Suprajit Engineering

Accumulate

DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH• PRECISE• ACTIONABLE

Result Update

On a recovery path

- Surpajit Engineering reported decent numbers amid tough market conditions. Revenue for Q1FY21 de-grew by 51% YoY to Rs. 1.77bn due to production cuts taken by various OEMs owing to lockdown. EBITDA turned negative to Rs. 48mn (vs estimated loss Rs 100mn).
- Phoenix lighting revenue de-grew 49% YoY to Rs 337.3mn while SENA division (non-automotive cable) numbers beat estimates, benefited from temporary supply disruption of its one of competitors. Revenue de-grew 24% YoY to Rs 632.9mn while the company was able to manage a positive margin at 6.3%.
- Management stated that outlook for Q2 is promising with domestic OEM sales back to 90-95% of pre-Covid level. Strong traction was witnessed in the aftermarket demand with growth reported in the months of June and July on a YoY basis. At Wescon, July and August volumes are back to last years' level with pickup in demand.
- The company has undertaken various cost optimization measures, such as reduction in employee expense and improving efficiencies to minimize the impact of Covid-19. Gross debt was at a comfortable level at Rs 3.54bn at Q1FY21 end (vs Rs 3.8bn at FY20 end), with a Net D/E ratio of 0.3x.
- As 2W and the replacement segment together contribute about 65% of overall sales for SEL, we see a quicker recovery in the business after the lockdown is over. We believe recovery in 2W domestic demand, capacity expansion in the cables business (250mn to 300mn cables), increase in content per vehicle, addition of new clients, and new product development in the non-automotive business will potentially support growth in the medium term.
- At CMP, the stock is available at 20/16x of FY22E/FY23EPS, which is lower than its historical mean of 22x. We recommend to Accumulate with TP of Rs 207 (18x FY23E EPS).

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	1,775	3,634	(51.2)	3,890	(54.4)
Total Expense	1,823	3,121	(41.6)	3,341	(45.4)
EBITDA	(48)	513	(109.4)	549	(108.8)
Depreciation	138	128	7.3	145	(4.9)
EBIT	(186)	385	(148.3)	405	(145.9)
Other Income	58	61	(6.0)	42	36.4
Interest	55	66	(16.0)	57	(3.8)
EBT	(183)	380	(148.2)	115	(258.9)
Tax	(38)	132	(128.9)	86	(144.5)
RPAT	(145)	248	(158.4)	30	(588.4)
APAT	(145)	248	(158.4)	304	(147.7)
			(bps)		(bps)
Gross Margin (%)	44.4	43.0	144	41.3	307
EBITDA Margin (%)	(2.7)	14.1	(1683)	14.1	(1684)
NPM (%)	(8.2)	6.8	(1501)	0.8	(894)
Tax Rate (%)	20.8	34.7	(1388)	74.2	(5342)
EBIT Margin (%)	(10.5)	10.6	(2106)	10.4	(2088)

CMP	Rs 181
Target / Upside	Rs 207 / 14%
BSE Sensex	38,461
NSE Nifty	11,372

Scrip Details

Equity / FV	Rs 140mn / Rs 1
Market Cap	Rs 25bn
	USD 338mn
52-week High/Low	Rs 219/Rs 99
Avg. Volume (no)	4,15,114
NSE Symbol	SUPRAJIT
Bloomberg Code	SEL IN EQUITY

Shareholding Pattern Jun'20(%)

Promoters	44.6
MF/Banks/FIs	9.2
FIIs	10.9
Public / Others	35.98

Valuation (x)

	FY21E	FY22E	FY23E
P/E	30.9	20.4	15.7
EV/EBITDA	14.7	10.6	8.5
ROE (%)	9.2	12.8	14.8
RoACE (%)	8.4	11.3	13.0

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	14,083	16,280	18,679
EBITDA	1,720	2,315	2,830
PAT	818	1,241	1,606
EPS (Rs.)	5.9	8.9	11.5

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DOLAT CAPITAL

Core Cable business to outperform industry growth

Management expects the cable business (Automotive) to outperform industry growth, due to increase in content per vehicle, strong replacement volume, and better product mix. Revenue performance of the SENA division is also improving, due to entry into new areas such as agriculture, construction, and power sports vehicles, which will likely drive significant growth in the medium term for the non-automotive segment.

Concall Highlights

SEL Consol

- Management states that despite challenging Q1, outlook for Q2 is promising with domestic sales to OEMs back to almost previous years' levels. Strong traction is observed in the aftermarket demand with growth reported in months of June and July on a YoY basis. Company expects August to be back at 90-95% of last year business with strong Q2 performance.
- Management expects Halogen bulb segment to grow due to increase in sales in the aftermarket division and growth from the overseas market.
- Company is expected to outperform the domestic 2W industry due to increasing content per vehicle and growth in the export and aftermarket divisions.
- Favorable product mix, higher exports and various cost control measures helped to improve gross margin. Employee expenses and other overheads are expected to be low going forward.
- Reallocation of Narsarpura plant may help to increase SOB with Honda from current 55%.
- Non-Automotive division is doing well due to new order wins and ramp up in production facilities.
- Company has won a new order in the cable division for VW for their hybrid vehicle.
- Domestic market share for Cable in 2W- 70% and 4W- 30%.
- Company has started LED bulb production and is currently present in the domestic aftermarket segment.
- Capex plan for FY21 will be restricted only to maintenance capex of up to 2% of revenue.

Wescon

- Overall weakness in the market continues and company is continuously focused on building operational efficiency and restructuring of sales and marketing.
- At Wescon, July and August volumes are back to last years' level with pickup in demand.
- Wescon has received grant of $2.1mn under PPP loan and less than 100k pounds from UK.

Phoenix Lamp

- Trifa and Luxlite are operational. However, company still sees weakness in the South American market due to impact of lockdown.
- At PLD Company is expected to run a third shift from September month.

SENA Business (Suprajit Engineering non-automotive)

- Company expects medium term revenue visibility for Wescon and Sena due to recent supply chain disruption faced by its competitors, new order wins and entry into new segments.

Exhibit 1: Actual vs Dart Estimates

Particular (Rs Mn)	Actual	DART Est	% Variance	Remarks
Revenue	1,775	1,445	23	Better product mix
EBIDTA	(48)	(100)	NA	
EBIDTA %	(2.7)	(6.9)	NA	Efficient cost control measures
PAT	(145)	(184)	NA	

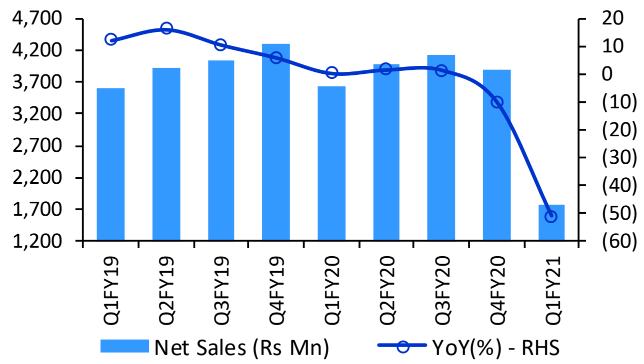
Source: DART, Company

Exhibit 2: Change in Estimates

Rs Mn	FY21E			FY22E		
	New	Previous	% Chg	New	Previous	% Chg
Net sales	14,083	14,691	(4.1)	16,280	16,876	(3.5)
EBITDA	1,720	1,891	(9.0)	2,315	2,492	(7.1)
EBITDA margin(%)	12.21	12.87	-65.7(bps)	14.22	14.76	-54.4(bps)
APAT	818	943	(13.3)	1,241	1,370	(9.4)
EPS	5.9	6.7	(13.3)	8.9	9.8	(9.4)

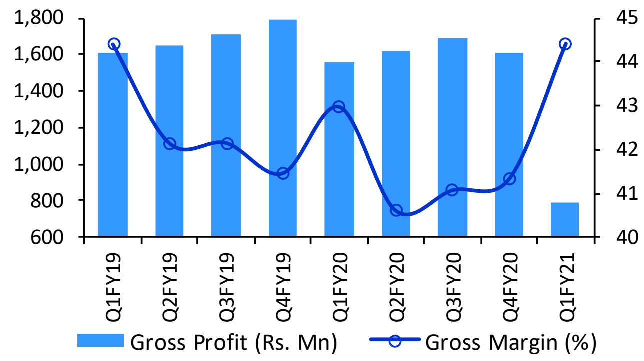
Source: DART, Company

Exhibit 3: Revenue de-grew YoY/ QoQ



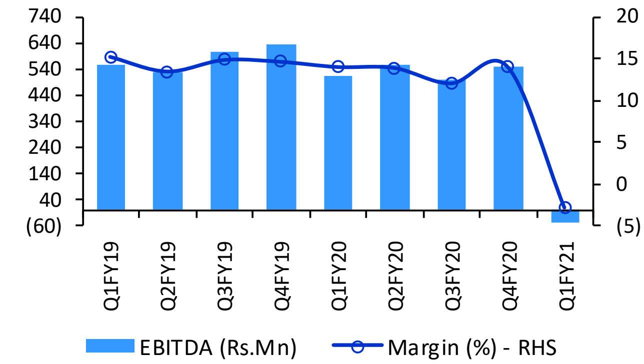
Source: DART, Company

Exhibit 4: Gross Margin improved YoY/QoQ



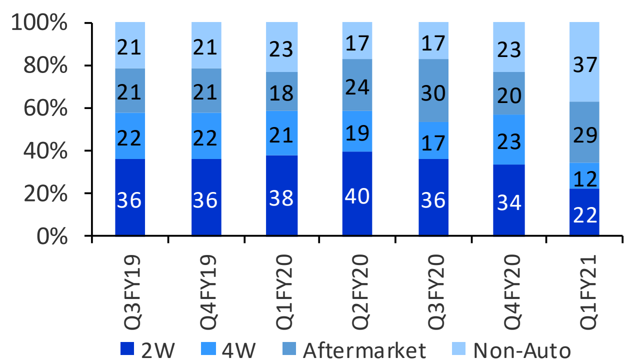
Source: DART, Company

Exhibit 5: EBITDA margin contracted YoY/ QoQ



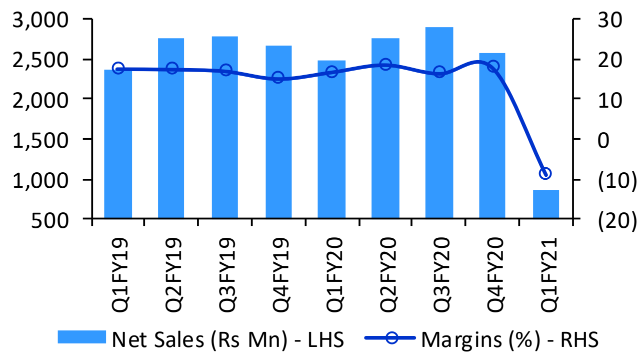
Source: DART, Company

Exhibit 6: Segment mix (%)



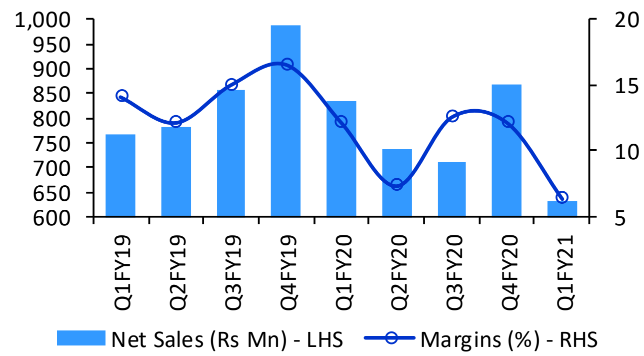
Source: DART, Company

Exhibit 7: Phoenix – Margin turned negative



Source: DART, Company

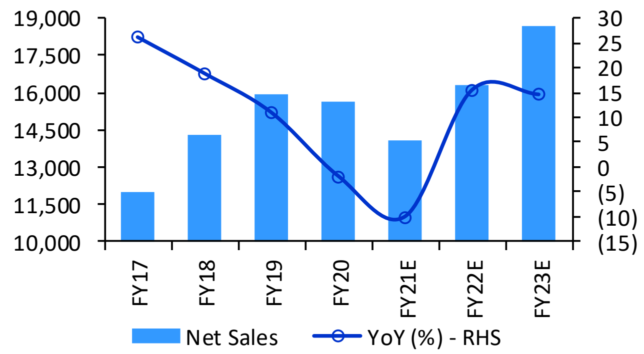
Exhibit 8: SENA –Despite challenging envi. margin remained positive



Source: DART, Company

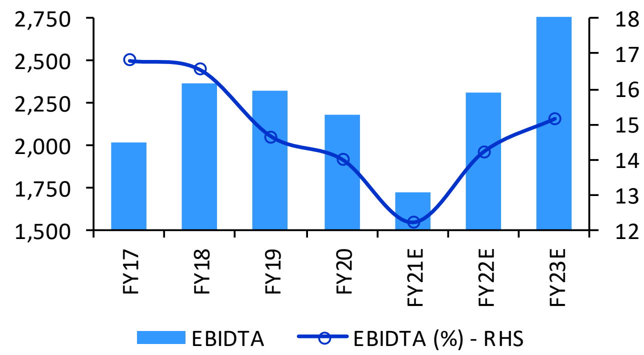
Annual Charts

Exhibit 9: Revenue to improve from FY22



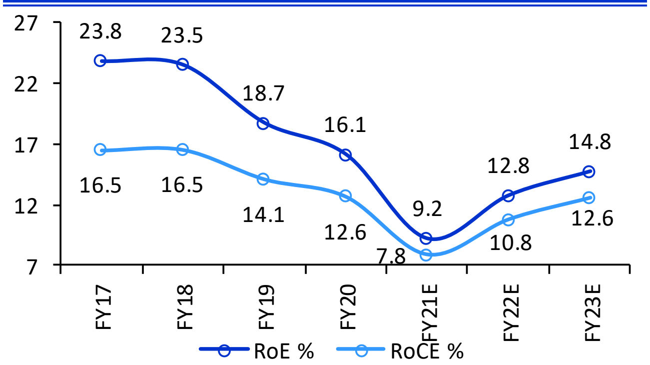
Source: DART, Company

Exhibit 10: EBIDTA margin to inch up



Source: DART, Company

Exhibit 11: RoE/ RoCE trend



Source: DART, Company

Exhibit 12: 1yrs Fwd PE Band

Source: DART, Company

Valuation Matrix

		Mcap	CMP	TP	Upside	Rating	Adj EPS (Rs /sh)				P/E (x)				EV/EBITDA (x)				ROE (%)			
Sr.no.	Auto OEMs	(Rs bn)	(Rs)	(Rs)	(%)		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21	FY22E	FY23E
1	Ashok Leyland	201	69	67	6	Accumulate	0.8	(2.2)	1.7	3.7	77.0	NA	37.6	17.0	17.2	NA	15.1	9.6	3.1	(9.1)	7.0	15.3
2	Bajaj Auto	887	3,065	3,204	3	Reduce	176.2	152.0	177.3	191.8	17.7	20.5	17.6	16.3	17.7	20.6	17.2	16.0	24.5	19.2	18.9	18.6
3	Eicher Motors	603	2,209	2,095	(1)	Sell	66.9	44.9	77.8	95.2	33.0	49.2	28.4	23.2	22.7	30.1	18.4	15.2	19.3	11.8	18.2	19.3
4	Escorts	139	1,135	1,279	10	Accumulate	53.6	51.9	63.2	79.9	21.6	22.3	18.3	14.5	20.6	18.7	15.1	9.2	15.2	12.3	11.8	13.0
5	Hero Motocorp	606	3,032	3,193	9	Accumulate	148.0	117.4	158.5	177.4	19.8	24.9	18.5	16.5	13.5	16.4	11.9	10.4	22.0	15.7	19.3	20.0
6	M & M	715	603	692	11	Accumulate	20.6	24.0	34.9	41.8	30.2	26.0	17.9	14.9	11.7	14.4	10.8	9.2	7.4	8.2	10.9	11.9
7	Maruti Suzuki	2,126	7,038	6,520	(4)	Reduce	187.1	121.6	232.9	271.6	36.1	55.6	29.0	24.9	28.0	42.0	22.2	18.3	9.7	7.8	11.8	12.8
8	SML ISUZU	7	459	316	(22)	Sell	(14.5)	(52.6)	(18.7)	17.5	NA	NA	NA	23.0	57.6	NA	71.7	8.3	(5.3)	(22.0)	(9.2)	8.7
9	TVS Motor	213	449	355	(17)	Sell	13.1	7.7	14.8	18.7	32.4	55.4	28.8	22.8	15.0	18.8	13.0	10.9	17.9	9.8	17.1	19.0
	Auto Ancillary																					
10	Amara Raja	128	747	817	9.4	Accumulate	38.7	32.3	41.1	45.4	19.6	23.4	18.4	16.7	11.2	12.1	10.0	9.0	18.9	14.3	16.2	15.8
11	Apollo Tyres	74	129	127	(2)	Reduce	8.3	1.9	6.2	9.1	15.5	67.6	21.0	14.2	7.2	7.9	6.5	5.5	4.8	1.0	3.7	5.5
12	Asahi India	55	225	264	17	Buy	6.3	3.0	8.8	12.0	31.6	66.4	22.6	16.7	14.4	19.1	12.0	9.8	12.0	5.3	14.7	17.4
13	Balkrishna Ind	267	1,379	1,531	11.0	Accumulate	48.9	50.7	61.0	69.6	26.7	25.7	21.4	18.8	20.6	17.6	14.4	12.3	19.5	18.2	18.9	18.7
14	Bharat Forge	233	500	477	(5)	Accumulate	9.2	6.1	15.7	21.7	53.9	81.4	31.6	22.9	13.0	15.5	9.1	7.1	8.0	5.3	13.0	16.1
15	CEAT	36	881	1,092	24.0	Buy	64.6	40.0	63.2	78.0	13.5	21.8	13.8	11.2	7.7	9.0	7.0	5.9	8.2	5.4	8.2	9.4
16	Exide Ind	147	173	188	8.7	Buy	9.7	6.8	9.5	10.5	16.9	24.1	17.3	15.6	10.1	12.1	9.1	7.7	13.6	9.1	12.1	12.5
17	Jamna Auto	17	43	35	(19)	Buy	1.2	0.3	1.2	2.1	37.4	149.6	38.1	21.5	17.0	32.2	16.5	11.1	9.3	2.3	8.7	14.2
18	JBM Auto	11	230	309	34	Buy	14.6	14.6	20.6	30.7	15.6	15.7	11.1	7.4	7.0	8.0	6.4	4.7	10.5	9.8	12.6	16.4
19	Lumax Auto Tech	7	107	124	16	Buy	7.3	3.2	7.2	8.9	13.7	31.5	13.8	11.3	13.4	16.7	12.1	10.0	4.4	3.1	4.2	4.1
20	Lumax Industries	15	1,615	1,513	(6)	Accumulate	76.9	24.6	63.0	81.8	18.6	58.3	22.8	17.5	10.3	15.7	10.2	8.6	17.8	7.8	13.6	15.1
21	Minda Corp	18	81	105	29.6	Buy	4.1	1.4	5.2	7.0	17.9	51.6	14.2	10.6	6.8	12.7	7.0	5.7	9.6	3.2	10.4	12.2
22	MRF	254	59,960	NA	NA	Not Rated	3290	1819	2769	3255	18.2	33.0	21.7	18.4	11.0	11.9	9.0	7.4	12.3	6.2	8.8	9.5
23	Ramkrishna Forg	8	247	186	(25)	Reduce	3.7	(5.5)	10.1	19.8	55.5	(37.2)	20.3	10.4	7.0	8.0	5.8	4.7	1.4	(2.1)	3.7	7.0
24	Sandhar tech	14	239	269	12.6	Buy	9.5	3.1	8.2	13.0	23.1	71.6	26.7	16.8	8.0	10.9	8.0	6.0	9.0	3.1	7.0	9.8
25	Sterling Tools	7	195	210	7.7	Accumulate	8.1	3.3	8.3	11.7	22.1	53.4	21.3	15.3	11.4	15.6	9.9	7.6	9.8	3.9	9.3	12.0
26	Subros	17	256	237	(7)	Accumulate	8.5	2.6	10.1	13.2	25.8	86.2	21.8	16.7	7.7	11.9	7.4	5.9	7.8	2.2	8.3	10.1
27	**Suprajit Eng**	**25**	**182**	**207**	**14**	**Accumulate**	**9.4**	**5.9**	**8.9**	**11.5**	**19.4**	**31.1**	**20.5**	**15.9**	**12.7**	**15.8**	**11.5**	**9.2**	**16.1**	**9.2**	**12.8**	**14.8**
28	Varroc Eng.	44	328	NA	NA	Not Rated	0.0	(14.7)	11.4	16.7	N/A	NA	31	21	8.5	15.3	6.1	4.7	0.0	(6.8)	5.4	7.6

Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	**15,628**	**14,083**	**16,280**	**18,679**
Total Expense	**13,441**	**12,363**	**13,965**	**15,849**
COGS	9,151	8,309	9,377	10,647
Employees Cost	2,927	2,815	3,155	3,558
Other expenses	1,364	1,239	1,433	1,644
EBIDTA	**2,187**	**1,720**	**2,315**	**2,830**
Depreciation	581	592	612	671
EBIT	**1,606**	**1,128**	**1,703**	**2,159**
Interest	227	223	231	222
Other Income	224	213	223	257
Exc. / E.O. items	(274)	0	0	0
EBT	**1,329**	**1,118**	**1,695**	**2,194**
Tax	289	300	454	588
RPAT	1,040	818	1,241	1,606
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**1,314**	**818**	**1,241**	**1,606**

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	140	140	140	140
Minority Interest	0	0	0	0
Reserves & Surplus	8,398	9,056	10,079	11,413
Net Worth	**8,538**	**9,196**	**10,219**	**11,553**
Total Debt	3,113	2,913	2,713	2,513
Net Deferred Tax Liability	563	563	563	563
Total Capital Employed	**12,214**	**12,672**	**13,495**	**14,628**
Applications of Funds				
Net Block	**3,766**	**3,526**	**3,565**	**3,746**
CWIP	152	152	152	152
Investments	3,258	3,258	3,258	3,258
Current Assets, Loans & Advances	**8,629**	**8,753**	**10,023**	**11,508**
Inventories	2,762	2,276	2,676	3,122
Receivables	2,750	2,817	3,301	3,838
Cash and Bank Balances	2,509	2,999	3,370	3,856
Loans and Advances	145	281	295	312
Other Current Assets	463	380	380	380
Less: Current Liabilities & Provisions	**3,592**	**3,017**	**3,503**	**4,036**
Payables	2,140	1,216	1,452	1,698
Other Current Liabilities	1,452	1,801	2,051	2,338
sub total				
Net Current Assets	5,038	5,736	6,519	7,472
Total Assets	**12,214**	**12,672**	**13,495**	**14,628**

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	41.4	41.0	42.4	43.0
EBIDTA Margin	14.0	12.2	14.2	15.2
EBIT Margin	10.3	8.0	10.5	11.6
Tax rate	21.7	26.8	26.8	26.8
Net Profit Margin	6.7	5.8	7.6	8.6
(B) As Percentage of Net Sales (%)				
COGS	58.6	59.0	57.6	57.0
Employee	18.7	20.0	19.4	19.0
Other	8.7	8.8	8.8	8.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.4	0.3	0.3	0.2
Interest Coverage	7.1	5.1	7.4	9.7
Inventory days	65	59	60	61
Debtors days	64	73	74	75
Average Cost of Debt	7.4	7.4	8.2	8.5
Payable days	50	32	33	33
Working Capital days	118	149	146	146
FA T/O	4.2	4.0	4.6	5.0
(D) Measures of Investment				
AEPS (Rs)	9.4	5.9	8.9	11.5
CEPS (Rs)	13.6	10.1	13.2	16.3
DPS (Rs)	1.7	1.0	1.3	1.7
Dividend Payout (%)	18.6	16.7	15.0	14.5
BVPS (Rs)	61.0	65.7	73.1	82.6
RoANW (%)	12.8	9.2	12.8	14.8
RoACE (%)	13.1	8.4	11.3	13.0
RoAIC (%)	17.0	11.6	17.2	20.7
(E) Valuation Ratios				
CMP (Rs)	181	181	181	181
P/E	19.2	30.9	20.4	15.7
Mcap (Rs Mn)	25,289	25,289	25,289	25,289
MCap/ Sales	1.6	1.8	1.6	1.4
EV	25,893	25,203	24,632	23,946
EV/Sales	1.7	1.8	1.5	1.3
EV/EBITDA	11.8	14.7	10.6	8.5
P/BV	3.0	2.7	2.5	2.2
Dividend Yield (%)	1.0	0.5	0.7	0.9
(F) Growth Rate (%)				
Revenue	(1.7)	(9.9)	15.6	14.7
EBITDA	(6.0)	(21.4)	34.6	22.2
EBIT	(16.3)	(29.8)	51.0	26.8
PBT	(35.3)	(15.9)	51.6	29.4
APAT	(1.8)	(37.7)	51.6	29.4
EPS	(1.8)	(37.7)	51.6	29.4

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	2,320	1,424	1,672	2,032
CFI	(1,565)	(352)	(652)	(852)
CFF	(607)	(590)	(649)	(695)
FCFF	1,810	1,072	1,021	1,180
Opening Cash	2,187	2,509	2,998	3,370
Closing Cash	2,509	2,999	3,370	3,856

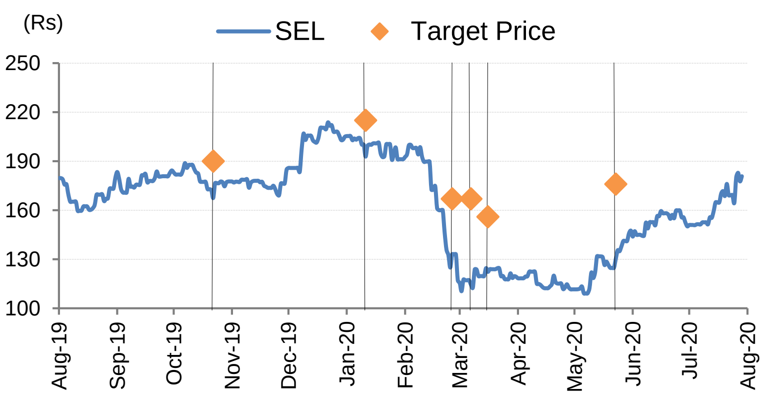
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-19	BUY	190	168
Feb-20	Accumulate	215	193
Mar-20	Buy	167	133
Mar-20	Buy	167	114
Apr-20	Buy	156	122
Jun-20	Buy	176	130

*Price as on recommendation date

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