

CMP: INR 438

Rating: Buy

Target Price: INR 538

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)	60,645
52w H/L (INR)	456/353
Avg Yearly Vol (in 000')	277

Shareholding Pattern %

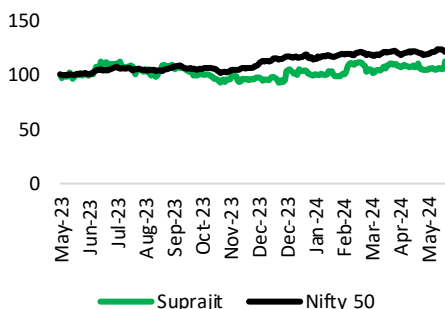
(As on March, 2024)

Promoters	44.6
FII	4.8
DII	17.5
Public & Others	33.1

Stock Performance (%)

	1m	3m	12m
Suprajit	3.57	2.96	12.14
Nifty	-0.51	2.30	20.69

Suprajit Engineering Ltd. Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Suprajit Engineering Ltd reported its Q4FY24 numbers, with revenue at INR 7,831 Mn, up 12.0% YoY and 8.1% YoY, above our estimates of INR 7,731 Mn. Gross profit for the quarter was INR 3,190 Mn, reflecting a 3.5% YoY increase and a 6.1% QoQ rise, which is below our estimate of INR 3,414 Mn. Gross margins decreased by 337 bps YoY to 40.7%, a decline of 80 bps QoQ, fell a bit short of our estimate of 44.2%. EBITDA for Q4 was INR 944 Mn, marking an 8.4% YoY increase and an 8.2% QoQ rise, though below our estimate of INR 960 Mn. EBITDA margin decreased by 40 bps YoY to 12.1%, increased by 0.4 bps QoQ, and was in line with our estimate of 12.4%. PAT for the quarter was INR 591 Mn, up 44.2% YoY and 47.0% QoQ, exceeding our estimate of INR 464 Mn. PAT margin expanded by 169 bps YoY and 200 bps QoQ to 7.6% in Q4FY24, compared to 5.6% in Q3FY24. The increase in PAT was driven by an increase in other income. Company recommended a final dividend of INR 1.4 per share. As part of the restructuring of its Phoenix Lamps Division, the company acquired the trademarks of Trifa Lamps GmbH from Luxlite Lamps on February 6, 2024. After the year ended March 31, 2024, the company established a wholly owned subsidiary in Germany to meet the operational requirements of the Group.

Investment Rationale

Healthy capex plans and focus on margin improvement: The company has earmarked a capex of around INR 1,800 Mn for FY25, with a significant portion allocated for new products, projects, and infrastructure buildup. The management is focused on improving operational efficiencies and margins across divisions, particularly in the Suprajit Control Division (SCD), where they expect EBITDA margins to improve to around 8% in FY25.

Focus on new product development and future technologies: The company has a strong focus on developing new products and platforms, particularly in the EV and actuation spaces, aligning with industry trends. Divisions like Suprajit Electronics (SED) and Suprajit Technology Center (STC) are actively working on innovative solutions for digital clusters, actuators, sensors, and braking systems, catering to both domestic and global customers.

Exploring inorganic growth opportunities: Suprajit is actively exploring inorganic growth opportunities amidst industry consolidation. The management sees potential to acquire businesses that fit their onshore-nearshore-offshore model, enabling them to strengthen their market position, product offerings, and geographic reach.

Outlook and Valuation: Suprajit anticipates more robust growth and enhanced profitability in FY25, with the expectation of strong growth across the segment with recovery in the international business. The cost structure has significantly improved, with notable performance enhancements from Luxlite and Phoenix Lamps. We have an optimistic outlook for SEL, guided by new order wins, focus on EV and electronics, inorganic growth plans, and healthy capex allocation. **We expect Suprajit's revenue, EBITDA, and PAT to grow at a CAGR of 12.9%, 17.6%, and 24.5%, respectively, over FY25-FY27E. We used DCF model to arrive at a target price of INR 538 per share (Earlier target price of INR per share 467). 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 (%)
FY23	27,524	3,006	1,521	11.0	10.9	22.0	39.8	12.4	12.7
FY24	28,959	3,230	1,558	11.3	11.2	20.4	38.9	11.4	13.0
FY25E	31,542	3,762	1,788	12.9	11.9	17.7	33.9	11.9	13.3
FY26E	35,180	4,372	2,164	15.6	12.4	15.2	28.0	12.8	14.7
FY27E	40,233	5,203	2,771	20.0	12.9	12.7	21.9	14.4	16.4

Source: Arihant Research, Company Filings

Exhibit 2: Q4FY24 - Quarterly Performance (Consolidated)

Quarterly Results					
Consolidated (INRm)	Q4FY24	Q3FY24	Q4FY23	QoQ%	YoY%
Net Sales	7,831.22	7,241.76	6,990.09	8.14	12.03
Purchase of stock in trade	4,375.06	4,008.74	3,449.20	9.14	26.84
Change in inventories	164.77	96.85	368.81	-70.13	55.32
COGS	4,641.39	4,233.93	3,907.10	9.62	18.79
GP	3,189.83	3,007.83	3,082.99	6.05	3.47
GP margin	40.73%	41.53%	44.11%	-80.23bps	-337.29bps
Employees benefits expense	1,596.69	1,509.54	1,483.97	5.77	7.60
Other expenses	649.02	625.55	728.03	3.75	-10.85
EBITDA	944.12	872.74	870.99	8.18	8.40
EBITDA Margin	12.06%	12.05%	12.46%	0.44bps	-40.45bps
Depreciation	275.29	258.49	231.30	6.50	19.02
EBIT	668.83	614.25	639.69	8.89	4.56
EBIT Margin (%)	8.54%	8.48%	9.15%	5.85bps	-61.08bps
Other Income	193.62	89.54	55.87	116.24	246.55
Finance costs	128.00	131.98	114.65	-3.02	11.64
PBT	734.45	571.81	580.91	28.44	26.43
Tax	142.95	169.35	170.82	-15.59	-16.32
Reported PAT	591.50	402.46	410.09	46.97	44.24
PAT Margin (%)	7.55%	5.56%	5.87%	199.56bps	168.64bps
EPS	4.27	2.91	2.96	46.97	44.16

Margins	Q4FY24	Q3FY24	Q4FY23	YoY (bps)	QoQ (bps)
Cost Analysis					
RM/Net Sales	55.87	55.36	49.34	652.28	51.10
Other Exp/Net Sales	8.29	8.6381	10.42	-212.76	-35.05
Staff cost/Net sales	20.39	20.84	21.23	-84.08	-45.62

Source: Arianth Research, Company Filings

Suprajit Engineering Ltd- Q4FY24 Concall KTAs

Order Book: Order book looks strong and there have been even more wins on top of that in FY25. The domestic cable division anticipates double-digit growth, with strong margin profiles for DCD products.

Domestic Control Division: Adjusted for aftermarket growth and EV market emergence. Q4 saw 21% growth, with 15% at the DCD level. Also last year price decreased due to drop in commodity price.

Cost Structure: Significant improvements in Luxlite and Phoenix Lamp's performance. H1FY25 saw some one-off events, with margins reaching double digits at 12-14%.

Suprajit Engineering Ltd- Q4FY24 Concall KTAs

Control Division: Achieved an EBITDA margin of 3% in Q2, 7% in Q3, and 6% YoY. The company aim to surpass an 8% EBITDA margin by FY25.

Revenue Growth: Continued restructuring has led to revenue margin growth, particularly in the automotive sector.

Non-Automotive: Company is integrating Westcon unit in the U.S. with the India unit, which maintains an EBITDA margin of over 30%, and company aim to enhance margins by expanding into high-value non-automotive segments, increasing customer share of wallet and transitioning to better margin profiles.

Warehouse & Contracts: Focus on optimizing warehouse operations and contract management.

Market Pressure: Facing significant pressure in both the US and Europe.

Diversification: Expanding into non-automotive businesses, including rotary and non-cable products.

Global: Continued success in winning global business and expect to have a decent FY25

Cable Division: Performed well, showing strong results. Capex in this segment INR ~500 Mn out of INR 1,800 Mn.

Aftermarket: The aftermarket business was muted after a long period of lull due to the GST COVID effect. Suddenly sees the gray market. Efforts are underway to strengthen this market.

Margin Improvement: Solid margin improvement through cost reduction in operations.

Suprajit Technology: Suprajit Technology and Digital Cluster HTC have showcased innovation and are collaborating with global customers, demonstrating significant and ongoing industry applicability.

Phoenix Lamp: Phoenix and Control Division faced challenges, but operations performed well, and the worst seems to be behind. Q1 is anticipated to be a strong quarter, with a robust outlook both internally and externally, focusing on electronic and global actuation programs.

Capex: Planned capex of INR 1,800 Mn, with 50% for maintenance and 50% for strategic expansion.

One-Off Costs: Relocation of the China plant to take the advantage of lower labour cost. Last two years more than 20% every year, that will continue to be there on the balance P&L, things like China tariffs.

LED Retrofit: Small-scale project with a budget of INR 25 cr.

Suprajit Electronics: Maintained steady state margins, comfortable with double-digit margins. Consolidation of premises expected to yield another good year for the electronics division.

Suprajit Cable Division: Expanding beyond traditional cable products, transitioning towards Suprajit Electronic Division, and securing new business.

Margin Improvement: Anticipated margin improvements and India portion has traditionally been at a good EBITDA margin of 30%+ in non-automotive business, with expectations for recovery.

Brake Products: Collaborating with OEMs for both ICE and EV markets, advancing the braking division with new plant setups. Gaining traction, though the braking division progresses slower due to safety regulations.

Competitive Market: Price competitive bidding happening with some of the customers.

Actuator Development: Focus on actuators for 2-wheelers and PV, including head-rests and seat movement mechanisms.

Digital Panel Development: The business development team is focusing on actuator and digital panel innovation.

Inorganic Opportunities: The management noted stress among incumbent players due to the global slowdown and intense price competition, creating opportunities for consolidation. They are exploring inorganic growth in their core cable business and related products. Suprajit's financial stability gives it an advantage in pursuing these opportunities as others struggle in the challenging market conditions.

Speedometer Development: Continuing advancements in speedometer technology. Internal manufacturing also started supporting Phoenix lamps for their led retro kit lamps as well as for SCD for exports of controller boards. This is expected to ramp up significantly in the coming year after certain reorganization. From Q1 onwards will be including mechanical speedometers.

DCF Valuation

Valuation Assumptions

Risk free rate	7%
Risk premium	10%
Beta (2 yr)	0.76
Terminal Growth rate	3%
CMP (INR)	438

WACC

We	90.7%
Wd	9.3%
Ke	9.4%
Kd	5.9%
WACC	9.06%

Valuation Data

Total Debt (long term borrowings) (2024)	1,823
Cash & Cash Equivalents (2024)	1,155
Number of Diluted Shares (2024)	138
Tax Rate (2025)	26%
Interest Expense Rate (2025)	8%

MV of Equity	60,645
Total Debt	6,239

Total Capital 66,884

FCFF & Target Price

FCFF & Target Price	Explicit Forecast Period											Terminal Year
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	
EBIT * (1-Tax Rate)	1,789	2,147	2,654	3,211	3,804	4,407	4,993	5,528	5,978	6,311	6,501	6,696
Dep	1,344	1,470	1,616	2,189	2,505	2,863	3,312	3,633	3,926	4,160	4,275	4,275
Purchase of Assets	1,262	1,407	1,609	2,106	2,431	2,793	3,209	3,530	3,816	4,039	4,154	6,886
Changes in Working Capital	-850	-690	-957	-1,239	-1,354	-1,619	-1,846	-2,014	-2,195	-2,316	-2,380	-2,456
FCFF	2,721	2,901	3,618	4,534	5,231	6,096	6,940	7,644	8,282	8,748	9,002	6,541
% Growth in Post Tax EBIT		20%	24%	21%	18%	16%	13%	11%	8%	6%	3%	3%
As % of Post Tax EBIT												
Dep	75%	68%	61%	68%	66%	65%	66%	66%	66%	66%	66%	66%
Purchase of Assets	71%	66%	61%	66%	64%	63%	64%	64%	64%	64%	64%	64%
Changes in Working Capital	-48%	-32%	-36%	-39%	-36%	-37%	-37%	-36%	-37%	-37%	-37%	-37%
FCFF	2,721	2,901	3,618	4,534	5,231	6,096	6,940	7,644	8,282	8,748	9,002	6,541
Terminal Value												1,02,395
Total Cash Flow	2,721	2,901	3,618	4,534	5,231	6,096	6,940	7,644	8,282	8,748	9,002	1,08,936

Enterprise Value (EV)	74929
Less: Debt	1823
Add: Cash	1155
Equity Value	74261

Equity Value per share (INR) 538

% Returns 23%

Rating BUY

WACC (%)

	Terminal Growth(%)									
	2.0%	2.3%	2.5%	2.8%	3.0%	3.3%	3.5%	3.8%	4.0%	
538										
8.1%	529	542	556	571	587	604	623	644	666	
8.3%	518	531	544	559	574	591	610	629	651	
8.6%	507	519	533	547	562	578	596	616	637	
8.8%	497	509	521	535	550	566	583	602	623	
9.1%	486	498	510	524	538	554	571	589	609	
9.3%	476	488	500	513	527	542	558	576	596	
9.6%	467	478	489	502	516	531	547	564	583	
9.8%	457	468	479	492	505	519	535	552	570	
10.1%	448	458	470	482	494	508	524	540	558	

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

Story in charts (INR Mn)

Exhibit 3 : Continued restructuring has led to revenue margin growth

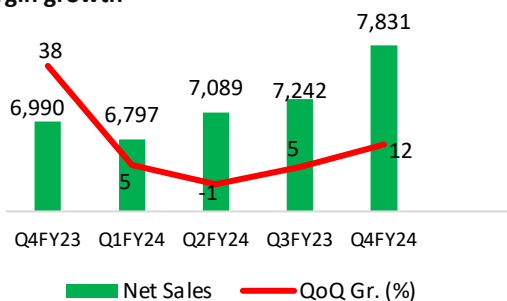


Exhibit 4: Improving operational efficiencies is aiding margin expansion across divisions

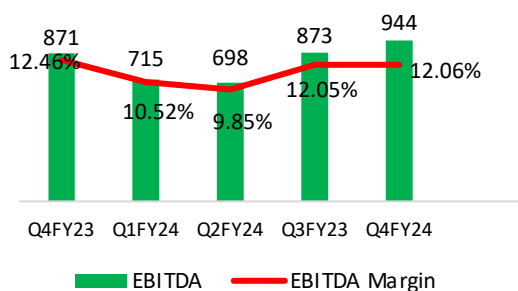


Exhibit 5: Profitability increased on the back of significant order wins

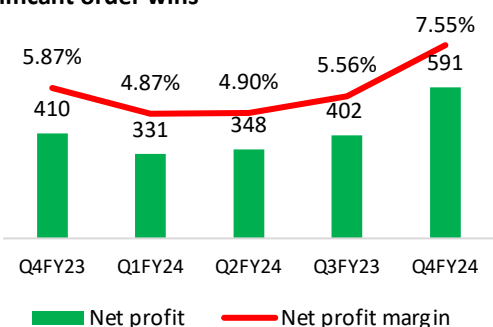


Exhibit 6: EPS trajectory on positive momentum

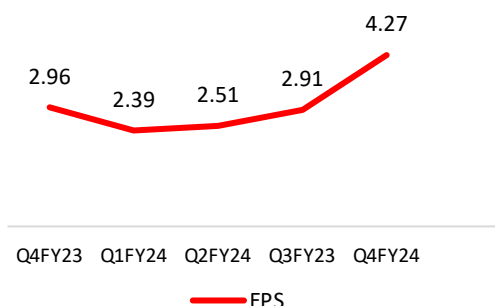


Exhibit 7: Expanding into high-value non-automotive segments to enhance margins

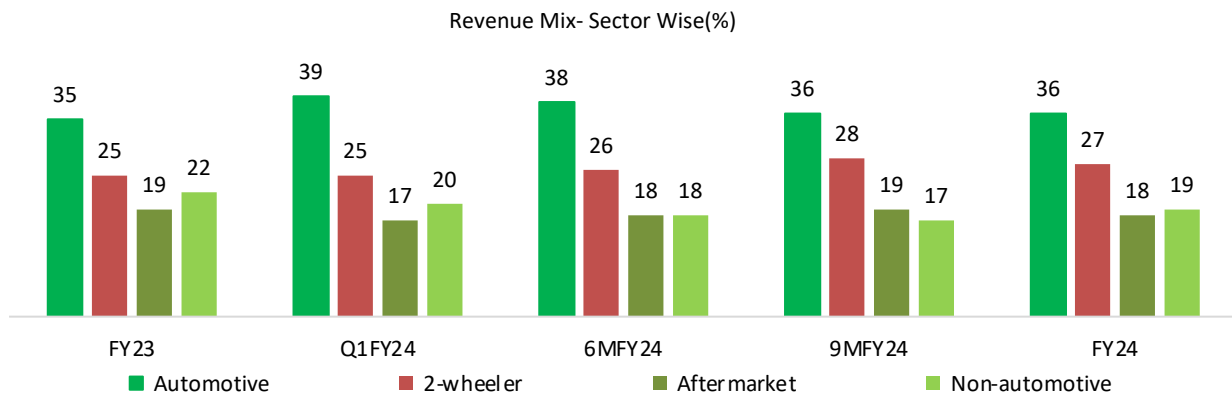
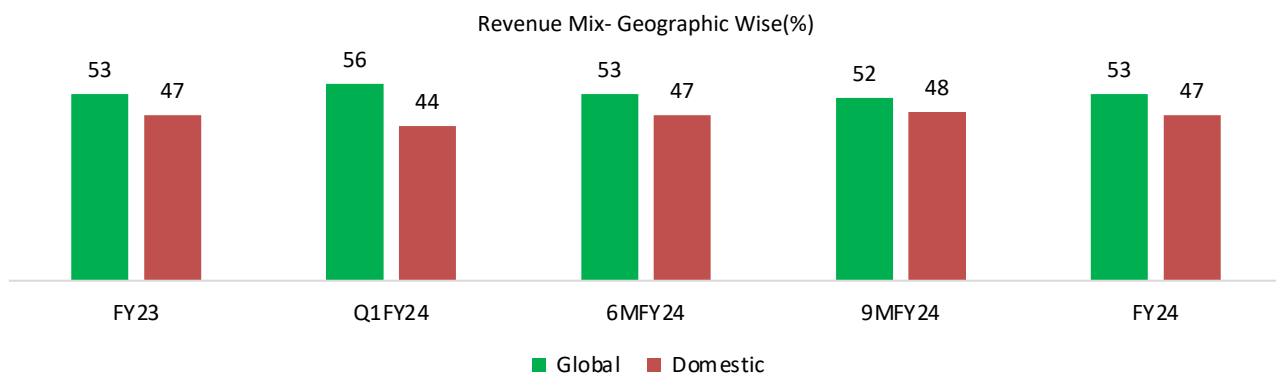


Exhibit 8: Strong domestic performance across divisions, driven by growth in core markets



Source: Company, Aриhant Research

Key Financials

Income statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Gross Sales	27,524	28,959	31,542	35,180	40,233
Net Sales	27,524	28,959	31,542	35,180	40,233
YoY (%)	49.5%	5.2%	8.9%	11.5%	14.4%
Adjusted COGS	16,169	16,982	18,301	20,288	23,060
YoY (%)	49.9%	5.0%	7.8%	10.9%	13.7%
Personnel/ Employee benefit expenses	5,744	6,206	6,744	7,504	8,562
YoY (%)	70.8%	8.0%	8.7%	11.3%	14.1%
Manufacturing & Other Expenses	2,604	2,540	2,735	3,015	3,408
YoY (%)	57.4%	-2.5%	7.7%	10.2%	13.0%
Total Expenditure	24,517	25,729	27,780	30,807	35,031
EBITDA	3,006	3,230	3,762	4,372	5,203
YoY (%)	15.7%	7.4%	16.5%	16.2%	19.0%
EBITDA Margin (%)	10.9%	11.2%	11.9%	12.4%	12.9%
Depreciation	955	1,037	1,344	1,470	1,616
% of Gross Block	10.5%	9.4%	11.0%	10.8%	10.6%
EBIT	2,052	2,192	2,418	2,902	3,586
EBIT Margin (%)	7.5%	7.6%	7.7%	8.2%	8.9%
Interest Expenses	356	514	517	539	567
Non-operating/ Other income	506	599	653	728	815
PBT	2,202	2,278	2,554	3,091	3,835
Tax-Total	681	720	766	927	1,064
Adj. Net Profit	1,521	1,558	1,788	2,164	2,771
Reported Profit	1,521	1,558	1,788	2,164	2,771
PAT Margin	5.5%	5.4%	5.7%	6.1%	6.9%
Shares o/s/ paid up equity sh capital	138	138	138	138	138
Adj EPS	11.0	11.3	12.9	15.6	20.0
Dividend per share	2.0	2.2	2.5	2.8	3.0
Dividend payout (%)	18.7%	19.9%	19.4%	17.6%	15.0%
Retained earnings	1,237	1,247	1,442	1,783	2,355

Balance sheet (INR Mn)					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Equity Share Capital	138	138	138	138	138
Reserves & Surplus/ Other Equity	12,106	13,483	14,925	16,708	19,063
Networth	12,245	13,622	15,063	16,846	19,202
Unsecured Loans/ Borrowings/ Lease Liabilities	7,175	7,081	7,300	7,581	7,926
Other Liabilities	766	580	606	606	607
Total Liabilities	24,345	25,794	27,629	30,046	33,339
Total Funds Employed	12,100	12,173	12,566	13,200	14,137
Application of Funds					
Net Fixed Assets	5,884	8,079	8,515	9,091	9,028
Capital WIP	274	72	72	72	72
Investments/ Notes/ Fair value measurement	25	1	1	1	1
Current assets	15,622	16,697	17,957	20,437	23,735
Inventory	4,826	4,449	5,134	5,748	6,598
Days	93	100	101	102	103
Debtors	4,608	5,185	5,703	6,361	7,275
Days	61	65	66	66	66
Other Current Assets	760	781	980	1,226	1,535
Cash and Cash equivalent	1,001	1,155	500	899	1,503
Current Liabilities/Provisions	8,154	8,925	9,494	10,311	11,411
Creditors / Trade Payables	2,923	3,281	3,370	3,663	4,189
Days	39	41	39	38	38
Liabilities	887	826	864	904	945
Provisions	348	406	426	447	469
Net Current Assets	7,468	7,773	8,463	10,126	12,324
Total Asset	24,345	25,794	27,629	30,046	33,338
Total Capital Employed	16,877	18,022	19,166	19,920	21,015
Net Current Assets	15,622	16,697	17,957	20,437	23,735
Total assets	24,345	25,794	27,629	30,046	33,338
Net working capital	7,468	7,773	8,463	10,126	12,324

Cash Flow Statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	1,521	1,558	1,788	2,164	2,771
Adjustments: Add					
Depreciation and amortisation	955	1,037	1,344	1,470	1,616
Interest adjustment	356	514	517	539	567
Adjustments: Less					
Other changes	-506	-599	-653	-728	-815
Change in assets and liabilities	2,325	2,510	2,995	2,164	2,771
Inventories	-1,393	377	-685	-614	-850
Trade receivables	-1,637	-577	-518	-658	-914
Trade payables	984	357	90	292	526
Other Liabilities and provisions	1,425	506	479	524	573
Other Assets	-251	-194	-215	-234	-293
Taxes	-189	-196	0	0	0
Net cash from operating activities	1,549	3,094	2,491	3,136	3,597
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-3,329	-1,272	-1,919	-1,407	-1,611
Net Sale/(Purchase) of investments	-1,833	-676	-513	-564	-620
Others	414	562	653	728	815
Net cash (used) in investing activities	-4,748	-1,386	-1,779	-1,243	-1,416
Interest expense	3,101	-556	-203	-182	-164
Dividend paid	-284	-311	-346	-381	-415
Other financing activities	-429	-724	-836	-920	-981
Net cash (used) in financing activities	2,389	-1,591	-1,385	-1,483	-1,561
Closing Balance	1,069	1,186	513	923	1,543
FCF	3,655	4,697	4,474	5,000	5,665
Capex as % of sales	7.7%	5.5%	4.0%	4.0%	4.0%

Key Ratios					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Solvency Ratios					
Debt / Equity	0.52	0.46	0.43	0.40	0.37
Net Debt / Equity	0.45	0.38	0.40	0.35	0.29
Debt / EBITDA	2.13	1.93	1.72	1.54	1.36
Current Ratio	1.82	1.58	1.59	1.34	1.08
DuPont Analysis					
Sales/Assets	1.13	1.12	1.14	1.17	1.21
Assets/Equity	1.99	1.89	1.83	1.78	1.74
RoE	12.42%	11.44%	11.87%	12.84%	14.43%
Per share ratios					
Reported EPS	10.99	11.25	12.91	15.63	20.01
Dividend per share	2.05	2.24	2.50	2.75	3.00
BV per share	88.48	98.38	108.79	121.67	138.68
Cash per Share	7.23	8.34	3.61	6.49	10.86
Revenue per Share	198.88	209.15	227.80	254.08	290.58
Profitability ratios					
Net Profit Margin (PAT/Net sales)	5.53%	5.38%	5.67%	6.15%	6.89%
Gross Profit / Net Sales	41.25%	41.36%	41.98%	42.33%	42.68%
EBITDA / Net Sales	10.92%	11.15%	11.93%	12.43%	12.93%
EBIT / Net Sales	7.45%	7.57%	7.67%	8.25%	8.91%
ROCE (%)	12.67%	13.00%	13.33%	14.70%	16.36%
Activity ratios					
Inventory Days	93.22	99.68	95.57	97.90	97.71
Debtor Days	50.26	61.72	63.00	62.59	61.85
Creditor Days	54.89	66.67	66.32	63.26	62.14
Leverage ratios					
Interest coverage	5.77	4.27	4.68	5.38	6.33
Debt / Asset	0.26	0.24	0.23	0.22	0.21
Valuation ratios					
EV / EBITDA	22.00	20.36	17.71	15.21	12.74
EV / EBIT	32.23	30.00	27.55	22.92	18.48
EV / Net Sales	2.40	2.27	2.11	1.89	1.65
PE(x)	39.85	38.92	33.92	28.03	21.89

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880