

Suprajit Engineering

NEUTRAL

INDUSTRY	AUTOS
CMP(as on 30 May 2018)	Rs 289
Target Price	Rs 296
Nifty	10,614
Sensex	34,345
KEY STOCK DATA	
Bloomberg	SEL IN
No. of Shares (mn)	140
MCap (Rsbn) / (\$ mn)	40/599
6m avg traded value (Rs mn)	22
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 349 / 227
	3M 6M 12M
Absolute (%)	4.0 (0.4) 12.7
Relative (%)	1.9 (5.7) 0.7
SHAREHOLDING PATTERN (%)	
Promoters	44.48
FIs & Local MFs	4.42
FPIs	11.54
Public & Others	40.53
<i>Source : BSE</i>	

Priced in

Suprajit Engineering (SEL) consol 4QFY18 Rev/EBITDA/PAT numbers were below estimates but margin beat estimates. Net sales at Rs. 4.06bn (+13% YoY) led by 18% growth in standalone cable business, and +9% growth in Wescon business marginally offset by muted growth in Phoenix (flat YoY). Consol EBITDA stood at Rs. 734mn (+13% YoY) with margin at 18.1% (flat YoY, +219bps QoQ). Margin recovered sequentially led by 257bps margin improvement by Phoenix and strong margin of Wescon.

SEL has a proven track record of prudent capital allocation across its organic and inorganic capacities and requirements, reflecting in strong return ratios (average ROE of 21% over the last five years). However, we believe Phoenix Lamps' (PLL) business has been a drag on the overall financials for quite some time. The New H7 product line has not helped significantly in boosting sales in the export aftermarket.

Expect revenue/EPS CAGR of 18/23% over FY18-20E. We value the stock Rs. 296(20x FY20E EPS). Maintain NEU

Financial Summary (Consolidated)

(Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	4,064	3,605	12.7	3,663	11.0	9,525	12,028	14,311	17,364	19,975
EBITDA	734	652	12.7	582	26.2	1,543	2,020	2,365	2,848	3,336
PAT	563	401	40.7	282	99.6	719	1,137	1,385	1,727	2,079
Diluted EPS (Rs)	4.0	2.9	40.7	2.0	99.6	5.5	8.1	9.9	12.4	14.9
P/E (x)						47.0	33.9	28.2	22.6	18.8
EV / EBITDA (x)						25.2	20.8	17.6	14.5	12.1
RoE (%)						20.9	23.4	23.5	23.2	22.4

Source: Company, HDFC sec Inst Research

Highlights of the quarter

- Management expects cable business will continue to outperform industry growth. In FY18 the company benefited from strong 2W industry growth (commands a significant 65-70% market share). SEL has a smaller market share (25%) in the domestic PV segment (mainly supplies to M&M and Tata Motors), however the company is looking for opportunity to scale up its business with the market leader Maruti Suzuki. The current capacity utilization in cable segment has reached 85% and the company is looking to expand its capacity from 250mn to 300mn in next two years.
- PLL disappointment was largely driven by lack of new orders in Europe, due to recent product related issues. H7 line's capacity utilisation currently stands at ~45%. Management expects utilisation level to reach ~60-70% in the next one year
- For Wescon, the company has achieved its annual revenue guidance(USD 40mn) for FY18 and guided for 10% growth with 15-16% margin in FY19

Consolidated net sales at Rs. 4.06bn (+13% YoY) led by 18% growth in standalone cable business, and 9% growth in Wescon business marginally offset by muted growth in Phoenix (flat YoY).

Capacity utilization has increased to 85% in cable segment (inc Wescon) in FY18 vs 72% in FY17. The company is looking to expand its capacity from 250mn to 300mn with a capex of Rs 1bn in next two years

Consolidated EBITDA margin was supported by recovery in margin of PLL (richer mix) and Wescon

Tax rate was lower owing to write back of deferred tax in Wescon.

Quarterly Financials Snapshot – SEL (Consolidated)

(Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)
Net sales (incl OOI)	4,064	3,605	12.7	3,663	11.0
Material Expenses	2,278	2,055	10.8	2,119	7.5
Employee Expenses	662	622	6.5	650	1.9
Other Operating Expenses	390	276	41.4	313	24.8
EBITDA	734	652	12.7	582	26.2
Depreciation	95	95	(0.6)	95	(0.5)
EBIT	640	556	14.9	486	31.5
Other Income	68	49	39.4	59	15.1
Interest Cost	59	69	(14.7)	72	(18.4)
PBT	649	536	20.9	473	37.0
Tax	85	136	(37.2)	191	(55.4)
APAT	563	401	40.7	282	99.6
EO Items (Adj For Tax)	-	5	-	-	
RPAT after EOI	563	406	38.8	282	99.6

Source: Company, HDFC sec Inst Research

Margin Analysis

	4QFY18	4QFY17	YoY (bps)	3QFY18	QoQ (bps)
Material Expenses % Net Sales	56.0	57.0	(97)	57.8	(181)
Employee Expenses % Net Sales	16.3	17.2	(96)	17.7	(145)
Other Operating Expenses % Net Sales	9.6	7.7	194	8.5	107
EBITDA Margin (%)	18.1	18.1	(1)	15.9	219
Tax Rate (%)	13.1	25.3	(1,217)	40.4	(2,723)
APAT Margin (%)	13.9	11.3	260	7.7	615

Source: Company, HDFC sec Inst Research

Although top line of PLL remain muted in 4QFY18 (flat YoY), EBITDA margin improved 525bps YoY/257bps QoQ to 16.6%

For Full year, PLL revenue and PAT de-grew by 2% and 17% respectively. Capacity utilization has increased to 71% in lamp division in FY18 vs 68% in FY17

Domestic OEMs and aftermarket business was strong but exports remained weak. Currently, 70% of PLL's business comes from the aftermarket segment.

Management highlighted that there will be a gradual shift towards LEDs, while demand for halogen bulbs for the company will continue to grow at a healthy pace in the aftermarket led by entry into new markets and some big global players have reduced their presence in the halogen market.

Quarterly Financials Snapshot: PLL (Consolidated)

(Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)
Net sales	893	899	(0.6)	828	7.9
EBITDA	148	102	45.3	116	27.6
PBT	116	91	26.9	131	(11.3)
APAT	72	76	(5.1)	57	26.0

Source: Company, HDFC sec Inst Research

Margin Analysis

	4QFY18	4QFY17	YoY (bps)	3QFY18	QoQ (bps)
EBITDA Margin (%)	16.6	11.4	525	14.0	257
PBT Margin (%)	13.0	10.1	281	15.8	(280)
PAT Margin (%)	8.0	8.4	(38)	6.9	116

Source: Company, HDFC sec Inst Research

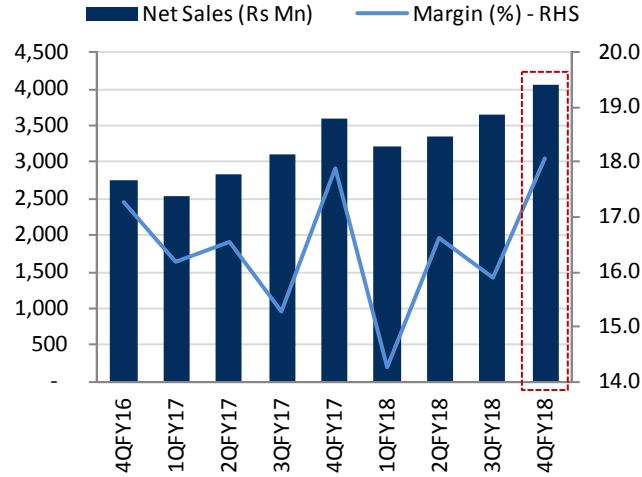
We believe the domestic cables business will continue to outperform industry growth by 5-10%, led by increasing share of business (particularly 4Ws) and rising cable content

Overall mix skewed in favour of non-auto post consolidation with Wescon

For Wescon, management reiterated the strategy of entering new verticals (agri, construction etc), and expecting 10% revenue growth in FY19

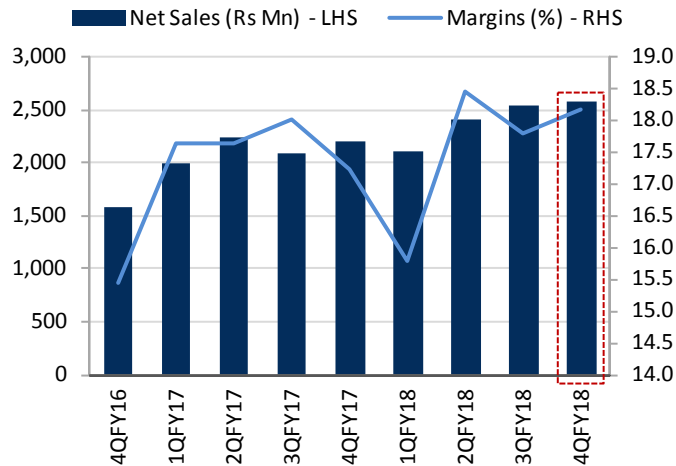
We expect Wescon's business to witness healthy growth, coupled with good margins, led by entrance into new verticals and cost rationalization

Revenue On The Rise



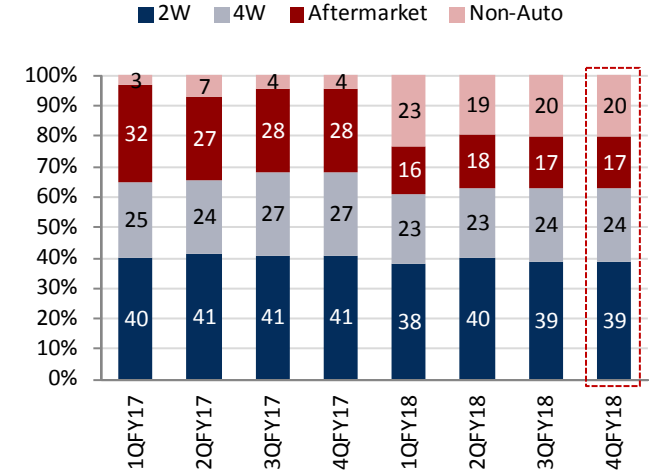
Source: Company, HDFC sec Inst Research
* SEL Consol

Cables Biz Maintains Growth Momentum



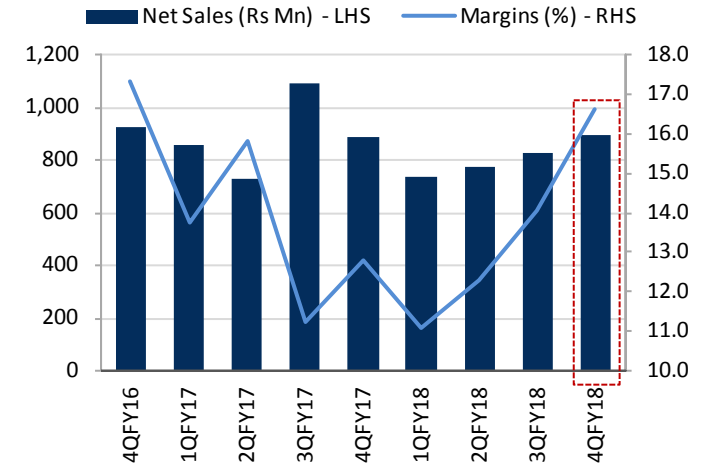
Source: Company, HDFC sec Inst Research
* SEL Standalone

Mix Skewed To Non-Auto Aided By Wescon Controls



Source: Company, HDFC sec Inst Research
* SEL Consol

PLL Performance Improved QoQ/YoY



Source: Company, HDFC sec Inst Research
* PLL Consol

Peer Valuation

	MCap (Rs bn)	CMP (Rs/sh)	Rating	TP	Adj EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			RoE (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Exide Industries	224	264	BUY	298	8.4	11.1	13.0	31.6	23.8	20.2	19.2	17.7	13.6	14.9	13.9	16.7
Jamna Auto	37	93	BUY	107	3.1	4.3	5.3	29.5	21.6	17.4	15.7	12.3	10.0	33.1	35.9	35.4
Suprajit Engineering	40	289	NEU	296	9.9	12.4	14.9	28.1	22.5	18.7	16.4	13.5	11.3	23.5	23.2	22.4
Ramkrishna Forgings	22	773	BUY	913*	29.1	39.8	50.3	26.6	19.4	15.4	10.4	8.8	7.1	15.4	15.9	17.5
Subros	19	315	BUY	384	9.1	13.4	19.2	34.6	23.6	16.4	19.3	15.9	13.2	14.8	19.1	23.3
JBM Auto	17	409	BUY	560	17.0	24.6	31.1	24.0	16.6	13.2	10.6	7.8	6.6	18.0	22.7	21.7
NRB Bearings	16	160	BUY	217	9.4	10.5	12.1	17.1	15.2	13.3	10.2	8.8	7.6	26.6	24.7	23.9
Lumax Autotech	11	801	BUY	987	36.3	43.8	54.9	22.1	18.3	14.6	10.3	8.4	6.5	14.7	15.8	17.4

Source: Company, HDFC sec Inst Research

Income Statement(Consolidated)

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	9,525	12,028	14,311	17,364	19,975
Growth (%)	55.7	26.3	19.0	21.3	15.0
Material Expenses	5,635	6,899	8,007	10,297	11,845
Employee Expenses	1,253	1,983	2,568	2,396	2,697
Other Operating Expenses	1,093	1,128	1,371	1,823	2,097
EBITDA	1,543	2,020	2,365	2,848	3,336
EBITDA Margin (%)	16.2	16.8	16.5	16.4	16.7
EBITDA Growth (%)	60.7	30.9	17.1	20.4	17.1
Depreciation	158	274	372	382	416
EBIT	1,385	1,746	1,993	2,466	2,920
Other Income (Including EO Items)	155	202	212	235	285
Interest	250	291	271	233	234
PBT	1,291	1,657	1,934	2,468	2,970
Tax (Incl Deferred)	431	504	549	740	891
Minority Interest	84	-	-	-	-
RPAT	776	1,152	1,385	1,727	2,079
EO (Loss) / Profit (Net Of Tax)	57	15	-	-	-
APAT	719	1,137	1,385	1,727	2,079
APAT Growth (%)	43.1	58.2	21.8	24.7	20.4
Adjusted EPS (Rs)	5.5	8.1	9.9	12.4	14.9
EPS Growth (%)	31.3	47.9	21.8	24.7	20.4

Source: Company, HDFC sec Inst Research

Balance Sheet(Consolidated)

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	131	140	140	140	140
Reserves	4,344	5,103	6,409	8,207	10,042
Total Shareholders Funds	4,475	5,242	6,549	8,346	10,182
Minority Interest	542	-	-	-	-
Long Term Debt	1,582	2,602	1,125	1,125	1,125
Short Term Debt	1,005	694	1,693	1,495	1,195
Total Debt	2,586	3,295	2,818	2,619	2,319
Net Deferred Taxes	107	654	521	521	521
Long Term Provisions & Others	171	80	56	66	77
TOTAL SOURCES OF FUNDS	7,881	9,272	9,943	11,552	13,099
APPLICATION OF FUNDS					
Net Block	2,271	4,248	4,090	4,241	4,551
CWIP	222	23	25	25	42
Goodwill	1,066	1,318	1,358	1,358	1,358
Investments	-	-	-	-	-
LT Loans & Advances	181	-	-	-	-
Total Non-current Assets	3,740	5,589	5,473	5,624	5,951
Inventories	1,669	2,018	2,365	2,902	3,284
Debtors	2,096	2,442	2,890	3,425	3,940
Other Current Assets	447	560	259	649	755
Cash & Equivalents	1,706	447	1,625	1,764	2,432
Total Current Assets	5,918	5,468	7,138	8,740	10,411
Creditors	944	1,053	1,824	1,470	1,724
Other Current Liabilities & Provns	832	873	1,000	1,150	1,323
Total Current Liabilities	1,776	1,926	2,825	2,621	3,047
Net Current Assets	4,142	3,542	4,314	6,119	7,365
TOTAL APPLICATION OF FUNDS	7,882	9,272	9,943	11,552	13,099

Source: Company, HDFC sec Inst Research

Cash Flow(Consolidated)

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Reported PBT	1,291	1,657	1,934	2,468	2,970
Non-operating & EO items	(141)	(15)	-	-	-
Interest expenses	250	291	271	233	234
Depreciation	158	274	372	382	416
Working Capital Change	(1,115)	(632)	365	(1,308)	(558)
Tax Paid	(431)	(504)	(549)	(740)	(891)
OPERATING CASH FLOW (a)	11	1,071	2,394	1,034	2,171
Capex	(723)	(2,130)	(217)	(533)	(725)
Free cash flow (FCF)	(711)	(1,060)	2,176	501	1,446
Investments	0	-	-	-	-
Non-operating Income	(581)	(4,100)	(1,424)	272	-
INVESTING CASH FLOW (b)	(1,304)	(6,230)	(1,642)	(261)	(725)
Debt Issuance/(Repaid)	653	709	(478)	(198)	(300)
Interest Expenses	(250)	(291)	(271)	(233)	(234)
FCFE	192	(60)	1,970	535	1,380
Share Capital Issuance	1,505	3,616	1,307	-	-
Dividend	(84)	(133)	(133)	(202)	(243)
FINANCING CASH FLOW (c)	1,825	3,901	424	(633)	(778)
NET CASH FLOW (a+b+c)	532	(1,258)	1,177	139	668
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	1,706	448	1,624	1,764	2,432

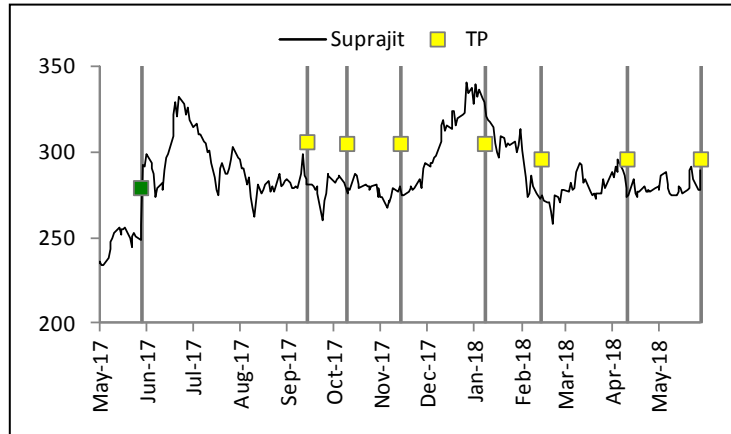
Source: Company, HDFC sec Inst Research

Key Ratios(Consolidated)

	FY16	FY17	FY18	FY19E	FY20E
PROFITABILITY (%)					
GPM	40.8	42.6	44.1	40.7	40.7
EBITDA Margin	16.2	16.8	16.5	16.4	16.7
APAT Margin	7.5	9.5	9.7	9.9	10.4
RoE	20.9	23.4	23.5	23.2	22.4
RoIC (or Core RoCE)	19.9	16.5	16.8	19.2	20.1
RoCE	14.6	15.9	16.6	17.7	18.3
EFFICIENCY					
Tax Rate (%)	33.4	30.4	28.4	30.0	30.0
Fixed Asset Turnover (x)	2.9	2.2	2.6	2.8	2.9
Inventory (days)	64.0	61.2	60.3	61.0	60.0
Debtors (days)	80.3	74.1	73.7	72.0	72.0
Other Current Assets (days)	17.1	17.0	6.6	13.6	13.8
Payables (days)	36.2	32.0	46.5	30.9	31.5
Other Current Liab & Provs (days)	31.9	26.5	25.5	24.2	24.2
Cash Conversion Cycle (days)	93.4	93.9	68.6	91.6	90.1
Debt/EBITDA (x)	1.7	1.6	1.2	0.9	0.7
Net D/E (x)	0.5	0.6	0.4	0.3	0.1
Interest Coverage (x)	0.2	0.2	0.1	0.1	0.1
PER SHARE DATA (Rs)					
EPS	5.9	8.2	9.9	12.4	14.9
CEPS	6.9	10.1	12.9	15.5	18.3
Dividend	0.6	0.8	0.8	1.2	1.5
Book Value	34.2	37.5	46.8	59.7	72.8
VALUATION					
P/E (x)	47.0	33.9	28.2	22.6	18.8
P/BV (x)	8.2	7.4	6.0	4.7	3.8
EV/EBITDA (x)	25.2	20.8	17.6	14.5	12.1
EV/Revenues (x)	4.1	3.5	2.9	2.4	2.0
OCF/EV (%)	0.0	2.5	5.8	2.5	5.4
FCF/EV (%)	(1.8)	(2.5)	5.2	1.2	3.6
FCFE/Mkt Cap (%)	0.5	(0.2)	5.0	1.4	3.5
Dividend Yield (%)	0.2	0.3	0.3	0.4	0.5

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
31-May-17	256	BUY	279
15-Sep-17	284	NEU	306
11-Oct-17	278	NEU	305
16-Nov-17	280	NEU	305
9-Jan-18	334	NEU	305
15-Feb-18	275	NEU	296
12-Apr-18	288	NEU	296
31-May-18	289	NEU	296

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

Disclosure:

I, **Abhishek Jain, MBA**, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock –No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of HSL.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE-INB/F/E 231109431, BSE-INB/F 011109437, AMFI Reg. No. ARN: 13549, PFRDA Reg. No. POP: 04102015, IRDA Corporate Agent License No.: HDF 2806925/HDF C000222657, SEBI Research Analyst Reg. No.: INH000002475, CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

