

SUPRAJIT ENGINEERING

AUTO

BUY

Target Price: Rs 315

Earnings recovery ahead

Q2FY18 consolidated EBITDA was in line with our estimate. Aftermarket revenue (~20% of sales) remained subdued in the wake of GST implementation and the management expects recovery in H2. The next leg of growth is likely to be driven by (1) share gain in global non-auto cables; (2) increase in content supplied (CBS opportunity) to domestic OEMs; (3) recovery in aftermarket (both lamps and cables).

Suprajit has consistently outperformed the auto pack on revenue/EBITDA CAGR over the past decade while maintaining RoCE at ~30% ([detailed report](#)). With transitory impact of GST behind us, the company is well placed to capitalize on growth opportunities (insignificant capex over next 2 years). Reiterate **BUY** with a target price of Rs 315 (22x FY19E EPS; 10% higher on FY20 CBS opportunity).

CMP : Rs 277
 Potential Upside : 14%

MARKET DATA

No. of Shares : 140 mn
 Free Float : 56%
 Market Cap : Rs 39 bn
 52-week High / Low : Rs 338 / Rs 175
 Avg. Daily vol. (6mth) : 128,071 shares
 Bloomberg Code : SEL IB Equity
 Promoters Holding : 44%
 FII / DII : 11% / 3%

Takeaways from conference call

- ◆ **Domestic cable operations:** Revenue growth was hit by impact of GST implementation on aftermarket revenue (flat growth YoY in H1 FY18). The management indicated that aftermarket has returned to normal after Q2 and that H2FY18 should be much better than H1FY18. The management remains confident of gaining share in the aftermarket segment after GST, as share of unorganized segment will come down further
- ◆ **Standalone margin:** Standalone EBITDA margin came in 100 bps higher YoY at 18.5% on superior gross margin
- ◆ **New product to increase content per vehicle supplied:** The company has bought technology to start supplying CBS (Combined Braking System) module and, is working with various OEMs to get it approved. CBS is mandatory from FY19/20 on all newly launched/ manufactured two-wheelers respectively with engine capacity of <125 cc

Financial summary (Consolidated)

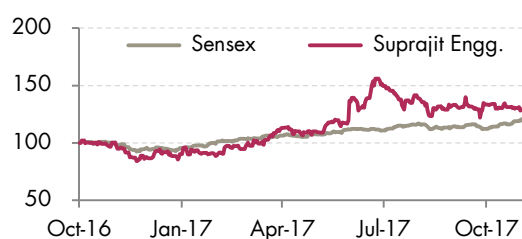
Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	9,502	12,084	15,020	17,296
Adj PAT (Rs mn)	776	1,241	1,627	2,084
Con. EPS* (Rs)	-	-	9.5	10.9
EPS (Rs)	5.9	8.9	11.6	14.9
Change YOY (%)	64.4	50.1	31.1	28.1
P/E (x)	46.9	31.2	23.8	18.6
RoE (%)	22.6	25.8	28.4	29.3
RoCE (%)	26.0	24.8	27.6	31.6
EV/E (x)	25.1	20.8	16.2	13.2
DPS (Rs)	1.1	1.1	1.3	1.4

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

(%)	FY17	FY18E	FY19E
Sales growth	27.4	24.3	15.2
Gross margin	43.5	42.9	43.0
EBITDA margin	16.5	16.8	17.4

Price performance



(...Continued from page 1)

Wescon, USA

- ◆ Wescon will be **branded as global non-auto brand in Suprajit's stable** and will enter new segments in the non-auto space. The acquisition synergies include efficient sourcing of raw materials from Suprajit's supply chain (on larger scale). Further, Wescon can bid for orders from existing customers in geographies outside of USA, which it was not able to do earlier due to cost competitiveness (Suprajit can supply to these customers now)
- ◆ **New growth strategy:** The management has implemented new strategy to increase penetration in the US non-automotive segment (agri and construction to begin with). This shall lower the cyclical of business and improve profitability
- ◆ The management is targeting **10% YoY revenue growth** to USD 40 mn for FY18. The company has set up a new marketing office in US to target new opportunities in the region. The management remains confident of **achieving 14-16% EBITDA margin** on a full year basis

Phoenix Lamps

- ◆ **Revenue growth:** Phoenix Lamps' revenue grew 7% YoY, as aftermarket revenue recovered on shift in company's strategy partially offset by low exports and subdued utilization at H7 line. The company has commenced new H7 (product) line and is waiting for OEM approvals/ global certification to ramp up production (currently operating at 20% utilization)
- ◆ **EBITDA margin** at 12.4% (-362 bps YoY; +126 bps QoQ), as the more profitable line H7 is operating at lower utilization

Exhibit 1: Results update

Consolidated (Rs mn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)	FY18E	FY17	YoY (%)
Net sales	3,365	2,790	20.6	3,219	4.5	15,083	12,138	24.3
- Raw material	1,834	1,645	11.5	1,760	4.2	8,612	6,863	25.5
(% of net sales)	54.5	58.9	(445)	54.7	(18)	57.1	56.5	56
- Staff expenditure	626	411	52.2	630	(0.7)	2,383	1,988	19.9
(% of net sales)	18.6	14.7	386	19.6	(97)	15.8	16.4	(57)
- Other expenditure	344	268	28.5	370	(6.9)	1,547	1,279	21.0
(% of net sales)	10.2	9.6	63	11.5	(126)	10.3	10.5	(28)
Total expenditure	2,804	2,324	20.6	2,760	1.6	12,543	10,129	24
EBITDA	561	466	20.3	459	22.2	2,540	2,008	26.5
EBITDA margin (%)	16.7	16.7	(4)	14.3	241	16.8	16.5	29.5
Depreciation	64	53	21.5	118	(46.0)	326	219	48.9
EBIT	497	414	20.2	341	45.9	2,214	1,789	23.7
Interest	75	69	8.3	66	13.5	284	289	(1.5)
Other income	35	77	(54.7)	82	(57.2)	283	240	18.0
PBT	457	422	8.4	356	28.3	2,213	1,740	27.1
Tax	143	160	(10.5)	130	9.7	586	499	17.4
Tax rate (%)	31.2	37.8	(661)	36.5	(531)	26.5	28.7	(220)
Adjusted PAT	314	238	32.2	226	39.0	1,627	1,241	31.1
Reported PAT	314	178	76.9	226	39.0	1,627	1,241	31.1
Adjusted EPS (Rs)	2.2	1.7	32.2	1.6	39.0	11.6	8.9	31.1

Source: Company, Axis Capital

Exhibit 2: Quarterly details

(Rs mn)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY (%)	QoQ (%)
Net sales							
Consolidated	2,790	3,132	3,659	3,219	3,365	21	5
Domestic cable	2,234	1,537	1,647	2,116	2,407	8	14
Phoenix	726	846	877	738	778	7	5
Wescon			789	647	513	-	(21)
EBITDA							
Consolidated	466	478	666	459	561	20	22
Domestic cable	393	269	289	334	444	13	33
Phoenix	116	113	112	82	96	(17)	17
Wescon			153	78	54	-	(31)
EBITDA margin (%)							
Consolidated	16.7	15.3	18.2	14.3	16.7	(4)	241
Domestic cable	17.6	17.5	17.6	15.8	18.5	85	266
Phoenix	16.0	13.4	12.8	11.1	12.4	(362)	126
Wescon			19.4	12.1	10.5	-	(158)
Adj PAT							
Consolidated	238	182	387	226	314	32	39
Domestic cable	261	134	151	220	267	2	21
Phoenix	83	38	75	57	60	(27)	5
Wescon			118	(6)	19	-	(408)

Source: Company, Axis Capital; Note: Wescon acquired & consolidated from Sep 2016

Financial summary (Consolidated)**Profit & loss (Rs mn)**

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	9,502	12,084	15,020	17,296
Other operating income	23	54	63	74
Total operating income	9,525	12,138	15,083	17,371
Cost of goods sold	(5,635)	(6,863)	(8,612)	(9,901)
Gross profit	3,890	5,275	6,471	7,469
<i>Gross margin (%)</i>	<i>40.9</i>	<i>43.7</i>	<i>43.1</i>	<i>43.2</i>
Total operating expenses	(2,347)	(3,267)	(3,930)	(4,440)
EBITDA	1,543	2,008	2,540	3,030
<i>EBITDA margin (%)</i>	<i>16.2</i>	<i>16.6</i>	<i>16.9</i>	<i>17.5</i>
Depreciation	(158)	(219)	(326)	(344)
EBIT	1,385	1,789	2,214	2,685
Net interest	(250)	(289)	(284)	(154)
Other income	155	240	283	334
Profit before tax	1,291	1,740	2,213	2,865
Total taxation	(431)	(499)	(586)	(781)
<i>Tax rate (%)</i>	<i>33.4</i>	<i>28.7</i>	<i>26.5</i>	<i>27.3</i>
Profit after tax	860	1,241	1,627	2,084
Minorities	(84)	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	776	1,241	1,627	2,084
<i>Adj. PAT margin (%)</i>	<i>8.2</i>	<i>10.3</i>	<i>10.8</i>	<i>12.0</i>
Net non-recurring items	(57)	(15)	(260)	(260)
Reported net profit	719	1,227	1,367	1,824

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	131	140	140	140
Reserves & surplus	4,345	5,009	6,171	7,773
Net worth	4,476	5,149	6,311	7,913
Borrowing	2,586	3,295	2,845	1,545
Other non-current liabilities	86	245	245	245
Total liabilities	7,690	8,689	9,401	9,703
Gross fixed assets	5,728	7,912	8,412	8,812
Less: Depreciation	(2,425)	(2,645)	(2,971)	(3,316)
Net fixed assets	3,303	5,267	5,441	5,496
Add: Capital WIP	178	24	24	-
Total fixed assets	3,481	5,291	5,465	5,496
Total Investment	1,487	177	177	177
Inventory	1,669	2,018	2,304	2,654
Debtors	2,096	2,442	2,933	3,378
Cash & bank	189	223	581	402
Loans & advances	628	595	619	667
Current liabilities	1,870	2,135	2,755	3,148
Net current assets	2,723	3,221	3,760	4,031
Other non-current assets	-	-	-	-
Total assets	7,690	8,689	9,401	9,703

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	1,291	1,740	2,213	2,865
Depreciation & Amortisation	158	219	326	344
<i>Chg in working capital</i>	<i>(388)</i>	<i>(464)</i>	<i>(181)</i>	<i>(426)</i>
Cash flow from operations	871	265	1,514	1,563
<i>Capital expenditure</i>	<i>(3,263)</i>	<i>(2,029)</i>	<i>(500)</i>	<i>(400)</i>
Cash flow from investing	(2,402)	(479)	(217)	(66)
<i>Equity raised/ (repaid)</i>	<i>1,500</i>	<i>9</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>926</i>	<i>709</i>	<i>(450)</i>	<i>(1,300)</i>
<i>Dividend paid</i>	<i>(609)</i>	<i>(180)</i>	<i>(205)</i>	<i>(221)</i>
Cash flow from financing	1,664	248	(939)	(1,675)
Net chg in cash	133	34	358	(179)

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	5.9	8.9	11.6	14.9
CEPS (Rs)	6.7	10.3	12.1	15.5
DPS (Rs)	1.1	1.1	1.3	1.4
Dividend payout ratio (%)	19.2	12.5	12.8	10.4
GROWTH				
Net sales (%)	58.9	27.2	24.3	15.2
EBITDA (%)	73.5	30.1	26.5	19.3
Adj net profit (%)	79.8	59.9	31.1	28.1
FDEPS (%)	64.4	50.1	31.1	28.1
PERFORMANCE				
RoE (%)	22.6	25.8	28.4	29.3
RoCE (%)	26.0	24.8	27.6	31.6
EFFICIENCY				
Asset turnover (x)	1.7	1.5	1.8	2.0
Sales/ total assets (x)	1.3	1.2	1.3	1.4
Working capital/ sales (x)	0.2	0.2	0.2	0.2
Receivable days	80.5	73.8	71.3	71.3
Inventory days	76.3	72.7	67.1	67.5
Payable days	43.2	68.7	73.2	73.7
FINANCIAL STABILITY				
Total debt/ equity (x)	0.7	0.6	0.5	0.2
Net debt/ equity (x)	0.6	0.6	0.4	0.2
Current ratio (x)	2.5	2.5	2.4	2.3
Interest cover (x)	5.5	6.2	7.8	17.4
VALUATION				
PE (x)	46.9	31.2	23.8	18.6
EV/ EBITDA (x)	25.1	20.8	16.2	13.2
EV/ Net sales (x)	4.1	3.5	2.7	2.3
PB (x)	8.1	7.5	6.1	4.9
Dividend yield (%)	0.4	0.4	0.5	0.5
Free cash flow yield (%)	(6.6)	(4.6)	2.6	3.0

Source: Company, Axis Capital

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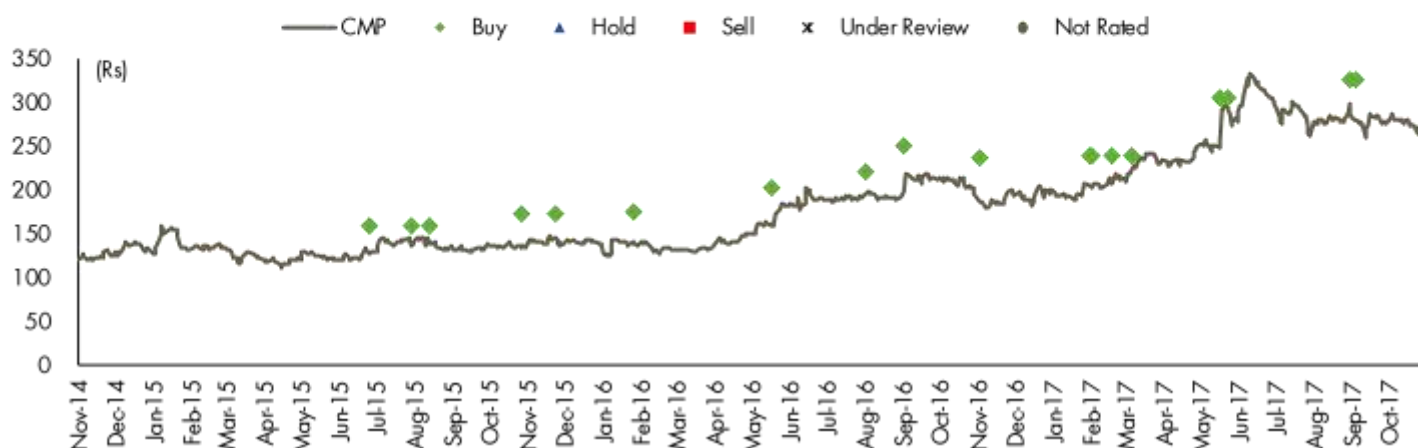
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Ratings	Expected absolute returns over 12 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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Suprajit Engg (SEL.BO, SEL IN) Price and Recommendation History



Date	Target Price	Reco	Date	Target Price	Reco
9-Jul-15	159	Buy	16-Feb-17	238	Buy
12-Aug-15	159	Buy	3-Mar-17	238	Buy
27-Aug-15	159	Buy	20-Mar-17	238	Buy
10-Nov-15	172	Buy	30-May-17	304	Buy
7-Dec-15	172	Buy	6-Jun-17	304	Buy
10-Feb-16	174	Buy	14-Sep-17	326	Buy
31-May-16	201	Buy	18-Sep-17	326	Buy
16-Aug-16	220	Buy			
15-Sep-16	249	Buy			
16-Nov-16	236	Buy			
14-Feb-17	238	Buy			

Source: Axis Capital