

INDUSTRY	AUTOS		
CMP(as on 15 FEB 2018)	Rs 275		
Target Price	Rs 296		
Nifty	10,546		
Sensex	34,297		
KEY STOCK DATA			
Bloomberg	SEL IN		
No. of Shares (mn)	140		
MCap (Rsbn) / (\$ mn)	38/601		
6m avg traded value (Rs mn)	24		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 349 / 198		
	3M	6M	12M
Absolute (%)	(1.8)	(2.2)	34.4
Relative (%)	(6.5)	(11.2)	12.6
SHAREHOLDING PATTERN (%)			
Promoters	44.48		
FIs & Local MFs	4.56		
FPIs	10.43		
Public & Others	40.53		
<i>Source : BSE</i>			

Limited upside

Suprajit Engineering (SEL) consol 3QFY18 EBITDA and PAT numbers were slightly below estimates. Net sales at Rs. 3.66bn (+18% YoY) led by 28% growth in cable business, offset by muted growth in Phoenix (+2% YoY) and Wescon business(+10% YoY). Consol EBITDA stood at Rs. 582mn (+18% YoY) with margin at 15.9 % (flat YoY, -75bps QoQ). Margin contracted 75bps sequentially led by margin pressure in cable business (-73bps YoY) and Wescon(-33 bps YoY), offset by 120bps margin improvement by Phoenix.

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). We believe SEL's strategy to diversify its customer base and geography has been the key catalyst for above-industry growth over the past decade.

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

Financial Summary (Consolidated)

(Rs mn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	3,663	3,108	17.9	3,365	8.9	9,525	12,138	14,323	17,499	20,016
EBITDA	582	492	18.2	560	3.9	1,543	2,009	2,206	2,870	3,343
PAT	282	310	(8.8)	313	(9.8)	719	1,115	1,242	1,742	2,075
Diluted EPS (Rs)	2.0	2.2	(8.8)	2.2	(9.8)	5.5	8.0	8.9	12.5	14.8
P/E (x)						45.7	33.6	30.5	21.8	18.3
EV / EBITDA (x)						24.5	20.4	18.4	14.1	11.9
RoE (%)						20.9	23.2	21.6	24.4	23.6

Source: Company, HDFC sec Inst Research

aftermarket. We have cut our FY18-20E earnings EPS 10-14% due to lower profitability assumptions in Phoenix Lamps and Wescon Controls along with margin pressure in cable business. We roll forward our TP on FY20 and value the stock Rs. 296(20x FY20E EPS) vs 305 earlier. Maintain NEU

Highlights of the quarter

- Management expects cable to continue to outperform industry. Export revenues to double over next three years from current levels of Rs 1.2bn led by new exports orders from existing customers like VW, Ford, BMW, Renault Nissan.
- PLL disappoint was largely driven by lack of new orders in Europe, due to recent product related issues. H7 line's capacity utilisation stands at ~30% currently. Management expects utilisation to increase ~60-70% in the next one year
- For Wescon, management is confident of achieving its annual revenue guidance(USD 40mn) as Q4FY18 is seasonally a very strong quarter

Abhishek Jain

abhishekkumar.jain@hdfcsec.com

+91-22-6171-7336

Net sales at Rs. 3.66bn (+18% YoY) led by 28% growth in cable business, offset by muted growth in Phoenix (+2% YoY) and Wescon business(+10% YoY).

The company restated its guidance of 8-10%YoY revenue growth in Wescon

In the cable business management indicated that exports will likely double over the next three years from around Rs. 1.2 bn currently driven by new order wins from existing customers such as VW, Ford and BMW.

EBIDTA margin was below estimates led by margin pressure in cable business

Net profit impacted by lower other income and higher-than-expected tax rate.

Quarterly Financials Snapshot – SEL (Consolidated)

(Rs mn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)
Net sales (incl OOI)	3,663	3,108	17.9	3,365	8.9
Material Expenses	2,119	1,716	23.5	1,835	15.5
Employee Expenses	650	590	10.1	626	3.7
Other Operating Expenses	313	310	0.8	344	(9.2)
EBITDA	582	492	18.2	560	3.9
Depreciation	95	87	9.8	64	48.7
EBIT	486	405	20.0	496	(1.9)
Other Income	59	122	(51.9)	35	68.5
Interest Cost	72	92	(22.3)	75	(3.8)
PBT	473	435	8.8	456	3.8
Tax	191	125	52.3	143	33.8
APAT	282	310	(8.8)	313	(9.8)
EO Items (Adj For Tax)	-	40	-	-	
RPAT after EOI	282	349	(19.2)	313	(9.8)

Source: Company, HDFC sec Inst Research

Margin Analysis

	3QFY18	3QFY17	YoY (bps)	2QFY18	QoQ (bps)
Material Expenses % Net Sales	57.8	55.2	263	54.5	333
Employee Expenses % Net Sales	17.7	19.0	(124)	18.6	(87)
Other Operating Expenses % Net Sales	8.5	10.0	(144)	10.2	(170)
EBITDA Margin (%)	15.9	15.8	5	16.6	(75)
Tax Rate (%)	40.4	28.8	1,153	31.3	903
APAT Margin (%)	7.7	11.2	(354)	9.3	(159)

Source: Company, HDFC sec Inst Research

Phoenix business improved marginally in 3QFY18 (+2% YoY) and EBITDA margin improved 110 bps YoY to 14%

As per the management, there was an improvement in domestic aftermarket business due to start of production from new H7 line but exports remained weak.

Management highlighted there will be a gradual shift towards LEDs, 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 (2) some big global players have reduced their presence in the halogen market.

Currently, 70% of PLL's business comes from the aftermarket segment. PLL is in the mass market segment, where a headlamp price is in the range of Rs 600-800. Transition to LED technology will increase the realisation to 10x. Management believes this shift will take long time.

Quarterly Financials Snapshot: PLL (Consolidated)

(Rs mn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)
Net sales	828	808	2.4	778	6.5
EBITDA	116	105	11.3	96	21.7
PBT	131	119	9.7	86	51.7
APAT	57	76	(25.1)	60	(4.9)

Source: Company, HDFC sec Inst Research

Margin Analysis

	3QFY18	3QFY17	YoY (bps)	2QFY18	QoQ (bps)
EBITDA Margin (%)	14.0	12.9	112	12.3	175
PBT Margin (%)	15.8	14.7	104	11.1	470
PAT Margin (%)	6.9	9.4	(253)	7.7	(82)

Source: Company, HDFC sec Inst Research

Change in Estimates(SEL (Consolidated))

In Rs mn	New			Old			% chg		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Net Sales	14,323	17,499	20,016	14,323	18,643	21,310	-	(6.1)	(6.1)
EBITDA	2,206	2,870	3,343	2,464	3,263	3,729	(10.5)	(12.0)	(10.4)
Adj PAT	1242	1742	2075	1439	1962	2319	(13.7)	(11.2)	(10.5)
Adj EPS (in Rs)	8.9	12.5	14.8	10.3	14.0	16.6	(13.7)	(11.2)	(10.5)

Source: HDFC sec Inst Research

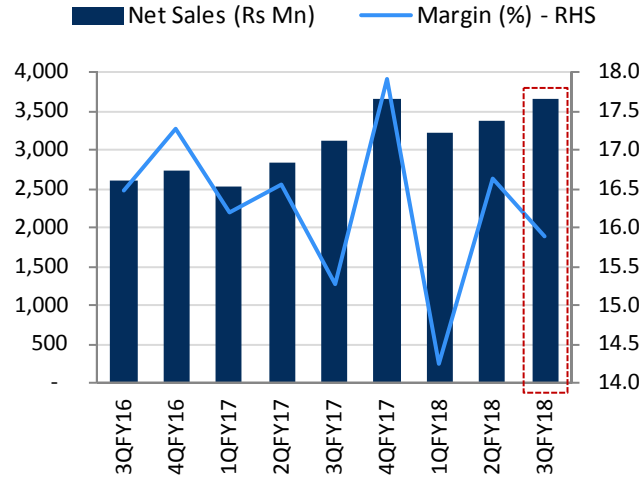
We believe the cables' business will continue to outperform industry growth by 5-10%, led by higher share of business (particularly 4Ws) and rising cable content

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 maintained FY18 revenue guidance of ~USD40mn

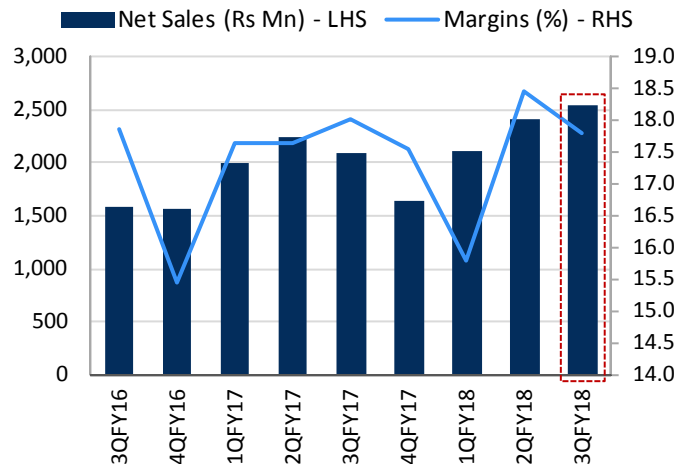
We expect Wescon's business to witness healthy growth, coupled with good margins, led by entering into new verticals and cost rationalisation

Revenue On The Rise



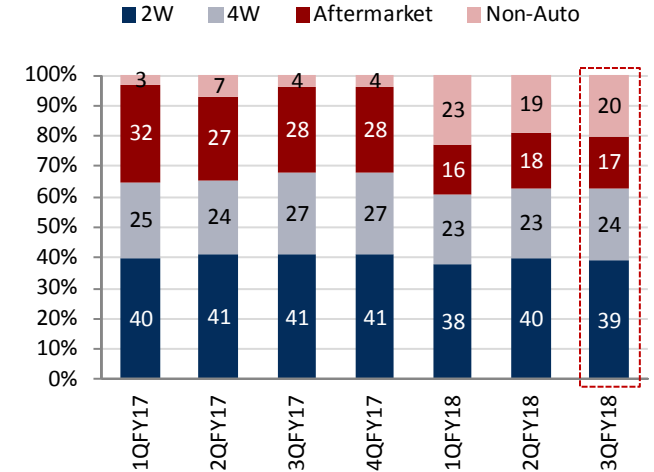
Source: Company, HDFC sec Inst Research
* SEL Consol

Cables Biz Maintains Growth Momentum



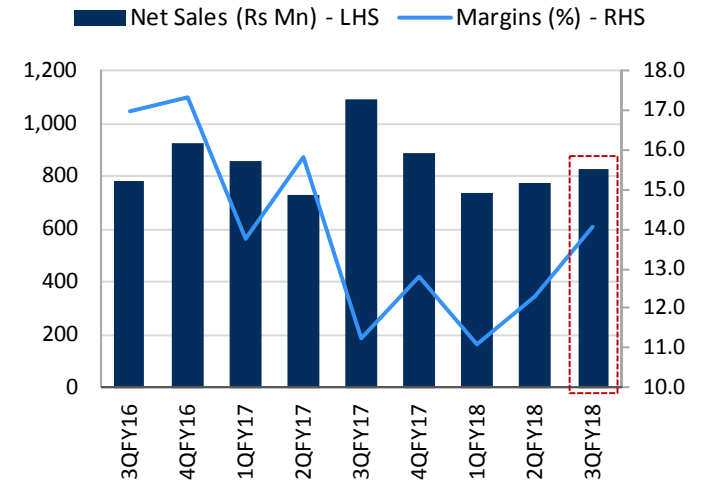
Source: Company, HDFC sec Inst Research
* SEL Standalone

Mix Skewed To Non-Auto Aided By Wescon Controls



Source: Company, HDFC sec Inst Research
* SEL Consol

PLL Performance Improved QoQ



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 (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Bharat Forge	351	755	NEU	731	15.9	20.6	33.2	47.5	36.7	22.7	23.8	19.2	12.8	19.7	22.8	30.1
Balkrishna Industries	223	1,152	NEU	1,122	44.9	52.8	62.3	25.6	21.8	18.5	16.6	14.5	12.5	29.7	30.6	31.4
Exide Industries	182	214	BUY	262	8.5	11.0	12.6	25.1	19.4	17.0	15.1	14.2	10.9	21.4	20.3	23.8
Suprajit Engineering	38	275	NEU	296	8.9	12.5	14.8	30.5	21.8	18.3	18.4	14.1	11.9	21.6	24.4	23.6
Jamna Auto	31	79	BUY	90	2.6	3.6	4.5	30.8	22.2	17.5	17.0	12.6	10.0	28.0	31.9	32.8
Ramkrishna Forgings	23	800	BUY	913	19.6	34.9	51.3	40.9	22.9	15.6	12.9	9.7	7.3	10.5	14.7	18.7
JBM Auto*	20	478	NR	527	20.4	27.5	34.8	23.4	17.4	13.7	9.9	7.9	6.5	20.9	23.5	24.7
Subros	21	350	NEU	375	9.1	13.5	18.7	38.6	25.9	18.7	20.2	16.8	14.3	14.8	19.4	23.0
NRB Bearings	16	164	BUY	204	7.4	8.7	10.2	22.1	18.8	16.1	12.7	10.9	9.6	21.0	21.3	21.4
Lumax Autotech	11	834	BUY	987	36.3	43.8	54.9	23.0	19.0	15.2	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	FY18E	FY19E	FY20E
Net Revenues	9,525	12,138	14,323	17,499	20,016
Growth (%)	55.7	27.4	18.0	22.2	14.4
Material Expenses	5,635	6,863	8,407	10,377	11,870
Employee Expenses	1,253	1,988	2,148	2,415	2,702
Other Operating Expenses	1093	1279	1561	1837	2102
EBITDA	1543	2009	2206	2870	3343
EBITDA Margin (%)	16.2	16.5	15.4	16.4	16.7
EBITDA Growth (%)	60.7	30.2	9.8	30.1	16.5
Depreciation	158	219	231	219	247
EBIT	1385	1789	1975	2651	3095
Other Income (Including EO Items)	155	240	132	152	182
Interest	250	289	280	314	312
PBT	1291	1741	1827	2488	2965
Tax (Incl Deferred)	431	499	585	746	889
Minority Interest	84	112	-	-	-
RPAT	776	1130	1242	1742	2075
EO (Loss) / Profit (Net Of Tax)	57	15	-	-	-
APAT	719	1115	1242	1742	2075
APAT Growth (%)	43.1	55.0	11.4	40.2	19.1
Adjusted EPS (Rs)	5.5	8.0	8.9	12.5	14.8
EPS Growth (%)	31.3	44.9	11.4	40.2	19.1

Source: Company, HDFC sec Inst Research

Balance Sheet(Consolidated)

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	131	140	140	140	140
Reserves	4,344	5,008	6,217	7,755	9,588
Total Shareholders Funds	4,475	5,148	6,357	7,895	9,728
Minority Interest	542	-	-	-	-
Long Term Debt	1,582	2,602	1,125	1,125	1,125
Short Term Debt	1,005	808	1,871	1,495	1,195
Total Debt	2,586	3,410	2,996	2,619	2,319
Net Deferred Taxes	107	114	114	114	114
Long Term Provisions & Others	171	98	117	138	162
TOTAL SOURCES OF FUNDS	7,881	8,770	9,585	10,766	12,323
APPLICATION OF FUNDS					
Net Block	2,271	3,313	3,705	4,191	4,649
CWIP	144	23	157	205	222
Goodwill	1,066	2,024	2,024	2,024	2,024
Investments	-	-	-	-	-
LT Loans & Advances	181	200	211	254	305
Total Non-current Assets	3,662	5,560	6,097	6,674	7,199
Inventories	1,669	2,018	2,433	2,925	3,290
Debtors	2,096	2,442	2,825	3,356	3,839
Other Current Assets	447	464	504	547	617
Cash & Equivalents	1,706	399	338	197	697
Total Current Assets	5,918	5,324	6,101	7,025	8,443
Creditors	944	1,203	1,570	1,414	1,639
Other Current Liabilities & Provns	755	1,052	1,199	1,325	1,464
Total Current Liabilities	1,699	2,255	2,769	2,740	3,104
Net Current Assets	4,219	3,069	3,332	4,285	5,340
TOTAL APPLICATION OF FUNDS	7,882	8,770	9,585	10,767	12,323

Source: Company, HDFC sec Inst Research

Cash Flow(Consolidated)

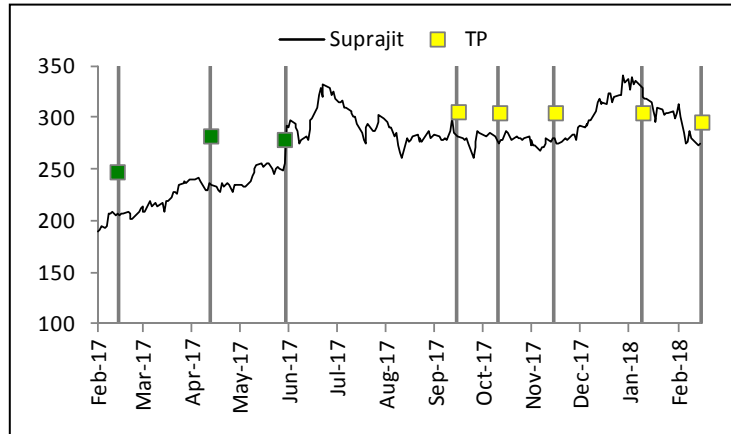
(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	1,291	1,741	1,827	2,488	2,965
Non-operating & EO items	(141)	(127)	-	-	-
Interest expenses	250	289	280	314	312
Depreciation	158	219	231	219	247
Working Capital Change	(1,115)	(275)	(317)	(896)	(574)
Tax Paid	(431)	(499)	(585)	(746)	(889)
OPERATING CASH FLOW (a)	11	1,348	1,436	1,379	2,061
Capex	(723)	(1,141)	(805)	(705)	(705)
Free cash flow (FCF)	(711)	207	631	674	1,356
Investments	0	-	-	-	-
Non-operating Income	(581)	(2,179)	113	0	-
INVESTING CASH FLOW (b)	(1,304)	(3,320)	(693)	(705)	(705)
Debt Issuance/(Repaid)	653	709	(379)	(297)	(300)
Interest Expenses	(250)	(289)	(280)	(314)	(312)
FCFE	192	1,205	531	691	1,368
Share Capital Issuance	1,505	375	-	-	-
Dividend	(84)	(130)	(145)	(204)	(243)
FINANCING CASH FLOW (c)	1,825	665	(804)	(815)	(855)
NET CASH FLOW (a+b+c)	532	(1,307)	(61)	(141)	500
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	1,706	399	338	197	697

Source: Company, HDFC sec Inst Research

Key Ratios(Consolidated)

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	40.8	43.5	41.3	40.7	40.7
EBITDA Margin	16.2	16.5	15.4	16.4	16.7
APAT Margin	7.5	9.2	8.7	10.0	10.4
RoE	20.9	23.2	21.6	24.4	23.6
RoIC (or Core RoCE)	19.9	18.0	15.6	19.0	19.8
RoCE	14.6	16.2	16.0	19.6	20.1
EFFICIENCY					
Tax Rate (%)	33.4	28.7	32.0	30.0	30.0
Fixed Asset Turnover (x)	2.9	2.7	2.8	3.0	3.1
Inventory (days)	64.0	60.7	62.0	61.0	60.0
Debtors (days)	80.3	73.4	72.0	70.0	70.0
Other Current Assets (days)	17.1	14.0	12.8	11.4	11.2
Payables (days)	36.2	36.2	40.0	29.5	29.9
Other Current Liab & Provs (days)	28.9	31.6	30.6	27.6	26.7
Cash Conversion Cycle (days)	96.3	80.3	76.3	85.3	84.6
Debt/EBITDA (x)	1.7	1.7	1.4	0.9	0.7
Net D/E (x)	0.5	0.6	0.4	0.3	0.2
Interest Coverage (x)	0.2	0.2	0.1	0.1	0.1
PER SHARE DATA (Rs)					
EPS	5.9	8.1	8.9	12.5	14.8
CEPS	6.9	9.5	10.8	14.4	17.1
Dividend	0.6	0.8	0.9	1.2	1.5
Book Value	34.2	36.8	45.5	56.4	69.5
VALUATION					
P/E (x)	45.7	33.6	30.5	21.8	18.3
P/BV (x)	7.9	7.4	6.0	4.8	3.9
EV/EBITDA (x)	24.5	20.4	18.4	14.1	11.9
EV/Revenues (x)	4.0	3.4	2.8	2.3	2.0
OCF/EV (%)	0.0	3.3	3.5	3.4	5.2
FCF/EV (%)	(1.9)	0.5	1.6	1.7	3.4
FCFE/Mkt Cap (%)	0.5	3.2	1.4	1.8	3.6
Dividend Yield (%)	0.2	0.3	0.3	0.5	0.5

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
15-Feb-17	204	BUY	247
13-Apr-17	237	BUY	281
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

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:

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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

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