

SUPRAJIT ENGINEERING

AUTO

BUY

Target Price: Rs 326

Earnings recovery ahead; reiterate BUY

Q3FY18 consolidated EBITDA came in at Rs 582 mn (+22% YoY, +4% QoQ), 5% below est. on lower profitability at Wescon. Management on call reiterated it will continue to outperform industry growth by 5-10%, led by market share gains and increase in content supplied.

We believe the next leg of growth will be driven by (1) gain in global non-auto cables market; (2) increase in content supplied (CBS opportunity) in India; (3) market share gains in aftermarket. Suprajit has consistently outperformed industry on revenue/EBITDA CAGR over the past decade, while maintaining RoCE at ~30%. With capacity in place, the company is well placed to capitalize on growth opportunities (insignificant capex over next 2 years). Reiterate **BUY** with target price of Rs 326 (20x FY20E EPS).

CMP : Rs 274
Potential Upside : 19%

MARKET DATA

No. of Shares : 140 mn
Free Float : 56%
Market Cap : Rs 38 bn
52-week High / Low : Rs 349 / Rs 198
Avg. Daily vol. (6mth) : 80,642 shares
Bloomberg Code : SEL IB Equity
Promoters Holding : 44%
FII / DII : 12% / 3%

Takeaways from conference call

- ◆ **Standalone operations:** Standalone revenue at Rs 2.5 bn (+67% YoY, +6% QoQ) surprised positively as domestic industry growth was ~18% during the quarter. The company has won new orders in both domestic and exports coupled with revival in aftermarket. **Standalone EBITDA margin** came in at 17.8% (+23 bps YoY, -66% bps QoQ)
- ◆ **Exports from India operations:** Management indicated company has received new orders from European OEMs (VW, BMW, Daimler and Ford) for supply of cables and it expects export revenue to double in next 3 years to Rs 2.5 bn annual run-rate
- ◆ **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)

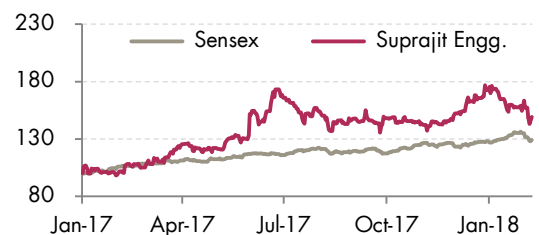
Y/E March	FY17	FY18E	FY19E	FY20E
Sales (Rs mn)	12,084	15,051	17,162	19,602
Adj PAT (Rs mn)	1,241	1,465	1,872	2,280
Con. EPS* (Rs)	-	-	-	-
EPS (Rs)	8.9	10.5	13.4	16.3
Change YOY (%)	50.1	18.0	27.8	21.8
P/E (x)	30.9	26.2	20.5	16.8
RoE (%)	25.8	25.4	25.9	25.1
RoCE (%)	24.8	25.9	29.4	32.5
EV/E (x)	20.6	16.4	13.4	11.1
DPS (Rs)	1.1	1.3	1.4	1.4

Source: *Consensus broker estimates, Company, Axis Capital Prices as on Feb 14, 2018

Key drivers

(%)	FY18E	FY19E	FY20E
Sales growth	24.5	14.0	14.2
Gross margin	42.9	43.0	43.0
EBITDA margin	16.3	17.0	17.2

Price performance



(...Continued from page 1)

Wescon, USA

- ◆ Q3 revenue at Rs 592 mn (-13% YoY, +16% QoQ) was lower than estimate. Management however remains confident of achieving **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. EBITDA margin was also weak at 10.3%, however since Q4 is seasonally the best quarter, it will end the year with **14-16% EBITDA margin**
- ◆ **New growth strategy:** Management has implemented new strategy to increase penetration in the US non-automotive segment (agri and construction to begin with). This shall lower the cyclicality of business and improve profitability

Phoenix Lamps

- ◆ **Revenue growth:** Phoenix Lamps' domestic revenue grew in double digits, as domestic OE and aftermarket revenue recovered on shift in company's strategy. However exports remained weak owing to subdued utilization at H7 line (higher margin). The company has commenced new H7 (product) line and is waiting for OEM approvals/ global certification to ramp up production (currently operating at 30% utilization)
- ◆ **Threat of LED:** While the company acknowledges the risk of shift in OE business, management remains confident of increasing market share in global aftermarket business (800 mn cars on road, 3.2 bn halogen bulbs). It is now focusing on gaining share in US and LatAm market
- ◆ **EBITDA margin** at 14.0% (+62 bps YoY; +163 bps QoQ), benefited from improved scale

Exhibit 1: Results update

Consolidated (Rs mn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)	FY18E	FY17	YoY (%)
Net sales	3,663	3,132	17.0	3,365	8.9	15,114	12,138	24.5
- Raw material	2,119	1,726	22.8	1,834	15.6	8,630	6,863	25.8
(% of net sales)	57.8	55.1	274	54.5	335	57.1	56.5	56
- Staff expenditure	650	587	10.6	626	3.8	2,388	1,988	20.2
(% of net sales)	17.7	18.8	(102)	18.6	(87)	15.8	16.4	(57)
- Other expenditure	313	341	(8.3)	344	(9.2)	1,626	1,279	27.1
(% of net sales)	8.5	10.9	(235)	10.2	(170)	10.8	10.5	22
Total expenditure	3,081	2,654	16.1	2,804	9.9	12,644	10,129	25
EBITDA	582	478	21.7	561	3.7	2,470	2,008	23.0
EBITDA margin (%)	15.9	15.3	62	16.7	(78)	16.3	16.5	(20.5)
Depreciation	95	72	31.5	64	49.4	359	219	63.8
EBIT	487	406	20.0	497	(2.1)	2,111	1,789	18.0
Interest	72	91	(20.7)	75	(3.8)	228	289	(21.2)
Other income	59	10	480.5	35	68.3	240	240	0.0
PBT	473	325	45.7	457	3.5	2,123	1,740	22.0
Tax	169	112	50.4	143	18.3	658	499	31.9
Tax rate (%)	35.7	34.6	111	31.2	445	31.0	28.7	232
Adjusted PAT	305	182	67.7	314	(3.2)	1,465	1,241	18.0
Reported PAT	282	221	27.5	314	(10.3)	1,465	1,241	18.0
Adjusted EPS (Rs)	2.2	1.3	67.7	2.2	(3.2)	10.5	8.9	18.0

Source: Company, Axis Capital

Exhibit 2: Quarterly details

(Rs mn)	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY (%)	QoQ (%)
Net sales							
Consolidated	3,132	3,659	3,219	3,365	3,663	17	9
Domestic cable	1,537	1,647	2,116	2,407	2,544	66	6
Phoenix	846	877	738	778	828	(2)	6
Wescon	683	789	647	513	592	(13)	16
EBITDA							
Consolidated	478	666	459	561	582	22	4
Domestic cable	269	289	334	444	453	69	2
Phoenix	113	112	82	96	116	2	20
Wescon	82	153	78	54	61	(26)	14
EBITDA margin (%)							
Consolidated	15.3	18.2	14.3	16.7	15.9	62	(78)
Domestic cable	17.5	17.6	15.8	18.5	17.8	32	(66)
Phoenix	13.4	12.8	11.1	12.4	14.0	62	163
Wescon	12.1	19.4	12.1	10.5	10.3	(177)	(17)
Adj PAT							
Consolidated	182	387	226	314	305	68	(3)
Domestic cable	134	151	220	267	284	112	6
Phoenix	38	75	57	60	114	199	90
Wescon	22	118	(6)	19	(4)	(120)	(124)

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

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Net sales	12,084	15,051	17,162	19,602
Other operating income	54	63	74	88
Total operating income	12,138	15,114	17,236	19,690
Cost of goods sold	(6,863)	(8,630)	(9,825)	(11,224)
Gross profit	5,275	6,484	7,412	8,467
<i>Gross margin (%)</i>	<i>43.7</i>	<i>43.1</i>	<i>43.2</i>	<i>43.2</i>
Total operating expenses	(3,267)	(4,014)	(4,474)	(5,072)
EBITDA	2,008	2,470	2,937	3,395
<i>EBITDA margin (%)</i>	<i>16.6</i>	<i>16.4</i>	<i>17.1</i>	<i>17.3</i>
Depreciation	(219)	(359)	(362)	(378)
EBIT	1,789	2,111	2,576	3,016
Net interest	(289)	(228)	(131)	(21)
Other income	240	240	269	309
Profit before tax	1,740	2,123	2,713	3,305
Total taxation	(499)	(658)	(841)	(1,024)
<i>Tax rate (%)</i>	<i>28.7</i>	<i>31.0</i>	<i>31.0</i>	<i>31.0</i>
Profit after tax	1,241	1,465	1,872	2,280
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	1,241	1,465	1,872	2,280
<i>Adj. PAT margin (%)</i>	<i>10.3</i>	<i>9.7</i>	<i>10.9</i>	<i>11.6</i>
Net non-recurring items	(15)	-	-	-
Reported net profit	1,227	1,465	1,872	2,280

Balance sheet (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Paid-up capital	140	140	140	140
Reserves & surplus	5,009	6,269	7,920	9,979
Net worth	5,149	6,409	8,060	10,119
Borrowing	3,295	2,845	1,545	245
Other non-current liabilities	245	245	245	245
Total liabilities	8,689	9,499	9,850	10,609
Gross fixed assets	7,912	8,412	8,812	9,212
Less: Depreciation	(2,645)	(3,004)	(3,365)	(3,744)
Net fixed assets	5,267	5,408	5,446	5,468
Add: Capital WIP	24	24	-	-
Total fixed assets	5,291	5,432	5,446	5,468
Total Investment	177	177	177	177
Inventory	2,018	2,309	2,633	3,008
Debtors	2,442	2,939	3,351	3,829
Cash & bank	223	706	623	905
Loans & advances	595	619	667	693
Current liabilities	2,135	2,760	3,126	3,548
Net current assets	3,221	3,890	4,227	4,965
Other non-current assets	-	-	-	-
Total assets	8,689	9,499	9,850	10,609

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Profit before tax	1,740	2,123	2,713	3,305
Depreciation & Amortisation	219	359	362	378
<i>Chg in working capital</i>	<i>(464)</i>	<i>(186)</i>	<i>(396)</i>	<i>(456)</i>
Cash flow from operations	265	1,625	1,700	1,914
<i>Capital expenditure</i>	<i>(2,029)</i>	<i>(500)</i>	<i>(400)</i>	<i>(400)</i>
Cash flow from investing	(479)	(260)	(131)	(91)
<i>Equity raised/ (repaid)</i>	<i>9</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>709</i>	<i>(450)</i>	<i>(1,300)</i>	<i>(1,300)</i>
<i>Dividend paid</i>	<i>(180)</i>	<i>(205)</i>	<i>(221)</i>	<i>(221)</i>
Cash flow from financing	248	(882)	(1,652)	(1,542)
Net chg in cash	34	483	(83)	282

Key ratios

Y/E March	FY17	FY18E	FY19E	FY20E
OPERATIONAL				
FDEPS (Rs)	8.9	10.5	13.4	16.3
CEPS (Rs)	10.3	13.0	16.0	19.0
DPS (Rs)	1.1	1.3	1.4	1.4
Dividend payout ratio (%)	12.5	11.9	10.1	8.3
GROWTH				
Net sales (%)	27.2	24.6	14.0	14.2
EBITDA (%)	30.1	23.0	18.9	15.6
Adj net profit (%)	59.9	18.0	27.8	21.8
FDEPS (%)	50.1	18.0	27.8	21.8
PERFORMANCE				
RoE (%)	25.8	25.4	25.9	25.1
RoCE (%)	24.8	25.9	29.4	32.5
EFFICIENCY				
Asset turnover (x)	1.5	1.8	2.0	2.1
Sales/ total assets (x)	1.2	1.3	1.4	1.4
Working capital/ sales (x)	0.2	0.2	0.2	0.2
Receivable days	73.8	71.3	71.3	71.3
Inventory days	72.7	66.7	67.2	67.4
Payable days	68.7	72.7	73.3	73.5
FINANCIAL STABILITY				
Total debt/ equity (x)	0.6	0.5	0.2	-
Net debt/ equity (x)	0.6	0.4	0.1	(0.1)
Current ratio (x)	2.5	2.4	2.4	2.4
Interest cover (x)	6.2	9.3	19.6	144.9
VALUATION				
PE (x)	30.9	26.2	20.5	16.8
EV/ EBITDA (x)	20.6	16.4	13.4	11.1
EV/ Net sales (x)	3.4	2.7	2.3	1.9
PB (x)	7.4	6.0	4.8	3.8
Dividend yield (%)	0.4	0.5	0.5	0.5
Free cash flow yield (%)	(4.6)	2.9	3.4	4.0

Source: Company, Axis Capital

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Research Team

Sr. No	Name	Designation	E-mail
1	Pankaj Bobade	Research Analyst	pankaj.bobade@axissecurities.in
2	Kiran Gawle	Associate	kiran.gawle@axissecurities.in

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