

Strong growth in Electronics division driven by increased deliveries for EV/ICE vehicles

CMP: INR 385

Rating: Buy

Target Price: INR 467

Stock Info

BSE	532509
NSE	SUPRAJIT
Bloomberg	SEL:IN
Reuters	SUPE.NS
Sector	Auto Components & Equipment's
Face Value (INR)	1.00
Equity Capital (INR Mn)	138
Mkt Cap (INR Mn)	53,308
52w H/L (INR)	447/323
Avg Yearly Vol (in 000')	251

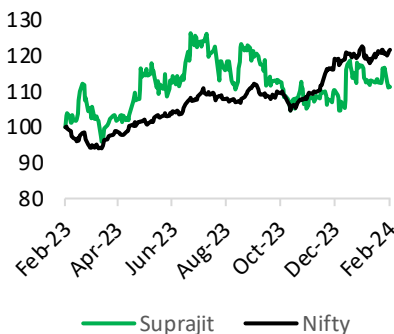
Shareholding Pattern %

(As on Dec, 2023)

Promoters	44.6
FII	4.6
DII	16.2
Public & Others	34.6

Stock Performance (%)	1m	3m	12m
Suprajit	-5.10	4.80	11.19
Nifty	-0.84	11.36	21.62

Suprajit Engineering Ltd. Vs Nifty



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Suprajit's consolidated revenue stood at INR 7,242 Mn in Q3FY24, below our estimate of INR 8,211 Mn registering a growth 4.6% YoY/2.2% QoQ. Gross Profit stood at INR 3,008 Mn in Q3FY24 (+5.9% YoY/ +4.2% QoQ); below our estimates of INR 3,376 Mn. Gross margins expanded by 48.2 bps YoY (up by 80.1 bps QoQ) to 41.53% in Q3FY24 vs 40.73% in Q2FY24. EBITDA stood at INR 873 Mn in Q3FY24, below our estimate of INR 956 Mn, Registering a growth of 7.9%YoY/ 25.0% QoQ. EBITDA margin expanded by 36bps YoY/ 220bps QoQ to 12.1% in Q3FY24, above our estimate of 11.7%. Consolidated PAT saw an increase of 5.8% YoY/15.8% QoQ. to INR 402 Mn in Q3FY24 below our estimate of INR 483 Mn. PAT margin expanded by 6.1 bps YoY and up by 65.4 bps QoQ to 5.56% in Q3FY24 vs 4.90% vs in Q2FY24.

Investment Rational

Suprajit Electronic Division: Significant growth observed, with an order book reaching INR 1,500 Mn per annum and a current run rate of INR 200 Mn per quarter. The division plans to invest in additional capacity, particularly for high-volume products like electronic clusters, to meet growing demand and de-risk the business. Expectations are for continued strong growth in the near term, driven by successful entry into the EV segment and attracting attention from established players.

Softness in the Aftermarket Segment: The aftermarket segment experienced tepid growth in the first nine months but showed signs of recovery in January. The slowdown in this segment is attributed to cyclic fatigue after several years of strong growth. Factors such as monsoon and rural economic conditions have also contributed to the softness. A rebound is anticipated in Q4, with expectations of good growth.

Domestic Cable Business Growth: The domestic cable business grew by 3% in 9MFY24, primarily impacted by weak aftermarket performance. Growth momentum is expected to improve, with a rebound anticipated in Q4.

Outlook and Valuation: Positive outlook for Q4, with strong performance in the DCD, PLD, and electronics divisions. The company is focusing on strategic initiatives to improve performance and capitalize on growth opportunities in both domestic and international markets. The company's focus on manufacturing excellence, coupled with product differentiation and market demand, is expected to support sustained margins across divisions. Overall, despite challenges such as the Red Sea crisis and the UAW strike, the company has demonstrated resilience and maintained strong margins. **We expect Suprajit's revenue, EBITDA, and PAT to grow at a CAGR of 10.3%, 16.4%, and 27.3%, respectively, over FY24-FY26E. We used DCF model to arrive at a target price of INR 467 per share (Earlier target price of INR per share 444). Accordingly, we maintain our "BUY" rating on the stock.**

Exhibit 1: Financial overview

Year-end March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin (%)	EV/EBITDA	P/E (x)	ROE (%)	ROCE (%)
FY22	18,405	2,599	1,472	12.5	14.1%	21.0	30.8	16.0%	17.0%
FY23	27,524	3,006	1,262	11.0	10.9%	19.6	35.1	12.4%	12.7%
FY24E	28,858	3,246	1,196	10.5	11.3%	17.8	36.7	10.9%	12.5%
FY25E	31,576	3,796	1,678	14.0	12.0%	15.0	27.5	13.2%	14.5%
FY26E	35,138	4,401	2,097	17.0	12.5%	12.8	22.6	14.4%	16.2%

Source: Arihant Research, Company Filings

Exhibit 2 : Q3FY24 - Quarterly performance (Consolidated)

Quarterly Results					
Consolidated (INR Mn)	Q3FY24	Q3FY23	Q2FY24	YoY%	QoQ%
Net Sales	7,241.76	7,088.74	6,920.99	2.16	4.63
Cost of material consumed	4,137.08	4,275.46	4,182.44	-3.24	-1.08
Changes in inventories	96.85	-74.20	-102.69	230.53	194.31
COGS	4,233.93	4,201.26	4,079.75	0.78	3.78
GP	3,007.83	2,887.48	2,841.24	4.17	5.86
Employees benefits expense	1,509.54	1,564.63	1,389.06	-3.52	8.67
Other expenditure	625.55	624.80	643.22	0.12	-2.75
EBITDA	872.74	698.05	808.96	25.03	7.88
Depreciation	258.49	256.98	247.14	0.59	4.59
EBIT	614.25	441.07	561.82	39.26	9.33
Other Income	89.54	187.36	51.73	-52.21	73.09
Finance costs	131.98	136.29	103.71	-3.16	27.26
PBT	571.81	492.14	509.84	16.19	12.15
Tax	169.35	144.55	129.46	17.16	30.81
Reported PAT	402.46	347.59	380.38	15.79	5.80
EPS	2.91	2.51	2.75	15.79	5.80

Margins	Q3FY24	Q3FY23	Q2FY24	YoY (bps)	QoQ (bps)
Cost Analysis					
RM/Net Sales	58.47	59.27	58.95	-48.20	-80.12
Other Exp/Net Sales	8.64	8.81	9.29	-65.57	-17.59
Staff cost/Net sales	20.84	22.07	20.07	77.47	-122.71

Source: Arianth Research, Company Filings

Suprajit Engineering Ltd- Q3FY24 Concall KTAs

Financial Performance

- Consolidated business grew by 3% over 9MFY24, and standalone business also saw a 3% YoY growth.
- Consolidated revenue was INR 7,240 Mn, a 5% YoY growth.
- Consolidated EBITDA for Q3 grew to INR 872.74, YoY 7%.
- Total debt level was INR 6,220 Mn in Q3.
- Tax surplus of INR 6,000 Mn in Q3, was invested in mutual funds and bonds.

Divisional Performance: Domestic cable division saw strong growth, especially in the passenger vehicle business. Phoenix Lamps division experienced consistent margin improvement and successful restructuring efforts. Suprajit Controls Division faced challenges primarily due to global market conditions, operational challenges, and changes in product mix. Efforts towards long-term restructuring are underway, including cost optimization and relocation of low-margin businesses.

Suprajit Technology Center (STC): STC has won multiple braking contracts with Indian and Japanese 2W OEMs and a prominent EV OEM. Ongoing plans for a larger premises in Bangalore to accommodate growing technology teams.

Suprajit Cable Division: Observed a decent improvement in margins, attributed to operational improvements and restructuring efforts. Operational efficiency initiatives, such as consolidating warehouses and moving certain businesses, have contributed to margin enhancement. The division anticipates double-digit business growth going forward, even with global markets expected to remain flat.

Margin Recovery in SCG Division: Margin recovery in the SCG (Suprajit Controls Group) division has been noted, driven by new order wins and sustained double-digit margins. Margins have remained strong due to business performance and growth despite challenges such as the Red Sea crisis and increased freight costs.

Impact of Red Sea Crisis and UAW Strike: The Red Sea crisis has led to increased freight costs and shipment delays, impacting margins in the short term. Freight costs have surged significantly, potentially impacting margins for the quarter. Offsetting factors such as strong business performance may mitigate the impact.

China Plant relocation: The China plant faced challenges due to a drop in export business to Europe and Russia, alongside a focus on relocating the plant over the past year. Growth expectations for the China market may take several quarters to materialize, with new contracts expected to drive improvement in the plant's performance. The annual impact of China duty alone is around \$2 million.

Standalone Business Growth: Standalone business witnessed a significant growth of 10% in Q3, following a decline in previous quarters. Shifts in product mix towards mid-end and higher-end segments in the 2W market contributed to growth, with strong momentum expected in Q4.

Offshoring Strategy and Capacity Utilization: Offshoring initiatives aim to improve margins by transferring certain operations to more cost-effective locations, such as India. Capacity utilization in international operations currently stands at 50%, with plans to enhance utilization through new business wins and offshoring.

LED Retrofit Segment (Phoenix): The LED retrofit segment is experiencing growth both in traditional spare parts markets and in segments where consumers opt for upgrades. The company's LED products have attracted interest from global players, opening up opportunities for partnerships and OEM manufacturing.

Divisional Margins: While the Phoenix Lamps and Electronics divisions have achieved double-digit margins, the Controls division has faced challenges in reaching the 10% margin target. Efforts are underway to improve margins in the Controls division, with expectations that it will gradually increase over the next few quarters.

Automotive segment: Automotive growth is expected to outpace industry growth, driven by new wins and market share gains. Comfortable double-digit growth is anticipated in the automotive segment.

Outlook: The company remains focused on leveraging both organic growth and strategic acquisitions to solidify its position in the control cables market and enhance its global footprint.

DCF Valuation

Valuation Assumptions

g (World Economic Growth)	7%
Rf	10%
Rm	76%
Beta (2 Yr)	3%
CMP (INR)	385

WACC

We	89.37%
Wd	10.63%
Ke	9.39%
Kd	5.92%
WACC	9.02%

Valuation Data

Total Debt (long term borrowings) (2023)	2,383
Cash & Cash Equivalents (2023)	1,001
Number of Diluted Shares (2023)	138
Tax Rate (2024)	26%
Interest Expense Rate (2024)	8%

MV of Equity	53,308
Total Debt	6,341

Total Capital 59,649

FCFF & Target Price

FCFF & Target Price	Explicit Forecast Period						Linear Decline Phase					Terminal Yr
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
EBIT * (1-Tax Rate)	1,636.67	2,026.42	2,436.08	2,868.64	3,307.47	3,732.07	4,119.40	4,445.61	4,688.31	4,828.96	4,855.07	5,000.72
Dep	1,034.19	1,057.19	1,108.65	1,538.24	1,668.09	1,860.64	2,113.42	2,246.42	2,370.58	2,453.10	2,458.19	2,458.19
Purchase of Assets	577.17	631.52	702.76	911.05	1,011.77	1,134.52	1,273.56	1,361.93	1,436.98	1,484.13	1,489.20	2,243.71
Changes in Working Capital	458.30	-493.04	-682.63	-232.84	-666.66	-700.32	-645.89	-809.11	-822.71	-827.81	-855.96	-872.14
FCFF	1,635.39	2,945.12	3,524.59	3,728.68	4,630.45	5,158.51	5,605.15	6,139.21	6,444.62	6,625.73	6,680.02	6,087.35
% Growth in Post Tax EBIT	24%	20%	18%	15%	13%	10%	8%	5%	3%	1%	3%	24%

As % of Post Tax EBIT

Dep	63%	52%	46%	54%	50%	50%	51%	51%	51%	51%	51%	51%
Purchase of Assets	35%	31%	29%	32%	31%	30%	31%	31%	31%	31%	31%	31%
Changes in Working Capital	28%	-24%	-28%	-8%	-20%	-19%	-16%	-18%	-18%	-17%	-18%	-17%

FCFF	1,635.39	2,945.12	3,524.59	3,728.68	4,630.45	5,158.51	5,605.15	6,139.21	6,444.62	6,625.73	6,680.02	6,087.35
Terminal Value												95,299.42
Total Cash Flow	1,635.39	2,945.12	3,524.59	3,728.68	4,630.45	5,158.51	5,605.15	6,139.21	6,444.62	6,625.73	6,680.02	1,01,386.76

Enterprise Value (EV)	65,868
Less: Debt	2,383
Add: Cash	1,001
Equity Value	64,486

Equity Value per share (INR) 467

% Returns 21%

Rating BUY

WACC (%)	Terminal Growth(%)								
	2.0%	2.3%	2.5%	2.8%	3.0%	3.3%	3.5%	3.8%	4.0%
467									
8.3%	446	458	471	485	499	515	533	551	572
8.5%	436	448	461	474	488	504	521	539	559
8.8%	427	438	451	464	478	493	509	527	546
9.0%	418	429	441	454	467	482	498	515	534
9.3%	409	420	431	444	457	471	487	504	522
9.5%	401	411	422	434	447	461	476	493	511
9.8%	392	402	413	425	438	451	466	482	499
10.0%	384	394	405	416	428	441	456	471	488
10.3%	376	386	396	407	419	432	446	461	478

Source: Company reports, Arihant Capital Research, Figures are in INR Mn except share price and percentage data

Story in charts (INR Mn)

Exhibit 4 : Stagnant revenue over 9M due to global headwinds

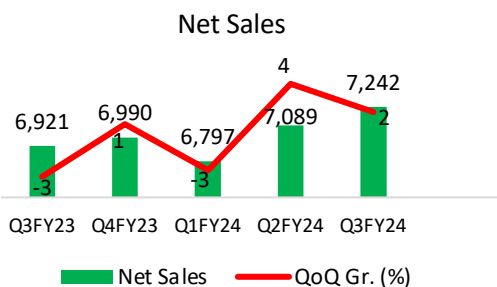


Exhibit 5: EBITDA affected by UWA strike and product mix change

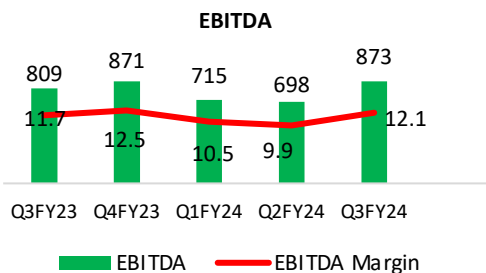


Exhibit 6: Profitability increased on the back of significant order wins

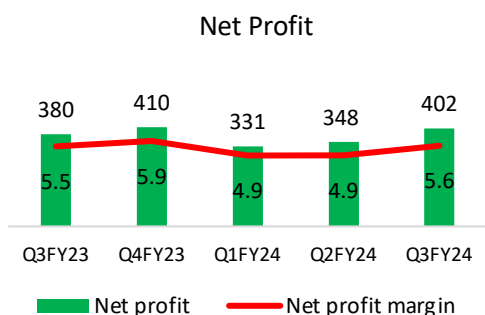


Exhibit 7: EPS trajectory on positive momentum

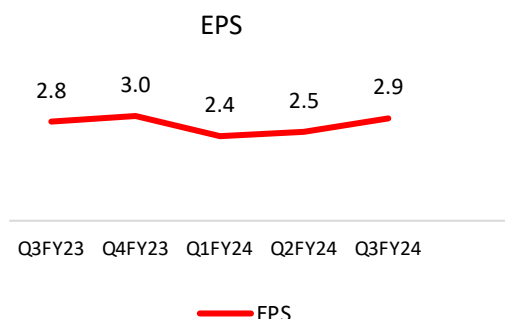


Exhibit 8: Automotive growth is expected to outpace industry growth, driven by new wins and market share gains.

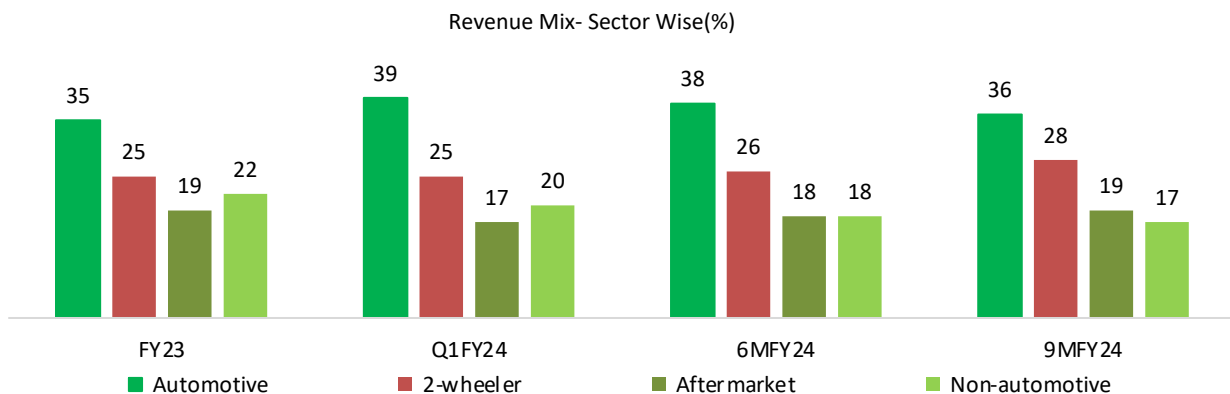
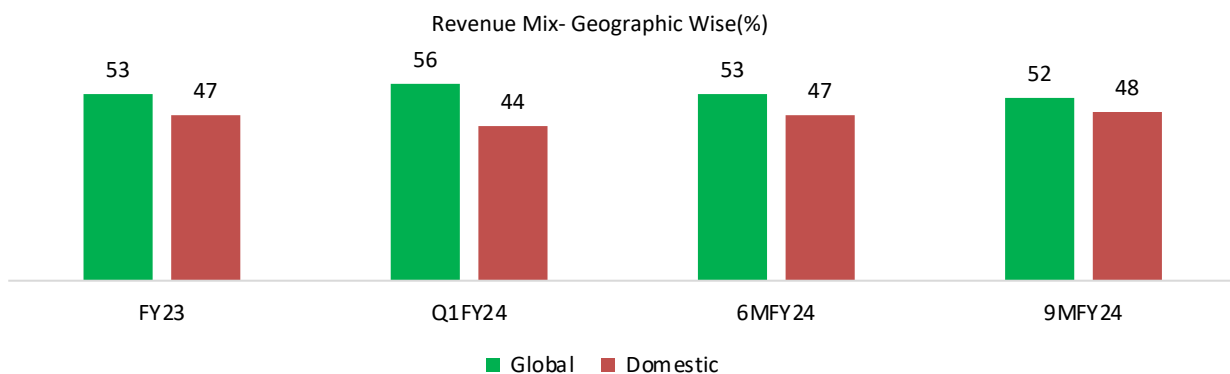


Exhibit 9: Domestic business affected by weak aftermarket performance



Source: Company, Arianth Research

Key Financials

Income statement (INR Mn)					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Gross Sales	18,404.77	27,523.55	28,858.44	31,575.90	35,138.14
Net Sales	18,404.77	27,523.55	28,858.44	31,575.90	35,138.14
YoY (%)	12.17%	49.55%	4.85%	9.42%	11.28%
Adjusted COGS	10,787.34	16,169.30	16,657.58	18,029.49	19,939.34
YoY (%)	12.99%	49.89%	3.02%	8.24%	10.59%
Personnel/ Employee benefit expenses	3,363.75	5,744.03	6,258.61	6,832.16	7,585.36
YoY (%)	9.09%	70.76%	8.96%	9.16%	11.02%
Manufacturing & Other Expenses	1,654.64	2,604.01	2,696.34	2,918.66	3,212.80
YoY (%)	17.29%	57.38%	3.55%	8.25%	10.08%
Total Expenditure	15,805.73	24,517.34	25,612.53	27,780.31	30,737.50
YoY (%)	9.79%	15.67%	7.97%	16.93%	15.94%
EBITDA	2,599.04	3,006.21	3,245.91	3,795.59	4,400.64
YoY (%)	9.79%	15.67%	7.97%	16.93%	15.94%
EBITDA Margin (%)	14.12%	10.92%	11.25%	12.02%	12.52%
Depreciation	585.11	954.55	1,034.19	1,057.19	1,108.65
% of Gross Block	8.56%	10.52%	10.38%	9.98%	9.81%
EBIT	2,013.93	2,051.66	2,211.72	2,738.40	3,292.00
EBIT Margin (%)	10.94%	7.45%	7.66%	8.67%	9.37%
Interest Expenses	145.23	355.71	507.28	519.87	537.54
Non-operating/ Other income	366.47	506.45	501.18	548.37	610.24
PBT	2,351.63	2,202.40	2,205.62	2,766.90	3,364.70
Tax-Total	620.86	681.31	751.38	830.07	1,009.41
Adj. Net Profit	1,730.77	1,521.09	1,454.25	1,936.83	2,355.29
Reported Profit	1,472.07	1,262.39	1,195.55	1,678.13	2,096.59
PAT Margin	8.00%	4.59%	4.14%	5.31%	5.97%
Shares o/s/ paid up equity sh capital	138.39	138.39	138.39	138.39	138.39
EPS	12.51	10.99	10.51	14.00	17.02
Dividend per share	2.79	2.05	3.00	4.00	5.00
Dividend payout (%)	26.19%	22.47%	34.73%	32.99%	33.00%
Retained earnings	1,086.51	978.70	780.38	1,124.57	1,404.64

Balance sheet (INR Mn)					
Year-end March	FY22	FY23	FY24E	FY25E	FY26E
Sources of Funds					
Equity Share Capital	138.39	138.39	138.39	138.39	138.39
Reserves & Surplus/ Other Equity	10,701.30	12,106.41	13,145.49	14,528.76	16,192.09
Networth	10,839.69	12,244.80	13,522.93	15,076.52	16,979.43
Unsecured Loans/ Borrowings/ Lease Liabilities	10,839.69	12,244.80	13,283.88	14,667.15	16,330.48
Other Liabilities	659.14	766.48	766.48	766.48	766.48
Total Funds Employed	6,545.56	12,100.40	12,220.72	12,724.40	13,384.10
Application of Funds					
Net Fixed Assets	5,988.73	5,883.90	8,078.95	8,352.59	7,926.92
Capital WIP	93.90	273.69	273.69	273.69	273.69
Current assets	11,176.31	15,622.34	17,238.75	19,551.38	22,280.30
Inventory	3,432.83	4,826.04	4,313.22	4,668.45	5,168.98
Debtors	2,971.86	4,608.36	4,831.87	5,286.86	5,883.30
Other Current Assets	322.70	760.10	787.79	816.87	847.40
Cash and Cash equivalent	1,860.73	1,001.03	2,038.76	2,759.06	3,716.93
Current Liabilities/Provisions	5,542.15	8,154.03	8,539.17	9,281.19	10,155.40
Creditors / Trade Payables	1,939.66	2,923.16	3,064.93	3,353.54	3,731.87
Liabilities	439.73	887.15	924.64	964.00	1,005.33
Provisions	141.67	348.40	365.82	384.11	403.32
Net Current Assets	5,634.16	7,468.31	8,699.58	10,270.18	12,124.90
Total Asset	17,385.19	24,345.07	26,235.23	28,122.19	30,445.22
Net Working Capital	5,634.16	7,468.31	8,699.58	10,270.18	12,124.90

Cash Flow Statement (INR Mn)					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	2,351.63	2,202.40	2,205.62	2,766.90	3,364.70
Adjustments: Add					
Depreciation and amortisation	585.11	954.55	1,034.19	1,057.19	1,108.65
Interest adjustment	145.23	355.71	507.28	519.87	537.54
Adjustments: Less					
Interest income on fixed income securities	-5.08	-3.47	-5.08	-5.33	-5.60
Other changes	-246.93	-132.06	-193.04	-202.69	-212.82
Change in assets and liabilities	2,831.83	3,384.96	3,548.98	4,135.94	4,792.46
Inventories	-276.76	-272.29	512.82	-355.23	-494.53
Trade receivables	341.72	379.27	-223.51	-454.99	-596.44
Trade payables	-531.82	-163.09	141.77	288.61	378.33
Other Liabilities and provisions	-5.80	68.83	54.91	57.65	60.54
Other Assets	41.11	-159.45	-27.69	-29.08	-30.53
Taxes	-584.47	-847.36	-751.38	-830.07	-1,009.41
Net cash from operating activities	1,815.81	2,390.87	3,255.90	2,812.83	3,100.43
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-525.00	-915.53	-577.17	-631.52	-702.76
Net Sale/(Purchase) of investments	736.84	-1,667.89	-647.27	-550.34	-436.73
Net cash (used) in investing activities	365.00	-5,792.90	-1,219.36	-1,176.52	-1,133.90
Interest expense	-149.89	-335.28	-507.28	-519.87	-537.54
Dividend paid	-385.56	-283.69	-415.17	-553.56	-691.95
Net cash (used) in financing activities	-1,114.87	2,231.90	-998.81	-916.01	-1,008.66
Closing Balance	1,860.73	1,001.03	2,038.76	2,759.06	3,716.93
FCF	1,290.81	1,475.34	2,678.73	2,181.31	2,397.66
Capex as % of sales	2.9%	3.3%	2.0%	2.0%	2.0%

Key Ratios					
Year-end March	FY22	FY23	FY24E	FY25E	FY26E
Solvency Ratios					
Debt / Equity	0.29	0.52	0.48	0.44	0.41
Net Debt / Equity	0.12	0.45	0.33	0.26	0.19
Debt / EBITDA	1.20	2.13	1.95	1.71	1.53
DuPont Analysis					
Sales/Assets	1.06	1.13	1.10	1.12	1.15
RoE	15.97%	12.42%	10.95%	13.21%	14.42%
Per share ratios					
Reported EPS	12.51	10.99	10.51	14.00	17.02
Dividend per share	2.79	2.05	3.00	4.00	5.00
BV per share	78.33	88.48	95.99	105.98	118.00
Cash per Share	13.45	7.23	14.73	19.94	26.86
Revenue per Share	132.99	198.88	208.53	228.17	253.91
Profitability ratios					
Net Profit Margin (PAT/Net sales)	9.40%	5.53%	5.04%	6.13%	6.70%
Gross Profit / Net Sales	41.39%	41.25%	42.28%	42.90%	43.25%
EBITDA / Net Sales	14.12%	10.92%	11.25%	12.02%	12.52%
EBIT / Net Sales	10.94%	7.45%	7.66%	8.67%	9.37%
ROCE (%)	17.01%	12.67%	12.50%	14.53%	16.22%
Activity ratios					
Inventory Days	111.29	93.22	100.13	90.92	89.98
Debtor Days	62.39	50.26	59.70	58.48	58.02
Creditor Days	74.70	54.89	65.61	64.97	64.85
Leverage ratios					
Interest coverage	13.87	5.77	4.36	5.27	6.12
Debt / Asset	0.18	0.26	0.24	0.23	0.22
Valuation ratios					
EV / EBITDA	21.00	19.56	17.77	15.05	12.81
EV / EBIT	27.10	28.66	26.08	20.86	17.13
EV / Net Sales	2.97	2.14	2.00	1.81	1.60
PE(x)	30.80	35.05	36.66	27.52	22.63

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
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