

Suprajit Engineering

NEUTRAL

INDUSTRY	AUTOS
CMP(as on 15 Nov 2017)	Rs 280
Target Price	Rs 305
Nifty	10,118
Sensex	32,760
KEY STOCK DATA	
Bloomberg	SEL IN
No. of Shares (mn)	140
MCap (Rsbn) / (\$ mn)	39/600
6m avg traded value (Rs mn)	37
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 338 / 175
	3M 6M 12M
Absolute (%)	(0.4) 9.4 50.5
Relative (%)	(4.6) 1.4 25.9
SHAREHOLDING PATTERN (%)	
Promoters	44.48
FIs & Local MFs	3.17
FPIs	9.72
Public & Others	42.63
Source : BSE	

On track

Suprajit Engineering's (SEL) consol 2QFY18 result was in-line with estimates. Net sales came in at Rs 3.36bn (+19%YoY), led by 8% growth in the standalone business, 7% growth in PLL's business and incremental revenue of Rs 513mn from Wescon. Consol EBITDA was at Rs 560mn (+19.4% YoY), with margin at 16.6% (flat YoY, +238bps QoQ), led by expansion in margins in the standalone business (+100bps YoY).

SEL has a proven track record of prudent capital allocation across its organic and inorganic capacities and requirements, reflecting in strong return ratios (average ROCE of 17% 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 aftermarket. **Maintain NEU with TP of Rs 305 (20x SEL's consol Sept-19E EPS).**

Financial Summary (Consolidated)

(Rs mn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	3,365	2,835	18.7	3,219	4.5	9,525	12,138	14,323	18,643	21,310
EBITDA	560	469	19.4	459	22.0	1,543	2,009	2,464	3,263	3,729
PAT	313	271	15.5	226	38.4	719	1,115	1,439	1,962	2,319
Diluted EPS (Rs)	2.3	2.1	6.2	1.6	39.3	5.5	8.0	10.3	14.0	16.6
P/E (x)						47.2	34.7	27.2	20.0	16.9
EV / EBITDA (x)						25.3	21.0	17.3	13.3	11.5
RoE (%)						20.9	23.2	24.6	26.5	25.0

Source: Company, HDFC sec Inst Research

Highlights of the quarter

- The consolidation of Wescon with itself has resulted in SEL's product mix skewing more towards the Non-Auto segment. The 2W:4W: AM: Non-Auto mix in 2QFY18 stood at 40:23:18:19 vs 41:24:27:7 in 2QFY17. Management indicated that post the significant disruption in the domestic aftermarket with the GST transition at various levels viz, suppliers, customers, distributors, etc, business appears to have normalised from Sept-17.
- Management sees no threat to its cables' business, with the introduction of electric vehicles. Major disruption will be seen in engine components, but SEL does not supply cables and lamps for engines/engine components.
- For PLL's H7 line's capacity utilisation stands at ~20% currently. Management expects utilisation to increase ~70-80% in the next one year.
- Near-term outlook:** 3Q will strong on the back of revival in replacement sales.

Top-line was boosted by growth in core cable business and domestic aftermarket sales of PLL. YoY numbers are not comparable, as Wescon was acquired in 18-Sep- 2016

EBIDTA margins improved by 238bps YoY, led by strong margin expansion in the cable exports business, led by winning new businesses at better prices and operational efficiencies

Management indicated that the cable aftermarket business was weak, owing to GST transition issues, and should be back on track from Sept-17

Wescon's H1FY18 revenues were flat; the company expects revenues and margins to improve in 2HFY18

Quarterly Financials Snapshot – SEL (Consolidated)

(Rs mn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Net sales (incl OOI)	3,365	2,835	18.7	3,219	4.5
Material Expenses	1,835	1,634	12.3	1,760	4.2
Employee Expenses	626	415	50.8	630	(0.6)
Other Operating Expenses	344	317	8.7	370	(6.9)
EBITDA	560	469	19.4	459	22.0
Depreciation	64	52	22.1	118	(45.8)
EBIT	496	416	19.0	341	45.5
Other Income	35	148	(76.4)	82	(57.2)
Interest Cost	75	69	8.4	66	13.4
PBT	456	495	(8.0)	356	28.0
Tax	143	141	1.7	130	9.8
PAT	313	355	(11.8)	226	38.4
EO Items (Adj For Tax)	-	(60)	-	-	
APAT after EOI	313	295	6.2	226	38.4

Source: Company, HDFC sec Inst Research

Margin Analysis

	2QFY18	2QFY17	YoY (bps)	1QFY18	QoQ (bps)
Material Expenses % Net Sales	54.5	57.6	(311)	54.7	(16)
Employee Expenses % Net Sales	18.6	14.6	396	19.6	(96)
Other Operating Expenses % Net Sales	10.2	11.2	(94)	11.5	(126)
EBITDA Margin (%)	16.6	16.5	9	14.3	238
Tax Rate (%)	31.3	28.4	299	36.5	(519)
APAT Margin (%)	9.3	10.4	(110)	7.0	228

Source: Company, HDFC sec Inst Research

PLL's performance was impacted, owing to lower utilisation of the new H7 line in the export market. However, aftermarket business delivered growth despite GST, as the company implemented strategic changes (cost cutting measures), which helped deliver growth

EBIDTA margins went down sharply to 12.3% (-406bps YoY, +121bps QoQ), owing to negative operating leverage

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)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Net sales	778	724	7.4	738	5.3
EBITDA	96	118	(19.3)	82	16.8
PBT	86	117	(26.2)	96	(9.9)
APAT	60	77	(22.3)	58	3.9

Source: Company, HDFC sec Inst Research

Margin Analysis

	2QFY18	2QFY17	YoY (bps)	1QFY18	QoQ (bps)
EBITDA Margin (%)	12.3	16.4	(406)	11.1	121
PBT Margin (%)	11.1	16.1	(503)	12.9	(187)
PAT Margin (%)	7.7	10.6	(294)	7.8	(10)

Source: Company, HDFC sec Inst Research

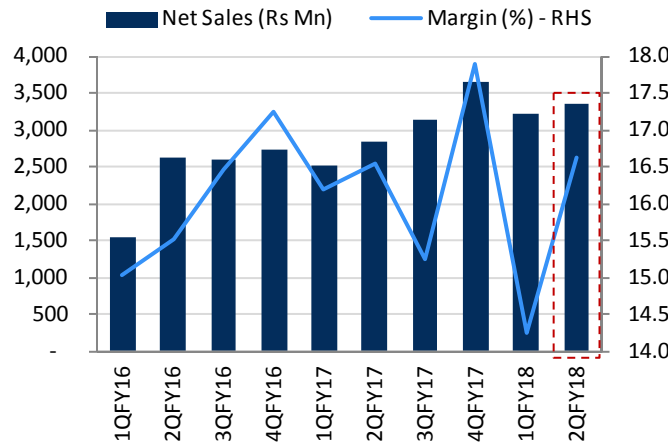
We believe the cables' business will continue to outperform industry growth by 5-10%, led by higher share of business (particularly 4Ws) and rising cable content

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

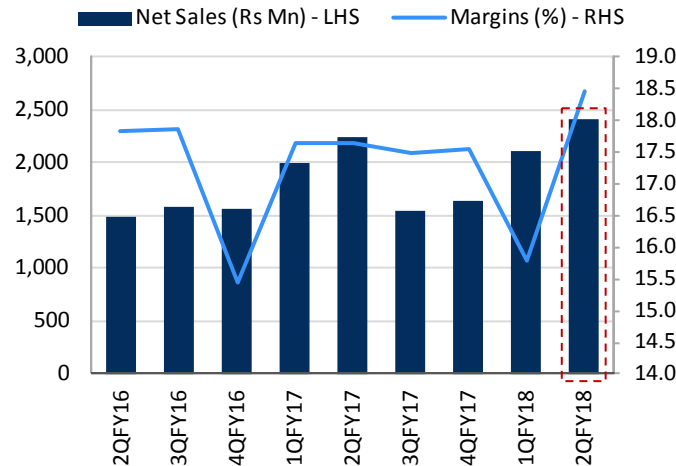
We expect Wescon's business to witness healthy growth, coupled with good margins, led by entering into new verticals and cost rationalisation

Revenue On The Rise



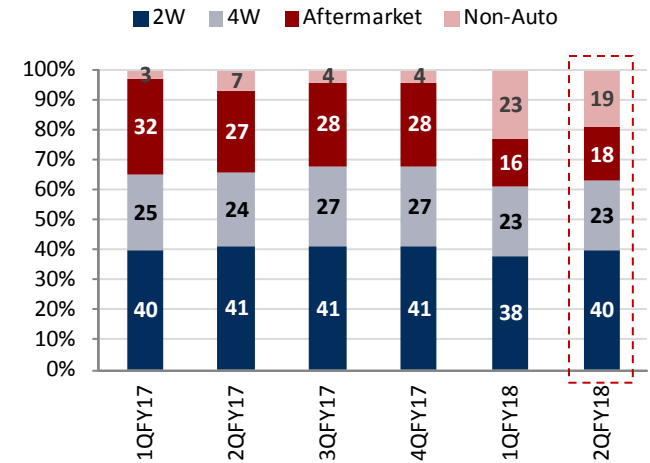
Source: Company, HDFC sec Inst Research
* SEL Consol

Cables Biz Maintains Growth Momentum



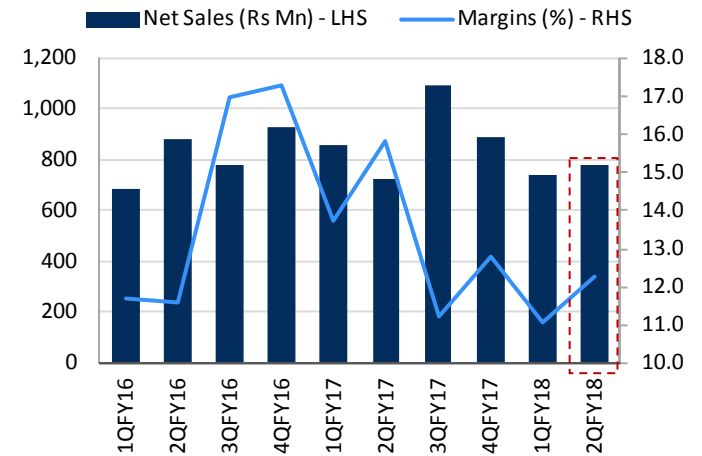
Source: Company, HDFC sec Inst Research
* SEL Standalone

Mix Skewed To Non-Auto Aided By Wescon Controls



Source: Company, HDFC sec Inst Research
* SEL Consol

Lackluster Performance At PLL



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	320	688	NEU	673	15.9	20.6	33.2	43.3	33.4	20.7	21.7	17.5	11.7	19.7	22.8	30.1
Balkrishna Industries	202	2,089	NEU	1,857	89.9	105.6	124.7	23.2	19.8	16.8	15.1	13.2	11.3	29.7	30.6	31.4
Exide Industries	167	196	BUY	262	8.5	11.0	12.6	23.0	17.8	15.6	13.7	12.9	9.9	21.4	20.3	23.8
Endurance Tech	163	1,156	NEU	995	30.6	37.4	47.3	37.8	30.9	24.4	18.4	15.5	12.5	22.5	22.7	23.5
Suprajit Engineering	39	280	NEU	305	10.3	14.0	16.6	27.2	20.0	16.9	17.3	13.3	11.5	24.6	26.5	25.0
Jamna Auto	24	60	BUY	70	2.5	3.4	4.8	23.9	17.7	12.4	12.1	9.6	6.0	27.4	30.7	35.3
JBM Auto	21	521	NR	498	20.4	27.5	34.8	25.5	18.9	15.0	10.6	8.5	7.0	20.9	23.5	24.7
Ramkrishna Forgings	21	718	BUY	862	20.2	33.8	43.6	35.5	21.2	16.5	12.2	9.4	7.6	10.8	14.2	16.1
Subros	15	243	BUY	318	9.1	13.5	18.7	26.8	18.0	13.0	14.5	12.0	10.3	2.9	3.7	4.5
NRB Bearings	14	144	BUY	172	6.0	7.3	8.3	24.1	19.7	17.2	12.1	10.4	9.2	17.1	18.6	18.7
Lumax Autotech	7	593	BUY	681	37.2	45.0	58.4	16.0	13.2	10.2	1.0	0.5	0.0	15.1	16.2	18.4

Source: Company, HDFC sec Inst Research

Income Statement(Consolidated)

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	9,525	12,138	14,323	18,643	21,310
Growth (%)	55.7	27.4	18.0	30.2	14.3
Material Expenses	5,635	6,863	8,407	11,055	12,637
Employee Expenses	1,253	1,988	1,891	2,461	2,813
Other Operating Expenses	1093	1279	1561	1864	2131
EBITDA	1543	2009	2464	3263	3729
EBITDA Margin (%)	16.2	16.5	17.2	17.5	17.5
EBITDA Growth (%)	60.7	30.2	22.6	32.4	14.3
Depreciation	158	219	238	237	278
EBIT	1,385	1,789	2,225	3,025	3,451
Other Income (Including EO Items)	155	240	231	251	281
Interest	250	289	339	473	419
PBT	1,291	1,741	2,117	2,803	3,313
Tax (Incl Deferred)	431	499	677	841	994
Minority Interest	84	112	-	-	-
RPAT	776	1130	1439	1962	2319
EO (Loss) / Profit (Net Of Tax)	57	15	-	-	-
APAT	719	1115	1439	1962	2319
APAT Growth (%)	43.1	55.0	29.1	36.3	18.2
Adjusted EPS (Rs)	5.5	8.0	10.3	14.0	16.6
EPS Growth (%)	31.3	44.9	29.1	36.3	18.2

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	6,391	8,124	10,172
Total Shareholders Funds	4,475	5,148	6,531	8,263	10,311
Minority Interest	542	-	-	-	-
Long Term Debt	1,582	2,602	2,452	2,452	2,452
Short Term Debt	1,005	808	1,871	1,319	1,019
Total Debt	2,586	3,410	4,323	3,770	3,470
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	11,086	12,286	14,057
APPLICATION OF FUNDS					
Net Block	2,271	3,313	3,998	4,778	5,517
CWIP	144	23	169	217	234
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	6,402	7,272	8,079
Inventories	1,669	2,018	2,433	3,167	3,620
Debtors	2,096	2,442	2,825	3,678	4,204
Other Current Assets	447	464	504	591	693
Cash & Equivalents	1,706	399	1,535	511	784
Total Current Assets	5,918	5,324	7,297	7,946	9,300
Creditors	944	1,203	1,570	1,416	1,641
Other Current Liabilities & Provns	755	1,052	1,199	1,325	1,464
Total Current Liabilities	1,699	2,255	2,769	2,741	3,105
Net Current Assets	4,219	3,069	4,528	5,205	6,195
TOTAL APPLICATION OF FUNDS	7,882	8,770	11,086	12,285	14,057

Source: Company, HDFC sec Inst Research

Cash Flow(Consolidated)

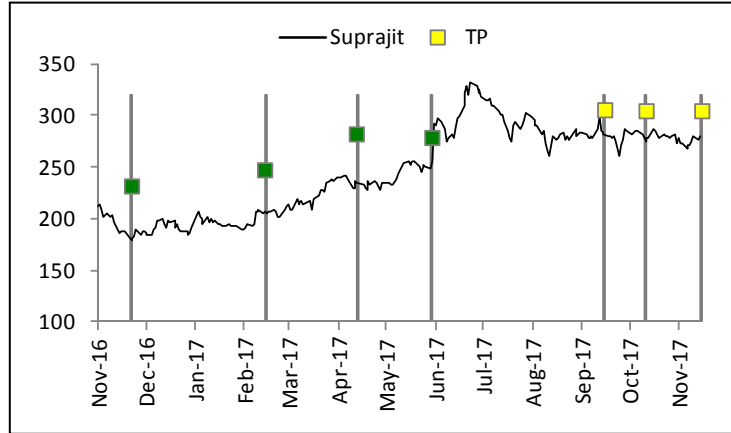
(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	1,291	1,741	2,117	2,803	3,313
Non-operating & EO items	(141)	(127)	-	-	-
Interest expenses	250	289	339	473	419
Depreciation	158	219	238	237	278
Working Capital Change	(1,115)	(275)	(317)	(1,680)	(736)
Tax Paid	(431)	(499)	(677)	(841)	(994)
OPERATING CASH FLOW (a)	11	1,348	1,700	993	2,280
Capex	(723)	(1,141)	(1,117)	(1,017)	(1,017)
Free cash flow (FCF)	(711)	207	583	(24)	1,263
Investments	0	-	-	-	-
Non-operating Income	(581)	(2,179)	113	0	(0)
INVESTING CASH FLOW (b)	(1,304)	(3,320)	(1,005)	(1,017)	(1,017)
Debt Issuance/(Repaid)	653	709	948	(297)	(300)
Interest Expenses	(250)	(289)	(339)	(473)	(419)
FCFE	192	1,205	1,870	152	1,382
Share Capital Issuance	1,505	375	-	-	-
Dividend	(84)	(130)	(168)	(230)	(271)
FINANCING CASH FLOW (c)	1,825	665	440	(1,000)	(990)
NET CASH FLOW (a+b+c)	532	(1,307)	1,136	(1,024)	273
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	1,706	399	1,535	511	784

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	17.2	17.5	17.5
APAT Margin	7.5	9.2	10.0	10.5	10.9
RoE	20.9	23.2	24.6	26.5	25.0
RoIC (or Core RoCE)	16.3	15.1	14.6	16.9	16.9
RoCE	14.6	16.2	17.2	19.8	19.8
EFFICIENCY					
Tax Rate (%)	33.4	28.7	32.0	30.0	30.0
Fixed Asset Turnover (x)	2.9	2.7	2.6	2.9	2.9
Inventory (days)	64.0	60.7	62.0	62.0	62.0
Debtors (days)	80.3	73.4	72.0	72.0	72.0
Other Current Assets (days)	17.1	14.0	12.8	11.6	11.9
Payables (days)	36.2	36.2	40.0	27.7	28.1
Other Current Liab & Provs (days)	28.9	31.6	30.6	25.9	25.1
Cash Conversion Cycle (days)	96.3	80.3	76.3	91.9	92.7
Debt/EBITDA (x)	1.7	1.7	1.8	1.2	0.9
Net D/E (x)	0.5	0.6	0.5	0.5	0.3
Interest Coverage (x)	0.2	0.2	0.2	0.2	0.1
PER SHARE DATA (Rs)					
EPS	5.9	8.1	10.3	14.0	16.6
CEPS	6.9	9.5	12.3	16.2	19.1
Dividend	0.6	0.8	1.0	1.4	1.7
Book Value	34.2	36.8	46.7	59.1	73.7
VALUATION					
P/E (x)	47.2	34.7	27.2	20.0	16.9
P/BV (x)	8.2	7.6	6.0	4.7	3.8
EV/EBITDA (x)	25.3	21.0	17.3	13.3	11.5
EV/Revenues (x)	4.1	3.5	3.0	2.3	2.0
OCF/EV (%)	0.0	3.2	4.0	2.3	5.3
FCF/EV (%)	(1.8)	0.5	1.4	(0.1)	3.0
FCFE/Mkt Cap (%)	0.5	3.1	4.8	0.4	3.5
Dividend Yield (%)	0.2	0.3	0.4	0.5	0.6

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
23-Nov-16	180	BUY	231
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

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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