

Optimism for Domestic business led by expansion into cable space for passenger cars

CMP: INR 364

Rating: Buy

Target Price: INR 444

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) 50,400

52w H/L (INR) 446.4/315.2

Avg Yearly Vol (in 000') 197

Shareholding Pattern %

(As on Sept, 2023)

Promoters 44.6

FII 4.8

DII 15.9

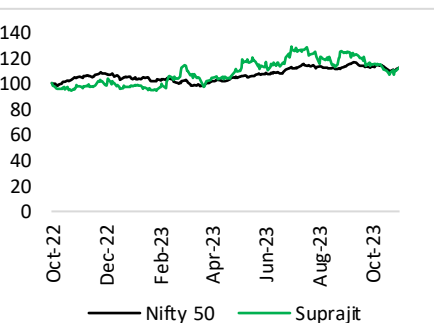
Public & Others 34.8

Stock Performance (%)

Suprajit 1m -6.9 3m -10.1 12m 9.5

Nifty 1m -1.50 3m -2.04 12m 7.58

Suprajit Engineering Ltd. Vs Nifty



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Suprajit's revenue from operations stood at INR 7,089 Mn in Q2FY24 against our estimate of INR 8,417 Mn up by 4.29% QoQ/ down by 1% YoY. EBITDA for the quarter stood at INR 698 Mn against our estimate of INR 867 Mn registering a growth of 11.27% YoY and 2.36% QoQ. The company's EBITDA margin contracted by 114bps YoY and 67bps QoQ to 9.85%. Our estimate of Margin was 10.31%. Net profit for the quarter declined by 24.02% YoY and 4.96% QoQ to INR 348 Mn as against our estimate of INR 507 Mn.

Investment Rationale

LED Retrofit business: Introduced retrofits for passenger car vehicles, expanding product range. The strategy involves expanding the product coverage across various segments, beginning with two-wheelers and three-wheelers, combining them, then progressing to passenger cars, which has already commenced, and eventually moving into the CD segment. It would have a complete range as PLD has in aftermarket.

Consolidating global operations and strengthening European business: The company is strategically planning to shift significant portions of its business operations from overseas to India. Suprajit Control Division strengthened Europe business, securing new contracts with favorable margins. The ongoing restructuring aims to create a more unified entity within the division for improved synergies. This strategic move aligns with the company's vision to enhance its global presence and streamline operations for sustained growth.

One-offs in China plant relocation: The company is in the process of relocating its plant in China to a new site. This move is expected to be completed by Q4FY24. This has resulted in the incurrence of one-time expenses, consisting of costs associated with leasing for both the current and new locations, along with outlays related to utilities like power.

PLD's success amid LED challenges: SEL experienced business expansion despite the prevalence of LED technology, and their profit margins increased, attaining double-digit figures. Ongoing restructuring initiatives at LuxLite and Trifa are progressing, and the finalization of Trifa's liquidation is anticipated by Q4FY24.

Valuation & View: Suprajit anticipates a more robust growth and enhanced profitability in the second half of FY24. There is an anticipation of substantial growth in the current year, with a concentration on execution of order book in SED. **We expect Suprajit's revenue, EBITDA, and PAT to grow at a CAGR of 11.64%, 15.36%, and 21.49%, respectively, over FY24-26E. We initiate coverage with a "BUY" rating at a Target Price of INR 444 per share.**

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	12.51	14.1%	2.45	27.67	16.0%	17.0%
FY23	27,524	3,006	1,262	10.99	10.9%	3.52	34.66	12.4%	12.7%
FY24E	30,125	3,368	1,413	12.08	11.2%	2.89	31.55	12.4%	14.6%
FY25E	33,390	3,816	1,726	14.34	11.7%	2.39	27.78	13.6%	15.8%
FY26E	37,628	4,394	2,147	17.38	11.9%	1.96	22.37	14.7%	17.3%

Source: Arihant Research, Company Filings

Exhibit 2: Quarterly Result

INR Mn (Consolidated)	Q2FY24	Q2FY23	Q1FY24	Y-o-Y	Q-o-Q
Net Sales	7,088.74	7,160.63	6,796.83	-1.00%	4.29%
Cost of material consumed	4,204.60	4,364.44	3,815.59	-3.66%	10.20%
Changes in inventories	(74.20)	(152.95)	(66.04)	-51.49%	12.36%
COGS	4,201.26	4,335.72	3,905.74	-3.10%	7.57%
GP	2,887.48	2,824.91	2,891.09	2.21%	-0.12%
Employees benefits expense	1,564.63	1,443.45	1,535.42	8.40%	1.90%
Other expenditure	624.80	594.75	640.78	5.05%	-2.49%
EBITDA	698.05	786.71	714.89	-11.27%	-2.36%
EBITDA Margin	9.85%	10.99%	10.52%	114 bps	-67 bps
Depreciation	256.98	239.09	246.71	7.48%	4.16%
EBIT	441.07	547.62	468.18	-19.46%	-5.79%
Other Income	187.36	217.43	128.69	-13.83%	45.59%
Finance costs	136.29	76.83	117.52	77.39%	15.97%
PBT	492.14	688.22	479.35	-28.49%	2.67%
Tax	144.55	230.76	148.20	-37.36%	-2.46%
Reported PAT	347.59	457.46	331.15	-24.02%	4.96%
PAT Margin	4.90%	6.39%	4.87%	149 bps	3 bps
EPS	2.51	3.31	2.39	-24.02%	4.96%

Margins	Q2FY24	Q2FY23	Q1FY24	Y-o-Y (bps)	Q-o-Q (bps)
Cost Analysis:					
RM/Net Sales	59.27%	60.55%	57.46%	-128	181
Other Exp/Net Sales	8.81%	8.31%	9.43%	50	-61
Staff cost/Net sales	22.07%	20.16%	22.59%	191	-52

Source: Arianth Research, Company Filings

Suprajit Engineering Ltd- Q2FY24 Concall KTAs

Financials:

- Revenue stood at INR 7,089 Mn , down by 1% YoY and up by 4% QoQ.
- PAT stood at INR 347 Mn with a growth of down by 24% YoY and up by 5% QoQ.
- Debt stood at INR 6,288 Mn with INR 5,167 Mn in investments.

China Plant:

- The relocation is expected to be completed in Q4; it has led to certain disruptions in operations.
- It caused significant one-time expenses.

Domestic Cable Business:

- October sales have been ahead of industry growth, and November shows signs of improvement.
- H2FY24 outlook is optimistic, expecting decent growth (historically stronger during Q3 & Q4). Growth in the domestic cable division is tied to market growth for two-wheelers.
- Expansion into cable space for passenger cars and series expected to contribute to growth beyond two-wheeler market trends.
- Exploring products beyond cables for two-wheelers predominantly.

Exports 4W:

- Suprajit Automotive has seen strong growth, dispatch, and order wins.
- Existing volumes have reduced due to customers postponing off-take and launch dates amid global uncertainties.
- Challenges related to timing rather than a loss of business.

Non-Automotive Segment for Wescon and LDC:

- Weakness is expected to persist for at least two quarters due to delayed purchases of discretionary items.
- Factors include climate conditions affecting outdoor equipment purchases and high-interest rates impacting buying decisions.

Actuator Penetration:

- Actuator penetration is relatively low due to the higher cost of replacement. The company expects to have a leading status in 2W space for actuators.
- Significant interest is shown by potential customers in actuator systems, and braking systems, apart from digital clusters.

SCD and Margins:

- Suprajit Controls Division is undergoing restructuring, aiming for a single-entity structure for better synergy.
- Margins are impacted by factors such as higher custom duties, one-time expenditures for restructuring, and timing issues.
- Concentration of significant business in automotive exports from India.
- Reduction in fixed costs is possible with the transition, but infrastructure adjustments depend on the pace of the shift.

Suprajit Electronics Division (SED):

- Overall growth is expected this year; focus is on execution rather than expanding the order book further.
- Focus on digital clusters for both ICE and EV markets.

Phoenix Lamps Division:

- Restructuring efforts and focus on LED penetration have led to sustained margin improvement.
- Double-digit margins achieved consistently, expected to continue with a stable and growing business.

UAW Strike Impact:

Other KTAs:

- SAL and SEU business is quite strong since the model of front-ending from Europe and the US and manufacturing out of India resonates well with the customers leading to significant new contracts at good margins.
- Expectations of synergies from One PLM and One ERP plan.
- Anticipated improvement in back-end work efficiency and potential cost reductions.

Global Control Distribution:

- Restructuring aimed at improving margins through volume growth, operational efficiency, and relocating businesses.
- Trajectory towards double-digit margins expected as volumes increase.

Outlook:

The management anticipates positive developments in the SED, with a concentration on the European market and potential cost reductions through restructuring and streamlining operations. The integration of PLM and ERP systems is also expected to contribute to operational efficiency and cost reduction. Current capex budget for the year is around INR 1,400 Mn. The company expects growth in domestic cable business in H2FY24. Long-term vision to establish a prominent market share in the EV segment. Impact on Q3FY24 expected due to the UAW strike; Q4FY24 may see improvements if the market does not decelerate.

DCF Valuation

Valuation Assumptions

Risk free rate	7%
Risk premium	10%
Beta	76%
Terminal Growth rate	3%
CMP	365

WACC

We	89.95%
Wd	10.05%
Ke	9.39%
Kd	4.55%
WACC	8.90%

Valuation Data

Total Debt (long term borrowings) (2023)	2,251
Cash & Cash Equivalents (2023)	1,001
Number of Diluted Shares (2023)	138
Tax Rate (2024)	26%
Interest Expense Rate (2024)	6%

MV of Equity	50,512
Total Debt	5,643

Total Capital	56,156
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FCFF & Target Price												
FCFF & Target Price	Explicit Forecast Period					Linear Decline Phase						Terminal Yr
	2024.00	2025.00	2026.00	2027.00	2028.00	2029.00	2030.00	2031.00	2032.00	2033.00	2034.00	
EBIT * (1-Tax Rate)	1,841.59	2,068.39	2,455.64	2,860.23	3,267.25	3,658.81	4,015.11	4,315.93	4,542.34	4,678.61	4,713.89	4,855.30
Dep	878.88	1,020.96	1,076.07	1,343.40	1,526.34	1,677.01	1,867.28	2,000.54	2,099.98	2,169.16	2,183.27	2,183.27
Purchase of Assets	602.49	667.81	752.57	911.93	1,032.63	1,148.07	1,269.66	1,361.04	1,431.38	1,476.40	1,486.50	2,174.80
Changes in Working Capital	183.21	-651.77	-853.23	-252.15	-432.60	-457.59	-463.07	-536.33	-552.25	-563.30	-575.48	-756.95
FCFF	1,934.77	3,073.31	3,632.36	3,543.86	4,193.56	4,645.33	5,075.80	5,491.75	5,763.20	5,934.68	5,986.13	5,620.72
% Growth in Post Tax EBIT		12%	19%	16%	14%	12%	10%	7%	5%	3%	1%	3%
As % of Post Tax EBIT												
Dep	48%	49%	44%	47%	47%	46%	47%	46%	46%	46%	46%	46%
Purchase of Assets	33%	32%	31%	32%	32%	31%	32%	32%	32%	32%	32%	32%
Changes in Working Capital	10%	-32%	-35%	-19%	-28%	-27%	-25%	-27%	-26%	-26%	-26%	-26%
FCFF	1,934.77	3,073.31	3,632.36	3,543.86	4,193.56	4,645.33	5,075.80	5,491.75	5,763.20	5,934.68	5,986.13	5,620.72
Terminal Value												87,994.26
Total Cash Flow	1,934.77	2,822.10	3,062.83	2,743.95	2,981.60	3,032.85	3,043.02	3,023.28	2,913.38	2,754.85	2,551.61	31,626.77

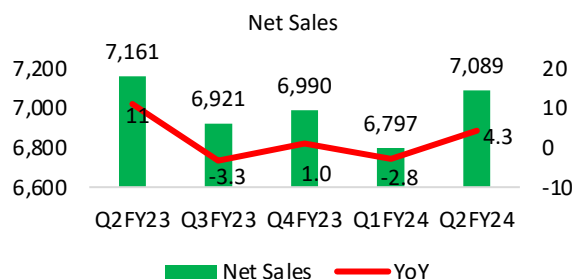
Enterprise Value (EV)	62,491
Less: Debt	2,251
Add: Cash	1,001
Equity Value	61,241
Equity Value per share (INR)	444
% Returns	22%
Rating	BUY

WACC (%)

g(%)	g(%)									
	444	2.0%	2.3%	2.5%	2.8%	3.0%	3.3%	3.5%	3.8%	4.0%
7.9%	431	442	455	468	482	497	513	531	550	
8.2%	423	434	445	458	472	486	502	520	539	
8.4%	414	425	437	449	462	476	492	509	527	
8.7%	406	417	428	440	453	467	482	498	516	
8.9%	399	409	420	431	444	457	472	488	505	
9.2%	391	401	411	423	435	448	463	478	495	
9.4%	384	393	403	415	426	439	453	468	485	
9.7%	376	386	396	406	418	431	444	459	475	
9.9%	369	378	388	399	410	422	435	450	465	

Source: Company reports, Arihant Capital Research

Exhibit 4 : Revenue growth led by expanding the customer base and increasing content value



**Exhibit 5: EBITDA led by cost control initiatives
Healthy consolidated margins**

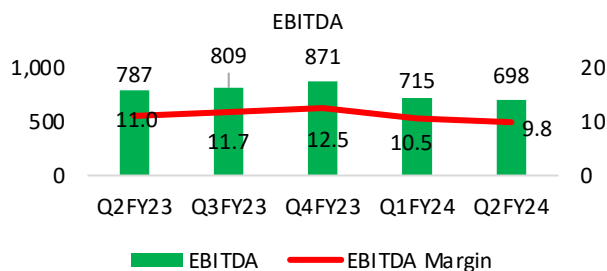


Exhibit 6: Profitability slightly decreased owing to one-time employee costs

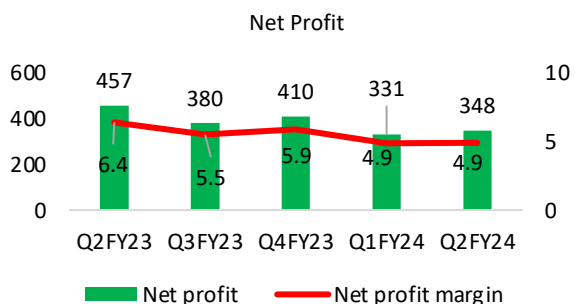


Exhibit 7: EPS trajectory on positive momentum

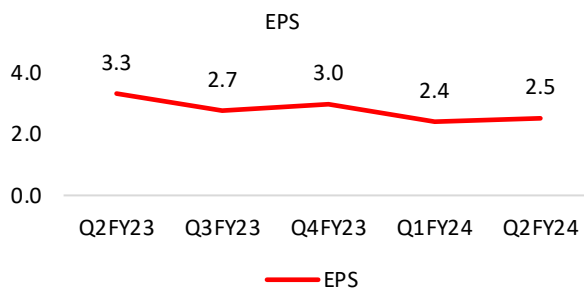


Exhibit 8: Expansion into cable space for passenger cars and series expected to contribute to growth beyond two-wheeler market trends

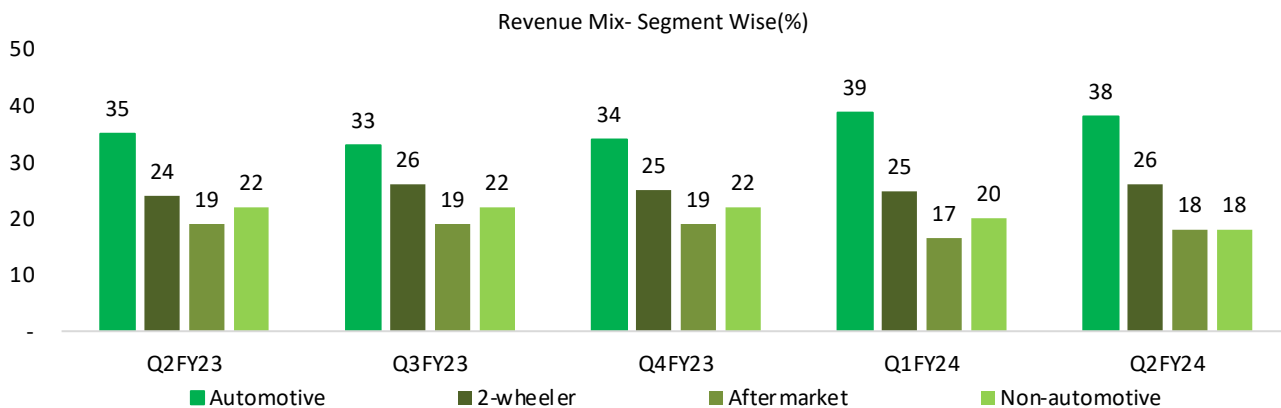
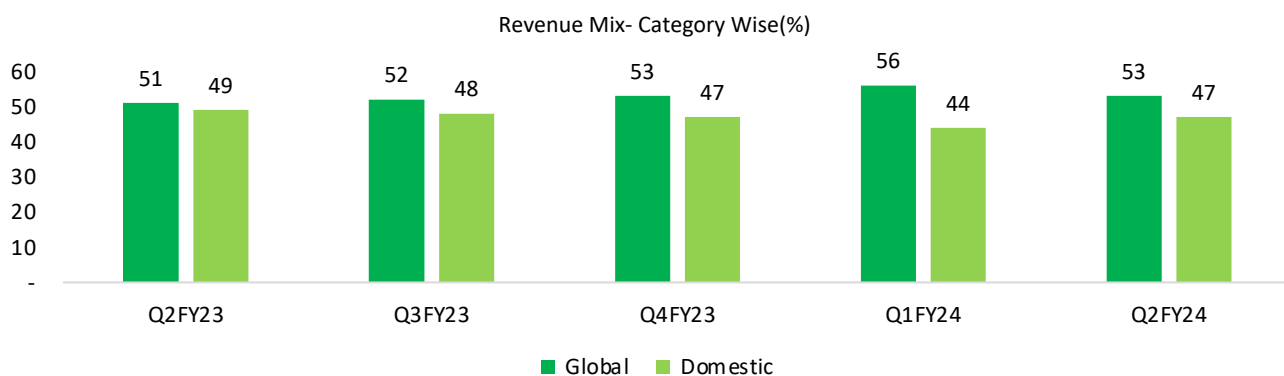


Exhibit 9: Growth in the domestic cable division is tied to market growth for two-wheelers



Source: Company, Arianth Research

Key Financials

Income statement (INR Mn)

Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	18,405	27,524	30,125	33,390	37,628
YoY (%)	12%	50%	9%	11%	12%
Adjusted COGS	10,787	16,169	17,421	19,372	21,684
YoY (%)	13%	50%	8%	11%	12%
Personnel/ Employee benefit expenses	3,364	5,744	6,470	7,154	8044
YoY (%)	9%	71%	13%	10%	12%
Manufacturing & Other Expenses	1,655	2,604	2,866	3,143	3,505
YoY (%)	17%	57%	10%	9%	11%
Total Expenditure	15,806	24,517	26,757	29,574	33,234
YoY (%)	10%	16%	12%	13%	15%
EBITDA	2,599	3,006	3,367	3,816	4,394
EBITDA Margin (%)	14%	11%	11%	13%	15%
Depreciation	585	955	879	1,021	1,076
% of Gross Block	9%	11%	9%	10%	10%
EBIT	2,014	2,052	2,489	2,795	3,318
EBIT Margin (%)	11%	7%	8%	9%	9%
Interest Expenses	145	356	347	305	269
Non-operating/ Other income	366	506	329	346	363
PBT	2,352	2,202	2,471	2,835	3,412
Tax-Total	621	681	799	850	1,006
Adj. Net Profit	1,731	1,521	1,671	1,985	2,406
Reported Profit	1,472	1,262	1,413	1,726	2,147
PAT Margin	8%	5%	5%	5%	6%
Shares o/s/ paid up equity sh capital	138	138	138	138	138
Adj EPS	13	11	12	14	17

Balance sheet (INR Mn)

Year-end March	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	138	138	138	138	138
Reserves & Surplus/ Other Equity	10,701	12,106	13,363	14,793	16,507
Networth	10,840	12,245	13,501	14,932	16,645
Other Liabilities	659	766	766	766	766
Total Liabilities	17,385	7,942	7,168	6,491	5,898
Total Funds Employed	28,225	20,186	20,669	21,483	22,666
Net Fixed Assets	5,989	5,884	8,079	7,803	7,449
Capital WIP	94	274	274	274	274
Investments/ Notes/ Fair value measurement	31	25	25	25	25
Current assets	11,176	15,622	16,712	18,284	20,179
Inventory	3,433	4,826	4,511	4,991	5,615
Days	111	93	93	93	93
Debtors	2,972	4,608	5,044	5,591	6,300
Days	59	61	61	61	61
Other Current Assets	323	760	788	817	847
Cash and Cash equivalent	1,861	1,001	1,074	745	656
Current Liabilities/Provisions	5,542	8,154	8,108	8,174	8,379
Creditors / Trade Payables	1,940	2,923	3,199	3,546	3,987
Days	38	39	39	39	39
Liabilities	440	887	925	964	1,005
Net Core Working Capital	5,634	7,468	8,604	10,050	11,801

Cash Flow Statement (INR Mn)

Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	2,352	2,202	2,471	2,835	3,412
Adjustments: Add					
Depreciation and amortisation	585	955	879	1,021	1,076
Interest adjustment	145	356	347	305	269
Adjustments: Less					
Interest income on fixed income securities	-5	-3	-5	-5	-6
Profit/(loss) on sale of investments, net	2	8	0	0	0
Other changes	-247	-132	-193	-203	-213
Change in assets and liabilities	2,832	3,385	3,499	3,954	4,539
Inventories	-277	-272	315	-480	-624
Trade receivables	342	379	-435	-547	-710
Trade payables	-532	-163	276	347	450
Other Liabilities and provisions	-6	69	55	58	61
Other Assets	41	-159	-28	-29	-31
Taxes	-584	-847	-799	-851	-1,007
Net cash from operating activities	1,816	2,391	2,882	2,451	2,679
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-525	-916	-602	-668	-753
Net Sale/(Purchase) of investments	737	-1,668	-676	-582	-468
Others	153	-3,209	5	5	6
Net cash (used) in investing activities	365	-5,793	-1,273	-1,244	-1,215
Interest expense	-150	-335	-347	-305	-269
Dividend paid	-386	-284	-415	-554	-692
Other financing activities	-579	2,851	-774	-677	-592
Net cash (used) in financing activities	-1,115	2,232	-1,536	-1,536	-1,553
Closing Balance	1,861	1,001	1,074	745	656
FCF	1,291	1,475	2,280	1,783	1,926
Capex as % of sales	3%	3%	2%	2%	2%

Key Ratio

Year-end March	FY22	FY23	FY24E	FY25E	FY26E
Solvency Ratios					
Debt / Equity	0.29	0.52	0.42	0.33	0.26
Net Debt / Equity	0.12	0.45	0.34	0.28	0.22
Debt / EBITDA	1.20	2.13	1.68	1.27	0.98
DuPont Analysis					
Sales/Assets	1.06	1.13	1.20	1.27	1.34
Assets/Equity	1.60	1.99	1.86	1.76	1.67
RoE	15.97%	12.42%	12.38%	13.64%	14.71%
Per share ratios					
Reported EPS	12.51	10.99	12.08	14.78	17.83
Dividend per share	2.79	2.05	3.00	4.00	5.00
BV per share	78.33	88.48	97.56	108.34	121.16
Cash per Share	13.45	7.23	7.76	5.64	5.57
Revenue per Share	132.99	198.88	217.68	241.28	271.29
Profitability ratios					
Net Profit Margin (PAT/Net sales)	9.40%	5.53%	5.55%	5.94%	6.39%
Gross Profit / Net Sales	41.39%	41.25%	42.17%	42.27%	42.37%
EBITDA / Net Sales	14.12%	10.92%	11.18%	11.43%	11.68%
EBIT / Net Sales	10.94%	7.45%	8.26%	8.37%	8.82%
ROCE (%)	17.01%	12.67%	14.60%	15.41%	16.96%
Activity ratios					
Inventory Days	111.29	93.22	97.81	89.96	89.26
Debtor Days	62.39	50.26	58.47	58.12	57.67
Creditor Days	74.70	54.89	64.14	63.87	63.48
Leverage ratios					
Interest coverage	13.87	5.77	7.17	9.16	12.34
Debt / Asset	0.18	0.26	0.22	0.19	0.16
Valuation ratios					
Interest coverage	13.87	5.77	7.17	9.16	12.34
Debt / Asset	0.18	0.26	0.22	0.19	0.16
Valuation ratios					
EV / EBITDA	2.45	3.52	2.89	2.46	2.02
EV / EBIT	3.16	5.15	3.91	3.36	2.68
EV / Net Sales	0.35	0.38	0.32	0.28	0.24
PE(x)	27.67	34.66	31.55	26.57	21.92

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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%

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