

Suprajit Engineering

BUY

INDUSTRY	AUTOS
CMP(as on 22 Nov 2016)	Rs 180
Target Price	Rs 231
Nifty	8,002
Sensex	25,961

KEY STOCK DATA

Bloomberg	SEL IN
No. of Shares (mn)	131
MCap (Rsbn) / (\$ mn)	24/346
6m avg traded value (Rsmn)	17

STOCK PERFORMANCE (%)

52 Week high / low	Rs 238 / 120		
	3M	6M	12M
Absolute (%)	(7.8)	11.0	26.6
Relative (%)	(0.6)	8.3	26.3

SHAREHOLDING PATTERN (%)

Promoters	47.37
FIs & Local MFs	8.01
FIIIs	7.52
Public & Others	37.10

Source : BSE

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Well wired

Suprajit Engineering (SEL) has a enviable track record of reporting robust (20%+) revenue/APAT CAGR over the past decade further complemented by best-in-class RoCEs (30%+) driven by customer diversification, prudent cost control, market share gain and high capital efficiency.

The acquisitions of Phoenix Lamps (PLL) and Wescon Controls will help reduce its exposure to mechanical cables and provide avenues to expand its non-auto and export business.

The quarter gone by for SEL indicates a minor blip especially PLL where revenue dropped by 14% YoY and the management attributed the reason to preponement of revenue to 1Q.

We believe SEL's next phase of growth will be driven by increase in content/vehicle with mandatory implementation of ABS/CBS in domestic 2Ws, increasing share in the global non-auto business (through Wescon) and focus on the aftermarket business (both cables and lamps).

We have trimmed our FY17/18E earnings by to factor disappointment at PLL in 2Q and short term hiccups due to demonetisation. **Maintain BUY with a revised TP of Rs 231 (18x SEL's consolidated Sep-18E EPS).**

Takeaways from the call

- **Improving SOB to reduce dependence on 2Ws:** The management indicated that the current revenue mix on a consolidated basis stands at 52:33:10:5 vs

40:25:32:3 (2W: 4W: aftermarket: non-auto) which helps in diversifying revenue concentration from 2Ws.

- **New products/acquisitions to provide option value:** New products like parking brake lever, gear shifter and new acquisitions of Phoenix Lamps and Wescon Controls will provide option value
- **Guidance intact:** Despite weak performance from PLL in 2Q, the management is very positive that it will outperform the industry by 5-10% in FY17. Also the EBIDTA margin is expected to be stable in the range of 16-18% driven by synergy benefits (PLL and Wescon acquisition) and higher content/vehicle contribution to OEMs.
- **Near-term outlook:** We expect near-term hiccups owing to demonetisation to impact domestic aftermarket sales and can also result in slowdown in auto OE volumes in Dec'16. However, the management is confident of offsetting this with higher exports.

Consolidated Financial Summary

(Rs bn)	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	6,118	9,525	12,430	15,289	18,643
EBITDA (adj.)	960	1,543	2,138	2,676	3,300
APAT	503	719	1,169	1,554	2,041
Diluted EPS (Rs)	4.2	5.5	8.4	11.1	14.6
P/E (x)	42.9	30.3	21.5	16.2	12.3
EV / EBITDA (x)	24.4	16.8	13.3	10.2	8.2
RoE (%)	22.6	20.9	23.2	24.8	26.0

Source: Company, HDFC sec Inst Research

YoY/QoQ numbers are not comparable due to Phoenix Lamps (PLL) and Wescon Controls acquisitions. Wescon Controls has been included in the 2Q consolidated financials for 20 days

Revenue growth can be attributed to increase in SOB of HMSI (50%), commencement of supplies to M&M's KUV100 and Renault Kwid and strong growth in aftermarket (21% of consol revenue)

EBIDTA margins improved by 51bps QoQ despite weak performance in PLL led by strong improvement in gross margins

Quarterly Financials Snapshot – SEL (Consolidated)

(Rs mn)	2QFY17	2QFY16	YoY (%)	1QFY17	QoQ (%)
Net sales (incl OOI)	2,816	2,624	7.3	2,544	10.7
Material Expenses	1,628	1,598	1.9	1,488	9.5
Employee Expenses	415	337	23.1	361	15.1
Other Operating Expenses	305	281	8.4	286	6.5
EBITDA	468	408	14.8	410	14.2
Depreciation	53	48	10.7	40	33.0
EBIT	415	360	15.4	370	12.2
Other Income	185	19	855.2	15	1,094.9
Interest Cost	69	63	9.1	61	13.5
PBT	531	316	68.0	325	63.5
Tax	154	101	53.1	102	50.8
PAT	377	215	75.0	223	69.3
Minority Interest	24	15	64.6	26	(5.2)
RPAT after MI	352	201	75.7	197	79.0
EO Items (Adj For Tax)	(60)	(17)	255.3	-	-
APAT after EOI	292	184	59.2	197	48.4
Adj EPS	2.2	1.4	59.2	1.5	48.4

Source: Company, HDFC sec Inst Research

Margin Analysis

	2QFY17	2QFY16	YoY (bps)	1QFY17	QoQ (bps)
Material Expenses as % of Net Sales	57.8	60.9	(308)	58.5	(65)
Employee Expenses as % of Net Sales	14.7	12.9	189	14.2	56
Other Expenses as % of Net Sales	10.8	10.7	10	11.2	(42)
EBITDA Margin (%)	16.6	15.5	109	16.1	51
Tax rate (%)	29.1	31.9	(283)	31.5	(243)
APAT Margin (%)	10.4	7.0	338	7.7	264

Source: Company, HDFC sec Inst Research

Standalone revenue grew 14% YoY to Rs 1.7bn, led by similar growth in 2W and PV production numbers and increase in HMSI's wallet share to 40%+. The management is confident of exiting FY17E with a wallet share of 50%

EBITDA margin rose 50bps QoQ to 17.4%, below estimates due to higher RM/sales

Redemption of FMPs aided in higher other income

SEL's new facility at Chennai has become operational and trials of Yamaha have begun. Thereafter, SEL will start supplies to Royal Enfield and Tier I players. The management indicated that production will start in 3QFY17

The vacant capacity at the Sanand plant dedicated for HMSI is planned to be used for other OEMs in the vicinity like Maruti, Hero

Quarterly Financials Snapshot – SEL (Standalone)

(Rs mn)	2QFY17	2QFY16	YoY (%)	1QFY17	QoQ (%)
Net sales (incl OOI)	1,695	1,482	14.4	1,435	18.2
Material Expenses	1,066	930	14.6	869	22.7
Employee Expenses	207	180	15.1	200	3.5
Other Operating Expenses	128	108	18.3	124	2.9
EBITDA	295	264	11.5	242	21.9
Depreciation	26	20	27.6	23	12.3
EBIT	269	244	10.1	219	22.9
Other Income	148	4	3,559.7	21	621.2
Interest Cost	51	45	14.1	49	4.9
PBT	365	203	79.9	190	92.1
Tax	98	65	51.9	62	58.6
RPAT	267	138	93.1	128	108.4
EO Items (Adj For Tax)	(43)	(17)	151.6	-	-
APAT after EOI	224	121	84.9	128	75.1

Source: Company, HDFC sec Inst Research

Margin Analysis

	2QFY17	2QFY16	YoY (bps)	1QFY17	QoQ (bps)
Material Expenses as % of Net Sales	62.9	62.8	11	60.6	231
Employee Expenses as % of Net Sales	12.2	12.1	8	13.9	(172)
Other Expenses as % of Net Sales	7.5	7.3	25	8.6	(112)
EBITDA Margin (%)	17.4	17.8	(45)	16.9	53
Tax rate (%)	27.0	31.9	(498)	32.7	(570)
APAT Margin (%)	13.2	8.2	504	8.9	430

Source: Company, HDFC sec Inst Research

PLL reported revenue de-growth of 18% YoY on account of preponement of sales to 1Q

EBIDTA margin rose to 15.8% (+420bps QoQ) owing to favourable mix (lower share of subsidiaries)

Management has indicated new business/customers to come in from FY18 post the new H7 lamps line. The line is expected to be operational from 4QFY17

H7 is a high-end bulb used in sedans. Currently, PLL supplies the requirement for H7 from old lines. The management indicated that the new line is better in quality as per requirement by customers like Hella. The new product will be discontinued from Trifa and will be sold under the Phoenix India brand

Quarterly Financials Snapshot – PLL (Consolidated)

(Rs mn)	2QFY17	2QFY16	YoY (%)	1QFY17	QoQ (%)
Net sales (incl OOI)	727	885	(17.9)	856	(15.1)
Material Expenses	389	556	(30.1)	501	(22.4)
Employee Expenses	115	117	(0.9)	116	(0.5)
Other Operating Expenses	108	110	(2.1)	122	(11.5)
EBITDA	115	103	11.8	118	(2.4)
Depreciation	17	25	(33.7)	12	33.3
EBIT	98	78	26.6	105	(6.6)
Other Income	27	1	2,922.8	5	403.0
Interest Cost	9	13	(34.5)	9	0.6
PBT	116	65	77.9	102	14.0
Tax	35	25	40.6	34	0.9
APAT	81	41	100.5	67	20.6
Adj EPS	2.3	1.4	57.2	2.4	(5.4)

Source: Company, HDFC sec Inst Research

Margin Analysis

	2QFY17	2QFY16	YoY (bps)	1QFY17	QoQ (bps)
Material Expenses as % of Net Sales	53.5	62.8	(933)	58.5	(500)
Employee Expenses as % of Net Sales	15.9	13.2	274	13.6	233
Other Expenses as % of Net Sales	14.8	12.4	239	14.2	61
EBITDA Margin (%)	15.8	11.6	421	13.7	206
Tax rate (%)	29.9	37.8	(792)	33.8	(388)
APAT Margin (%)	11.2	4.6	662	7.9	332

Source: Company, HDFC sec Inst Research

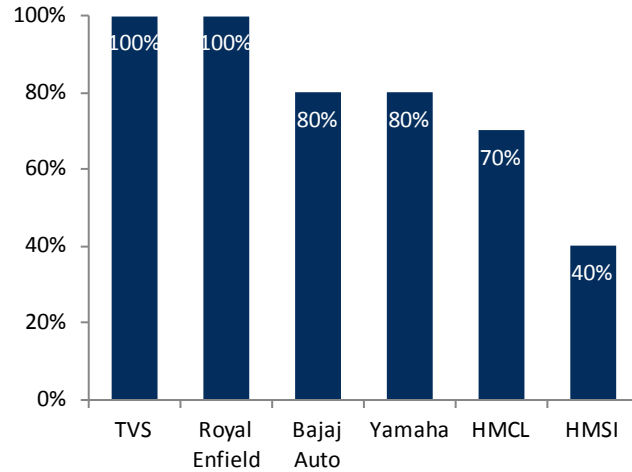
SEL has a strong portfolio of 2W OEMs as its clientele with their SOB ranging from 70-100%. Over the last few years, SEL has SOB from HMSI has moved up sharply from 25% to 40%+ as of Sep-16

The issue of concentration of revenue from 2Ws has been tackled with through the acquisition of PLL, whose niche focus is the aftermarket. Going ahead, we expect the non-auto contribution to also increase with incremental revenues from Wescon Controls (acquired in Sep-16, focus on global non-auto)

We expect revenue/EBIDTA margin to expand at 25% CAGR/150bps over FY16-19E led by robust growth from diversification into exports (aftermarket and non-auto)

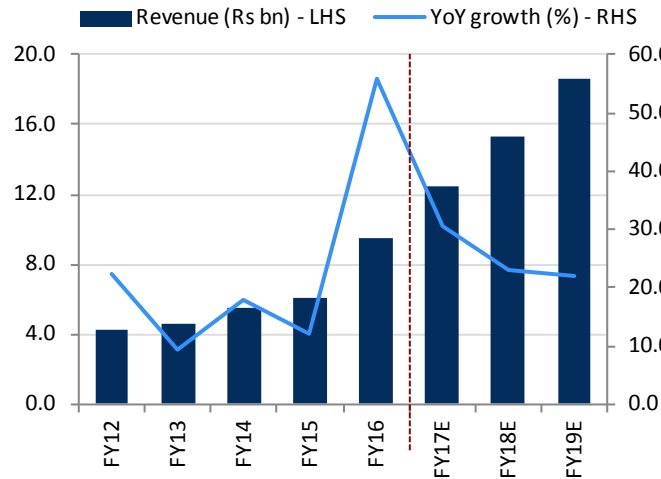
The story through charts

Well-entrenched Portfolio Across 2W OEMs



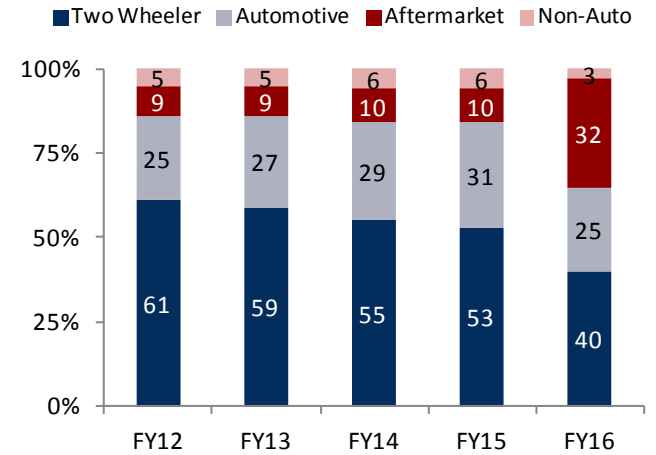
Source: Company, HDFC sec Inst Research
* SEL

Strong Growth Led By Diversified Exports And Aftermarket



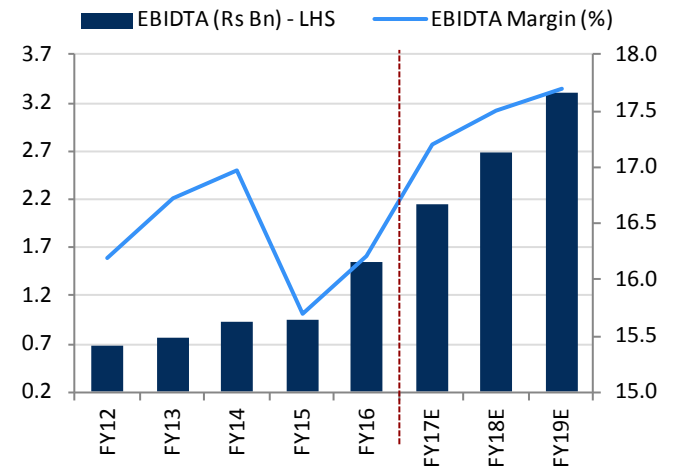
Source: Company, HDFC sec Inst Research
* SEL Consol (incl PLL)

Acquisition Aids In Reducing Dependence On 2Ws



Source: Company, HDFC sec Inst Research
* SEL Consol (incl PLL)

Favourable Mix To Aid In EBIDTA Margin Expansion Over FY16-19E

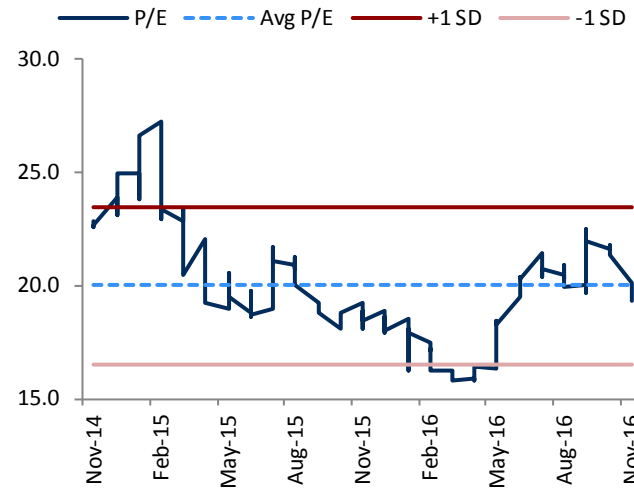


Source: Company, HDFC sec Inst Research
* SEL Consol (incl PLL)

Our revised SOTP-based TP stands at Rs 231 (18x on Sep-18E)

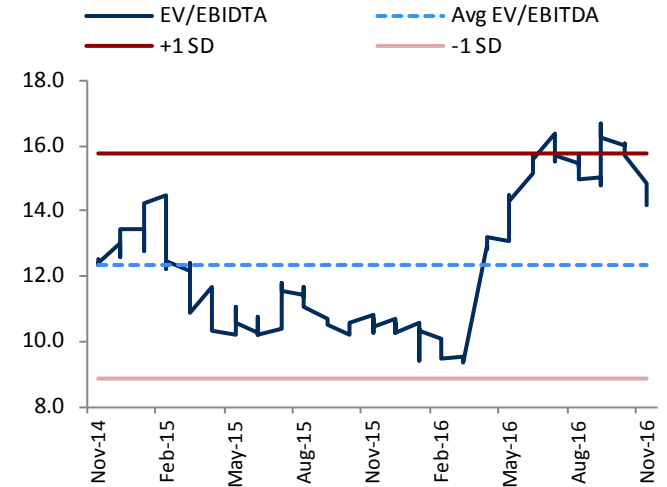
We have cut our earnings and estimates to factor in near term impact of demonetisation and weak results of PLL

One-year Forward P/E Chart



Source: Company, Bloomberg, HDFC sec Inst Research

One-year Forward EV/EBITDA Chart



Source: Company, Bloomberg, HDFC sec Inst Research

Change In Estimates (SEL Consol)

In Rs mn	New		Old		% chg	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Net Sales	12,430	15,538	14,554	16,887	(14.6)	(8.0)
EBITDA	2,138	2,719	2,474	2,938	(13.6)	(7.5)
Adj PAT	1151	1617	1337	1745	(13.9)	(7.3)
Adj EPS (in Rs)	8.2	11.6	9.6	12.5	(13.9)	(7.3)

Source: HDFC sec Inst Research

2Q has been a good quarter for SEL (on both margins and revenue) and PLL (on margins). However, growth at SEL (14%) was in line with the auto industry growth (14%)

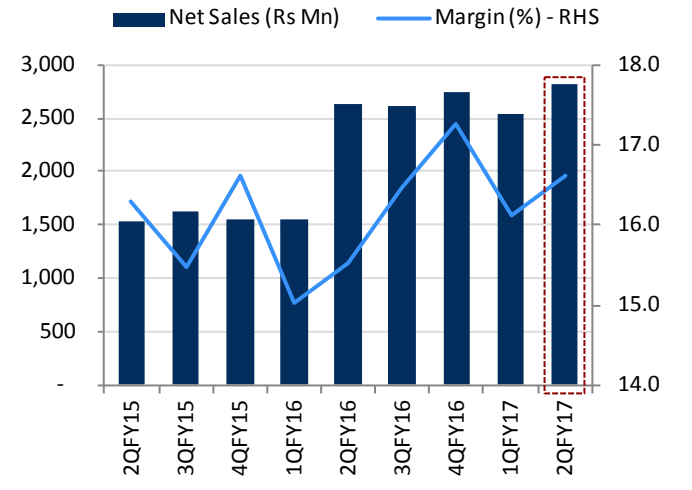
Standalone mix remained stable QoQ. In 2Ws, the share of business from HMSI has improved to 50%

Lower share of sales from subsidiaries (preponement of sales to 1Q) led to revenue decline for PLL

PLL's margins were better despite revenue de-growth led to favourable mix

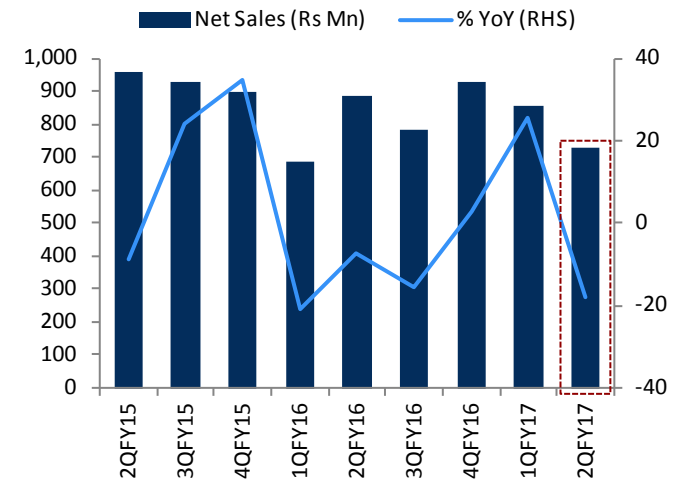
Quarter gone by

Strong Performance



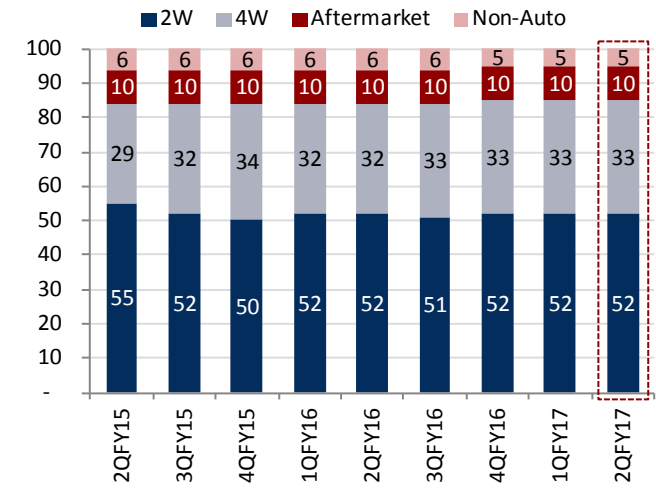
Source: Company, HDFC sec Inst Research
* SEL Consol (incl PLL)

PLL- Preponement Of Sales To 1Q



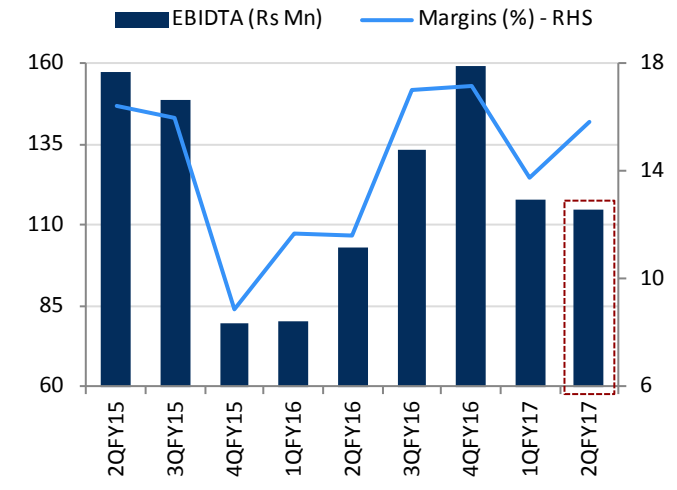
Source: Company, HDFC sec Inst Research
* PLL

Overall Mix Remains Stable



Source: Company, HDFC sec Inst Research
* SEL Consol (ex PLL)

Favourable Mix Aided Margin Expansion



Source: Company, HDFC sec Inst Research
* PLL

INSTITUTIONAL RESEARCH

Peer Valuation

	Mcap (Rsbn)	CMP (Rs/sh)	Rating	TP	Adj EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			RoE (%)		
					FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Bharat Forge	204	876	BUY	968	25.9	27.4	33.4	33.8	32.0	26.2	15.6	15.2	13.1	18.5	17.1	18.5
Exide Industries	148	175	BUY	223	6.5	6.8	8.3	26.8	25.8	21.1	16.1	14.8	12.4	14.2	16.2	21.8
Balkrishna Industries	93	966	UR	-	58.3	58.5	71.7	16.6	16.5	13.5	9.7	8.7	6.9	22.1	18.6	19.4
Suprajit Engineering	24	180	BUY	231	5.5	8.4	11.1	32.7	21.5	16.2	16.8	12.5	9.6	20.9	23.2	24.8
Jamna Auto	14	175	BUY	222	9.0	12.4	14.8	19.4	14.1	11.8	8.9	6.9	5.8	32.5	36.0	34.6
Ramkrishna Forgings	8	275	BUY	474	19.1	22.0	30.5	14.4	12.5	9.0	9.6	7.8	6.5	12.4	12.6	15.6
Lumax Autotech	7	393	BUY	673	23.3	31.8	40.7	16.8	12.3	9.7	10.7	8.2	6.3	11.7	14.5	16.5

Source: Company, HDFC sec Inst Research

Income Statement (Consolidated)

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Net Revenues	6,118	9,525	12,430	15,289	18,643
Growth (%)	12.2	55.7	30.5	23.0	21.9
Material Expenses	3,729	5,635	7,309	8,975	11,055
Employee Expenses	826	1,253	1,616	1,972	2,424
Other Operating Expenses	603	1,093	1,367	1,667	1,864
EBITDA	960	1543	2138	2676	3300
EBITDA Margin (%)	15.7	16.2	17.2	17.5	17.7
EBITDA Growth (%)	3.8	60.7	38.5	25.1	23.3
Depreciation	90	158	249	288	253
EBIT	870	1385	1889	2388	3047
Other Income (Including EO Items)	41	155	167	176	196
Interest	164	250	283	279	275
PBT	747	1291	1773	2285	2968
Tax (Incl Deferred)	245	431	567	731	890
Minority Interest	-	84	54	-	-
RPAT	503	776	1151	1554	2077
EO (Loss) / Profit (Net Of Tax)	-	57	-	-	-
APAT	503	719	1151	1554	2077
APAT Growth (%)	-1.1	43.1	60.1	34.9	33.7
Adjusted EPS (Rs)	4.2	5.5	8.2	11.1	14.8
EPS Growth (%)	-1.1	31.3	49.6	34.9	33.7

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital - Equity	120	131	140	140	140
Reserves	2,288	4,344	5,450	6,822	8,624
Total Shareholders Funds	2,408	4,475	5,590	6,962	8,764
Minority Interest	-	542	542	-	-
Long Term Debt	928	1,582	1,232	1,082	1,082
Short Term Debt	1,005	1,005	2,206	1,871	1,319
Total Debt	1,933	2,586	3,438	2,953	2,400
Net Deferred Taxes	91	107	107	107	107
Long Term Provisions & Others	91	171	154	185	217
TOTAL SOURCES OF FUNDS	4,523	7,881	9,831	10,207	11,489
APPLICATION OF FUNDS					
Net Block	1,680	2,271	4,606	4,651	4,744
CWIP	170	144	233	246	-
Goodwill	-	1,066	850	-	-
Investments	0	-	-	-	-
LT Loans & Advances	69	181	226	237	285
Total Non-current Assets	1,919	3,662	5,915	5,134	5,029
Inventories	799	1,669	2,111	2,597	2,962
Debtors	1,250	2,096	2,656	3,016	3,882
Other Current Assets	144	447	560	607	712
Cash & Equivalents	1,173	1,706	643	1,472	1,359
Total Current Assets	3,367	5,918	5,971	7,692	8,915
Creditors	568	944	1,226	1,676	1,416
Other Current Liabilities & Provns	195	755	828	944	1,040
Total Current Liabilities	763	1,699	2,054	2,619	2,456
Net Current Assets	2,604	4,219	3,917	5,073	6,459
TOTAL APPLICATION OF FUNDS	4,523	7,882	9,831	10,207	11,489

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

(Rs mn)	FY15	FY16	FY17E	FY18E	FY18E
Reported PBT	747	1,291	1,799	2,286	2,915
Non-operating & EO items	-	(141)	(54)	-	-
Interest expenses	164	250	257	279	327
Depreciation	90	158	249	288	253
Working Capital Change	(81)	(1,115)	(707)	(343)	(1,771)
Tax Paid	(245)	(431)	(576)	(731)	(875)
OPERATING CASH FLOW (a)	676	11	968	1,778	849
Capex	(409)	(723)	(2,673)	(346)	(100)
Free cash flow (FCF)	267	(711)	(1,705)	1,432	749
Investments	5	0	-	-	-
Non-operating Income	11	(581)	290	308	(0)
INVESTING CASH FLOW (b)	(393)	(1,304)	(2,384)	(38)	(100)
Debt Issuance/(Repaid)	373	653	737	(450)	(297)
Interest Expenses	(164)	(250)	(257)	(279)	(327)
FCFE	804	192	(711)	1,261	779
Share Capital Issuance	-	1,505	9	-	-
Dividend	(137)	(84)	(137)	(182)	(239)
FINANCING CASH FLOW (c)	72	1,825	352	(911)	(863)
NET CASH FLOW (a+b+c)	355	532	(1,063)	829	(113)
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	1,174	1,706	643	1,472	1,359

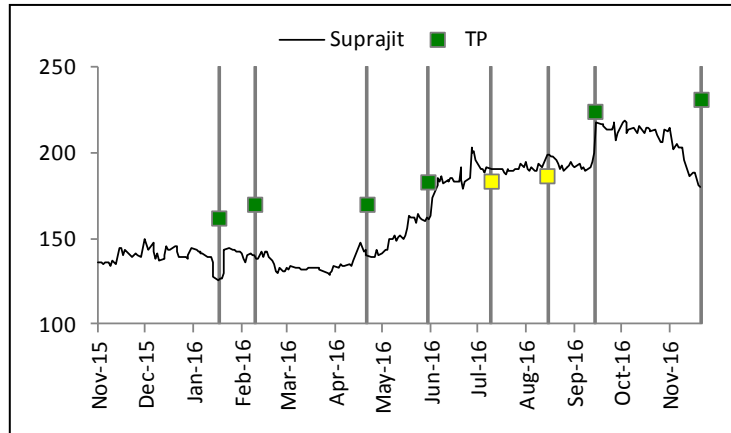
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY15	FY16	FY17E	FY18E	FY18E
PROFITABILITY (%)					
GPM	39.0	40.8	41.2	41.3	40.7
EBITDA Margin	15.7	16.2	17.2	17.5	17.7
APAT Margin	8.2	7.5	9.4	10.2	10.9
RoE	22.6	20.9	23.2	24.8	26.0
RoIC (or Core RoCE)	11.9	12.8	13.1	15.5	19.2
RoCE	15.1	14.6	15.6	17.9	21.2
EFFICIENCY					
Tax Rate (%)	32.7	33.4	32.0	32.0	30.0
Fixed Asset Turnover (x)	2.5	2.9	2.1	2.5	2.9
Inventory (days)	47.7	64.0	62.0	62.0	58.0
Debtors (days)	74.6	80.3	78.0	72.0	76.0
Other Current Assets (days)	8.6	17.1	16.4	14.5	13.9
Payables (days)	33.9	36.2	36.0	40.0	27.7
Other Current Liab & Provs (days)	11.6	28.9	24.3	22.5	20.4
Cash Conversion Cycle (days)	85.4	96.3	96.1	86.0	99.9
Debt/EBITDA (x)	2.0	1.7	1.6	1.1	0.7
Net D/E (x)	0.8	0.5	0.6	0.3	0.2
Interest Coverage (x)	0.2	0.2	0.1	0.1	0.1
PER SHARE DATA (Rs)					
EPS	4.2	5.9	8.4	11.1	14.6
CEPS	5.1	6.9	10.4	13.5	16.9
Dividend	1.0	0.6	0.8	1.1	1.5
Book Value	20.1	34.2	39.9	49.7	62.6
VALUATION					
P/E (x)	42.9	30.3	21.5	16.2	12.3
P/BV (x)	9.0	5.3	4.5	3.6	2.9
EV/EBITDA (x)	24.4	16.8	13.3	10.2	8.2
EV/Revenues (x)	3.8	2.7	2.3	1.8	1.4
OCF/EV (%)	2.9	0.0	3.4	6.5	3.1
FCF/EV (%)	1.1	(2.7)	(6.0)	5.3	2.8
FCFE/Mkt Cap (%)	3.7	0.8	(2.8)	5.0	3.1
Dividend Yield (%)	0.5	0.3	0.5	0.6	0.8

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
18-Jan-16	126	BUY	162
11-Feb-16	139	BUY	170
22-Apr-16	142	BUY	170
1-Jun-16	161	BUY	183
11-Jul-16	191	NEU	183
17-Aug-16	198	NEU	186
16-Sep-16	199	BUY	224
23-Nov-16	180	BUY	231

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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