1.0</b>	<b>67.6</b>

Source: Company, HDFC sec Inst Research

### Margin Analysis

	4QFY17	4QFY16	YoY (bps)	3QFY17	QoQ (bps)
Material Expenses as % of Net Sales	62.1	60.8	129	61.7	39
Employee Expenses as % of Net Sales	12.0	11.8	25	12.7	(70)
Other Expenses as % of Net Sales	8.4	12.0	(366)	8.1	23
<b>EBITDA Margin (%)</b>	<b>17.6</b>	<b>15.4</b>	<b>212</b>	<b>17.5</b>	<b>8</b>
Tax rate (%)	33.0	41.4	(841)	31.2	179
<b>APAT Margin (%)</b>	<b>9.5</b>	<b>6.4</b>	<b>308</b>	<b>8.7</b>	<b>81</b>

Source: Company, HDFC sec Inst Research

*PLL reported a revenue drop, led by poor sales of H7 bulbs*

*In FY17, H7 sales dropped by 5% YoY, while 4QFY17 witnessed a greater fall*

*YoY, margins witnessed a drop of 450bps, owing to the absence of the high margin product, H7*

*Management indicated PLL has been ahead of the domestic market in terms of volumes, and is the most stable halogen manufacturer in the country*

*Currently, the new H7 bulbs are going through certifications in the US, Europe and India, and expect approvals from OEMs like Maruti and one in Japan to come in 1QFY8*

### Quarterly Financials Snapshot: PLL (Consolidated)

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
<b>Net sales (incl OOI)</b>	<b>886</b>	<b>929</b>	<b>(4.6)</b>	<b>1,095</b>	<b>(19.1)</b>
Material Expenses	560	554	1.2	652	(14.1)
Employee Expenses	121	128	(5.6)	138	(12.3)
Other Operating Expenses	92	86	6.2	182	(49.8)
<b>EBITDA</b>	<b>114</b>	<b>161</b>	<b>(29.3)</b>	<b>123</b>	<b>(7.6)</b>
Depreciation	17	13	28.8	47	(64.5)
<b>EBIT</b>	<b>97</b>	<b>148</b>	<b>(34.4)</b>	<b>76</b>	<b>27.7</b>
Other Income	4	16	(73.2)	(21)	(120.3)
Interest Cost	8	12	(33.3)	17	(52.2)
<b>PBT</b>	<b>93</b>	<b>152</b>	<b>(38.7)</b>	<b>37</b>	<b>149.4</b>
Tax	17	47	(63.1)	12	40.0
<b>APAT</b>	<b>76</b>	<b>104</b>	<b>(27.6)</b>	<b>25</b>	<b>204.0</b>
<b>Adj EPS</b>	<b>3.5</b>	<b>3.7</b>	<b>(6.7)</b>	<b>1.5</b>	<b>129.6</b>

Source: Company, HDFC sec Inst Research

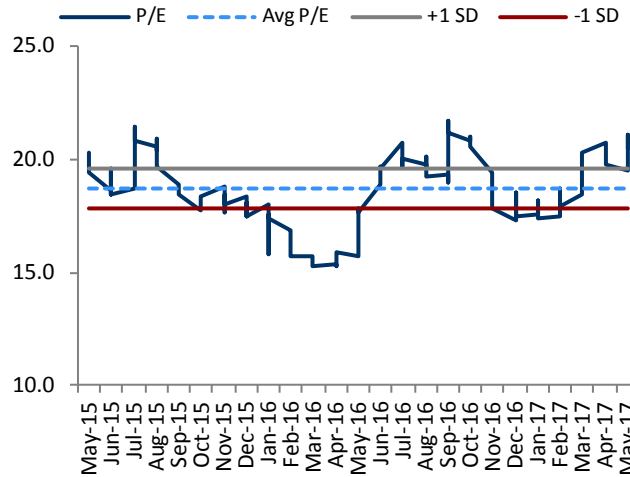
### Margin Analysis

	4QFY17	4QFY16	YoY (bps)	3QFY17	QoQ (bps)
Material Expenses as % of Net Sales	63.2	59.6	361	59.6	366
Employee Expenses as % of Net Sales	13.6	13.8	(16)	12.6	105
Other Expenses as % of Net Sales	10.3	9.3	104	16.6	(631)
<b>EBITDA Margin (%)</b>	<b>12.8</b>	<b>17.3</b>	<b>(450)</b>	<b>11.2</b>	<b>160</b>
Tax rate (%)	18.7	31.1	(1,241)	33.3	(1,460)
<b>APAT Margin (%)</b>	<b>8.5</b>	<b>11.2</b>	<b>(272)</b>	<b>2.3</b>	<b>626</b>

Source: Company, HDFC sec Inst Research

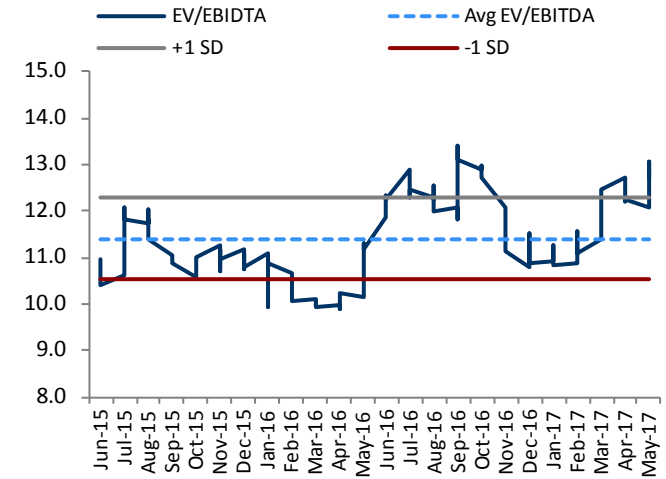
**Our revised SOTP-based TP stands at Rs 279 (18x on FY19E)**

**One-year Forward P/E Chart**



Source: Company, Bloomberg, HDFC sec Inst Research

**One-year Forward EV/EBITDA Chart**



Source: Company, Bloomberg, HDFC sec Inst Research

**We have pruned our FY18/19E estimates, given that PLL's pick-up in H7 business will take 1 or 2 more quarters to reflect in consolidated numbers**

**Change In Estimates (SEL Consol incl PLL)**

In Rs mn	New		Old		% Chg	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Net Sales	14,930	18,643	15,289	18,643	(2.4)	-
EBITDA	2,568	3,263	2,676	3,300	(4.0)	(1.1)
Adj PAT	1507	2028	1554	2041	(3.0)	(0.6)
Adj EPS (in Rs)	11.5	15.5	11.9	15.6	(3.0)	(0.6)

Source: HDFC sec Inst Research

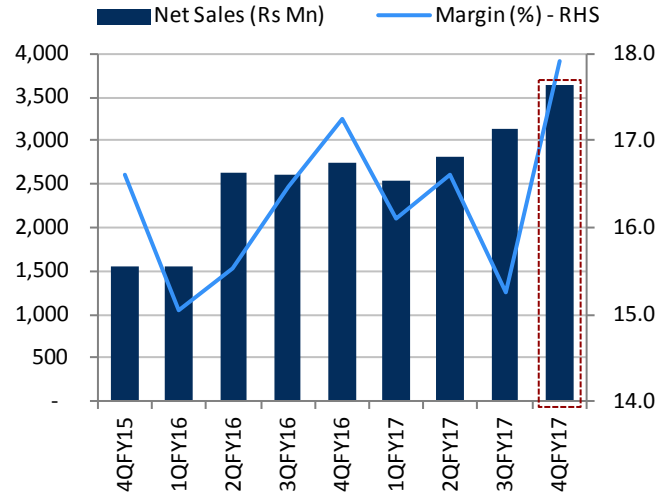
**SEL's cable business delivered a strong performance, led by improved performance in the European subsidiaries and robust performance of Wescon Controls**

**Overall mix remained stable Qo and in 2Ws, the share of business from HMSI has been stable at 50%**

**Absence of H7 sales led to lower revenues for PLL**

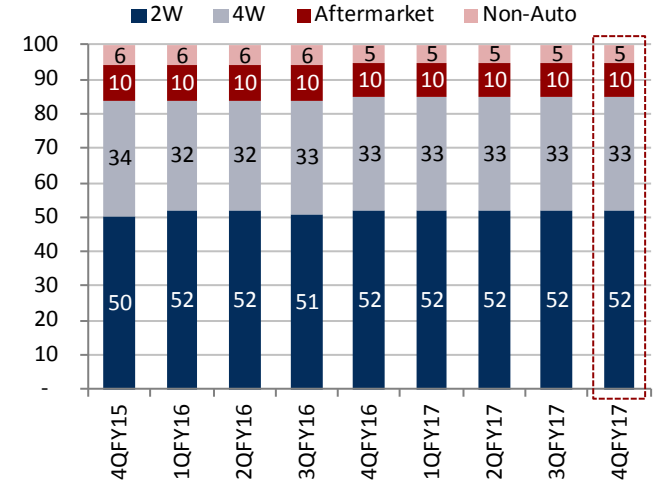
**PLL's margins were weaker on account of a poor mix and higher other expenses**

**Demonet Quarter**



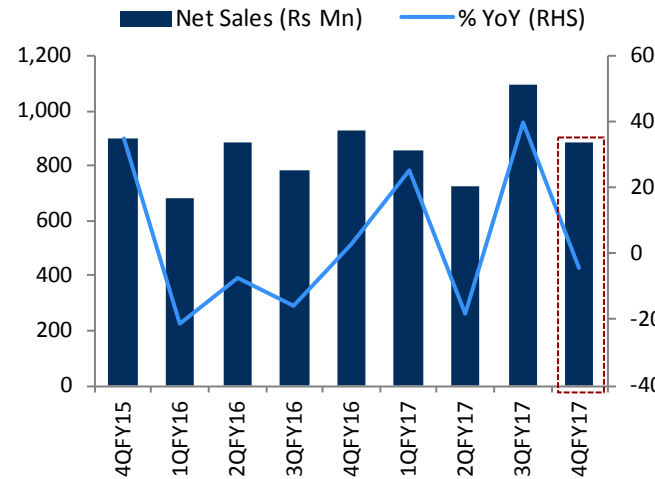
Source: Company, HDFC sec Inst Research  
\* SEL Consol (incl PLL)

**Overall Mix Remains Stable**



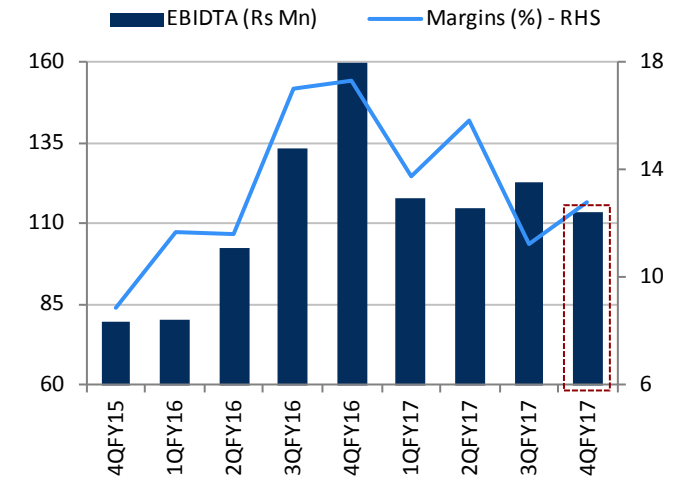
Source: Company, HDFC sec Inst Research  
\* SEL Consol (ex PLL)

**PLL: Maintains Growth Momentum YoY**



Source: Company, HDFC sec Inst Research  
\* PLL

**Higher Staff Costs Led To Margin Drop**



Source: Company, HDFC sec Inst Research  
\* PLL

**Peer Valuation**

	MCap (Rs bn)	CMP (Rs/sh)	Rating	TP	Adj EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			RoE (%)		
					FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Bharat Forge	266	1,144	NEU	1,014	24.8	31.0	40.0	46.2	37.0	28.6	20.6	17.8	14.6	15.6	17.5	19.6
Exide Industries	193	227	BUY	262	8.2	9.3	11.2	27.9	24.5	20.2	17.1	16.1	13.9	17.6	21.4	22.1
Balkrishna Industries	19	242	BUY	264	11.1	13.2	17.7	21.8	18.3	13.7	10.4	8.8	6.8	31.5	30.1	33.0
Balkrishna Industries	115	815	NEU	810	23.5	29.1	35.4	34.6	28.0	23.0	15.8	13.4	11.2	20.0	20.1	20.5
<b>Suprajit Engineering</b>	<b>34</b>	<b>256</b>	<b>BUY</b>	<b>279</b>	<b>8.6</b>	<b>11.5</b>	<b>15.5</b>	<b>29.6</b>	<b>22.2</b>	<b>16.5</b>	<b>18.2</b>	<b>13.8</b>	<b>10.9</b>	<b>22.3</b>	<b>24.3</b>	<b>26.1</b>
Jamna Auto	19	242	BUY	264	11.1	13.2	17.7	21.8	18.3	13.7	10.4	8.8	6.8	31.5	30.1	33.0
Subros	15	243	NR	-	5.9	10.0	13.8	41.5	24.3	17.6	9.1	6.8	5.4	10.1	15.7	19.3
Ramkrishna Forgings	14	484	NEU	440	8.3	24.4	37.0	58.4	19.8	13.1	13.2	9.4	7.6	4.9	13.4	17.8
NRB Bearings	11	115	BUY	161	5.6	6.0	7.3	20.6	19.3	15.7	11.4	9.9	8.5	18.1	17.1	18.6
Lumax Autotech	6	461	BUY	681	23.5	29.1	35.4	19.6	15.8	13.0	9.1	6.8	5.5	12.3	15.4	16.7

Source: Company, HDFC sec Inst Research

**Income Statement(Consolidated)**

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
<b>Net Revenues</b>	<b>6,118</b>	<b>9,525</b>	<b>12,138</b>	<b>14,930</b>	<b>18,643</b>
<b>Growth (%)</b>	<b>12.2</b>	<b>55.7</b>	<b>27.4</b>	<b>23.0</b>	<b>24.9</b>
Material Expenses	3,729	5,635	6,863	8,764	11,055
Employee Expenses	826	1,253	1,988	1,971	2,461
Other Operating Expenses	603	1,093	1,279	1,627	1,864
<b>EBITDA</b>	<b>960</b>	<b>1543</b>	<b>2009</b>	<b>2568</b>	<b>3263</b>
<b>EBITDA Margin (%)</b>	<b>15.7</b>	<b>16.2</b>	<b>16.5</b>	<b>17.2</b>	<b>17.5</b>
<b>EBITDA Growth (%)</b>	<b>3.8</b>	<b>60.7</b>	<b>30.2</b>	<b>27.8</b>	<b>27.1</b>
Depreciation	90	158	219	288	253
<b>EBIT</b>	<b>870</b>	<b>1385</b>	<b>1789</b>	<b>2280</b>	<b>3009</b>
Other Income (Including EO Items)	41	155	240	215	215
Interest	164	250	289	279	327
<b>PBT</b>	<b>747</b>	<b>1291</b>	<b>1741</b>	<b>2216</b>	<b>2897</b>
Tax (Incl Deferred)	245	431	499	709	869
Minority Interest	-	84	112	-	-
<b>RPAT</b>	<b>503</b>	<b>776</b>	<b>1130</b>	<b>1507</b>	<b>2028</b>
EO (Loss) / Profit (Net Of Tax)	-	57	15	-	-
<b>APAT</b>	<b>503</b>	<b>719</b>	<b>1115</b>	<b>1507</b>	<b>2028</b>
<b>APAT Growth (%)</b>	<b>-1.1</b>	<b>43.1</b>	<b>55.0</b>	<b>35.2</b>	<b>34.6</b>
<b>Adjusted EPS (Rs)</b>	<b>4.2</b>	<b>5.5</b>	<b>8.5</b>	<b>11.5</b>	<b>15.5</b>
<b>EPS Growth (%)</b>	<b>-1.1</b>	<b>31.3</b>	<b>55.0</b>	<b>35.2</b>	<b>34.6</b>

Source: Company, HDFC sec Inst Research

**Balance Sheet(Consolidated)**

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	120	131	131	131	131
Reserves	2,288	4,344	5,402	6,733	8,523
<b>Total Shareholders' Funds</b>	<b>2,408</b>	<b>4,475</b>	<b>5,533</b>	<b>6,863</b>	<b>8,654</b>
Minority Interest	-	542	542	-	-
Long Term Debt	928	1,582	1,232	1,082	1,082
Short Term Debt	1,005	1,005	2,206	1,871	1,319
<b>Total Debt</b>	<b>1,933</b>	<b>2,586</b>	<b>3,438</b>	<b>2,953</b>	<b>2,400</b>
Net Deferred Taxes	91	107	107	107	107
Long Term Provisions & Others	91	171	154	185	217
<b>TOTAL SOURCES OF FUNDS</b>	<b>4,523</b>	<b>7,881</b>	<b>9,774</b>	<b>10,108</b>	<b>11,379</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	1,680	2,271	4,636	4,663	4,774
CWIP	170	144	233	246	246
Goodwill	-	1,066	834	-	-
Investments	0	-	-	-	-
LT Loans & Advances	69	181	226	237	285
<b>Total Non-current Assets</b>	<b>1,919</b>	<b>3,662</b>	<b>5,929</b>	<b>5,147</b>	<b>5,306</b>
Inventories	799	1,669	2,062	2,536	2,962
Debtors	1,250	2,096	2,594	2,945	3,882
Other Current Assets	144	447	560	607	712
Cash & Equivalents	1,173	1,706	655	1,454	972
<b>Total Current Assets</b>	<b>3,367</b>	<b>5,918</b>	<b>5,870</b>	<b>7,542</b>	<b>8,529</b>
Creditors	568	944	1,197	1,636	1,416
Other Current Liabilities & Provns	195	755	828	944	1,040
<b>Total Current Liabilities</b>	<b>763</b>	<b>1,699</b>	<b>2,025</b>	<b>2,580</b>	<b>2,456</b>
<b>Net Current Assets</b>	<b>2,604</b>	<b>4,219</b>	<b>3,845</b>	<b>4,962</b>	<b>6,073</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>4,523</b>	<b>7,882</b>	<b>9,774</b>	<b>10,108</b>	<b>11,378</b>

Source: Company, HDFC sec Inst Research

**Cash Flow(Consolidated)**

(Rs mn)	FY15	FY16	FY17E	FY18E	FY15
Reported PBT	747	1,291	1,741	2,216	2,897
Non-operating & EO items	-	(141)	(127)	-	-
Interest expenses	164	250	289	279	327
Depreciation	90	158	219	288	253
Working Capital Change	(81)	(1,115)	(608)	(331)	(1,882)
Tax Paid	(245)	(431)	(499)	(709)	(869)
<b>OPERATING CASH FLOW ( a )</b>	<b>676</b>	<b>11</b>	<b>1,015</b>	<b>1,742</b>	<b>726</b>
Capex	(409)	(723)	(2,673)	(346)	(346)
Free cash flow (FCF)	267	(711)	(1,659)	1,396	380
Investments	5	0	-	-	-
Non-operating Income	11	(581)	290	308	(0)
<b>INVESTING CASH FLOW ( b )</b>	<b>(393)</b>	<b>(1,304)</b>	<b>(2,384)</b>	<b>(38)</b>	<b>(346)</b>
Debt Issuance/(Repaid)	373	653	737	(450)	(297)
Interest Expenses	(164)	(250)	(289)	(279)	(327)
FCFE	804	192	(633)	1,225	410
Share Capital Issuance	-	1,505	-	-	-
Dividend	(137)	(84)	(130)	(176)	(237)
<b>FINANCING CASH FLOW ( c )</b>	<b>72</b>	<b>1,825</b>	<b>318</b>	<b>(905)</b>	<b>(861)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>355</b>	<b>532</b>	<b>(1,051)</b>	<b>799</b>	<b>(482)</b>
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	1,174	1,706	655	1,454	972

Source: Company, HDFC sec Inst Research

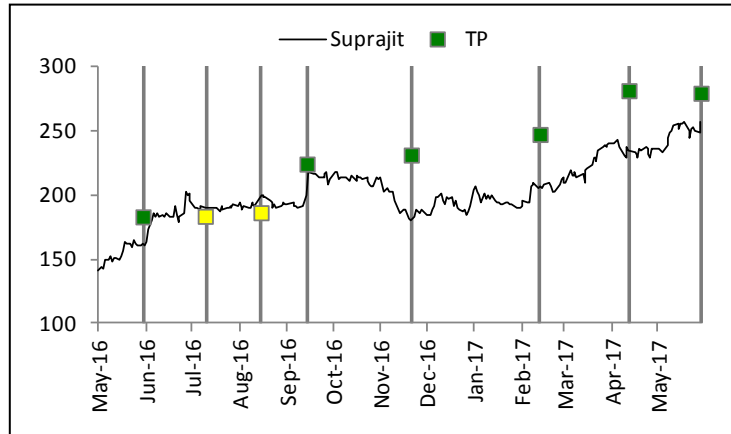
**Key Ratios(Consolidated)**

	FY15	FY16	FY17E	FY18E	FY15
<b>PROFITABILITY (%)</b>					
GPM	39.0	40.8	43.5	41.3	40.7
EBITDA Margin	15.7	16.2	16.5	17.2	17.5
APAT Margin	8.2	7.5	9.2	10.1	10.9
RoE	22.6	20.9	22.3	24.3	26.1
RoIC (or Core RoCE)	11.9	12.8	12.7	14.8	18.7
RoCE	15.1	14.6	15.3	17.5	21.3
<b>EFFICIENCY</b>					
Tax Rate (%)	32.7	33.4	28.7	32.0	30.0
Fixed Asset Turnover (x)	2.5	2.9	2.1	2.4	2.9
Inventory (days)	47.7	64.0	62.0	62.0	58.0
Debtors (days)	74.6	80.3	78.0	72.0	76.0
Other Current Assets (days)	8.6	17.1	16.8	14.8	13.9
Payables (days)	33.9	36.2	36.0	40.0	27.7
Other Current Liab & Provs (days)	11.6	28.9	24.9	23.1	20.4
Cash Conversion Cycle (days)	85.4	96.3	95.9	85.8	99.9
Debt/EBITDA (x)	2.0	1.7	1.7	1.1	0.7
Net D/E (x)	0.8	0.5	0.6	0.3	0.3
Interest Coverage (x)	0.2	0.2	0.2	0.1	0.1
<b>PER SHARE DATA (Rs)</b>					
EPS	4.2	5.9	8.6	11.5	15.5
CEPS	5.1	6.9	10.2	14.1	18.0
Dividend	1.0	0.6	0.9	1.2	1.6
Book Value	20.1	34.2	42.3	52.5	66.2
<b>VALUATION</b>					
P/E (x)	61.1	43.1	29.6	22.2	16.5
P/BV (x)	12.8	7.5	6.1	4.9	3.9
EV/EBITDA (x)	33.9	23.2	18.2	13.8	10.9
EV/Revenues (x)	5.3	3.8	3.0	2.4	1.9
OCF/EV (%)	2.1	0.0	2.8	4.9	2.0
FCF/EV (%)	0.8	(2.0)	(4.5)	3.9	1.1
FCFE/Mkt Cap (%)	2.6	0.6	(1.9)	3.7	1.2
Dividend Yield (%)	0.4	0.2	0.3	0.5	0.6

Source: Company, HDFC sec Inst Research



**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
1-Jun-16	161	BUY	183
11-Jul-16	191	NEU	183
17-Aug-16	198	NEU	186
16-Sep-16	199	BUY	224
23-Nov-16	180	BUY	231
15-Feb-17	204	BUY	247
13-Apr-17	237	BUY	281
31-May-17	256	BUY	279

**Rating Definitions**

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

## INSTITUTIONAL RESEARCH

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