

### Standout quarter, Firing on all cylinders

- Suprajit Engineering(SEL) displayed strong all-round performance in Q2FY21. Revenue grew by 11% YoY Rs. 4.4bn led by strong growth in Phoenix lighting (14% YoY) and Automotive cable division (12% YoY). EBITDA grew by 31% YoY to Rs. 735mn. Margin expanded by 258bps YoY to 16.6% led by high aftermarket and export revenue along with various cost control initiatives.
- Phoenix lighting revenue grew 14% YoY to Rs 922mn and SENA division (non-automotive cable) grew by 7% YoY to Rs 786mn. Management stated that the outlook for the Q3 looks promising with robust business across the Indian OEM and aftermarket along with Automotive and non-Automotive Exports.
- We maintain our positive stance on the stock led by 1) recovery in domestic 2W volume (market share of 65% and accounts for the largest share (37%) in the company's overall revenue mix, 2) upbeat outlook for 4W export (led by volume recovery in volume of its key clients, GM, BMW, VW and JLR, 3) Revenue and margin revival in SENA division through increasing supply from India and entry into new areas such as agriculture, construction and power sports vehicles and 4) strong aftermarket both cable and lamp division.
- We increase EPS estimates by 18/7% for FY22/23E. At CMP, the stock is available at 18/16x of FY22E/FY23EPS, which is lower than its historical mean of 22x. We recommend BUY with an upgraded target price of Rs 245 (20x FY23E EPS).

### 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 strong export revenue in the 4W segment. 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.

#### Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	4,431	3,982	11.3	1,775	149.7
Total Expense	3,697	3,424	8.0	1,823	102.8
EBITDA	735	558	31.8	(48)	(1621.0)
Depreciation	144	159	(9.8)	138	4.5
EBIT	591	398	48.4	(186)	(417.9)
Other Income	86	134	(35.8)	58	48.7
Interest	55	52	6.1	55	0.1
EBT	622	480	29.5	(183)	(439.3)
Tax	141	30	364.7	(38)	(470.3)
RPAT	481	450	6.9	(145)	(431.2)
APAT	481	450	6.9	(145)	(431.2)
			(bps)		(bps)
Gross Margin (%)	41.2	40.6	60	44.4	(321)
EBITDA Margin (%)	16.6	14.0	258	(2.7)	1930
NPM (%)	10.9	11.3	(42)	(8.2)	1904
Tax Rate (%)	22.7	6.3	1637	20.8	190
EBIT Margin (%)	13.3	10.0	334	(10.5)	2381

CMP	Rs 196
Target / Upside	Rs 245 / 25%
NIFTY	12,691

#### Scrip Details

Equity / FV	Rs 140mn / Rs 1
Market Cap	Rs 27bn
	USD 367mn
52-week High/Low	Rs 219/ 99
Avg. Volume (no)	2,57,155
Bloom Code	SEL IN

Price Performance	1M	3M	12M
Absolute (%)	5	11	14
Rel to NIFTY (%)	(2)	(2)	6

#### Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	44.6	44.6	44.6
MF/Banks/FIs	18.8	22.9	22.7
FIIIs	10.4	5.2	5.2
Public / Others	26.3	27.3	27.5

#### Valuation (x)

	FY21E	FY22E	FY23E
P/E	26.9	18.7	16.0
EV/EBITDA	13.8	10.2	8.7
ROE (%)	11.4	14.7	15.2
RoACE (%)	9.9	12.7	13.4

#### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	15,168	17,322	19,624
EBITDA	1,994	2,624	2,973
PAT	1,020	1,467	1,711
EPS (Rs.)	7.3	10.5	12.2

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## Concall Highlights

### SEL Consol

- Outlook for the Q3 looks promising with robust business across the Indian OEM and aftermarket along with Automotive and non-Automotive Exports. Expect FY21 revenue to be around FY20.
- Expansion in margin was mainly on account of better mix (high revenue from aftermarket and export) and improvement in operational efficiency of across the group companies.
- Aftermarket revenue is strong due to higher import cost from China, streamlining of logistics at domestic level and shift in preference from unorganized to organized player.
- Expect margin to be in range of 13-15% depending upon the volume in the coming quarter. Full year margin expected to be around 13%. Margin to taper off in the coming quarter due to commodity inflation and roll back salary cut from September month.
- For international customers there is no pass through on RM front, however for domestic OEM it can pass on as per negotiation.
- Company is ramping up its LED bulb production and receiving encouraging demand in the aftermarket.
- Revenue share for 4W increased due to higher export (+18% YoY) during the quarter.
- Single customer revenue share is not more than 10% to the group.
- Capex in H1FY21 was Rs 116mn, CFO stood at Rs 878mn and generated FCF of Rs 761mn. Overall debt has reduced from Rs. 3.8bn to Rs.3.17bn.

### Automotive cable division

- Ramp up in OEM production, higher content (BS6 transition), and aftermarket division aided robust growth in automotive cable division. Expect the domestic aftermarket to contribute 25% of overall sales by year end.
- In export segment company has done well by winning new orders.
- Transition from IC to EV vehicle won't have any impact on cable volume.
- Total cable market size is around USD2.5-3bn; China is the largest player.

### Phoenix Lamp

- Aftermarket sales through Trifa and Luxlite adversely impacted across Europe due to demand slowdown and Covid-19 concern. Company is still undergoing restructuring at the facility.
- Chennai PLD plant has started operations and achieved highest volume in last few months, the company also started aftermarket sales under the Phoenix brand.
- Currently demand is outstripping the supply and the company may need to do small capex to meet demand.

### SENA Business (Suprajit Engineering non-automotive)

- Despite challenging environment due to Covid at (Wichita and Juarez) second quarter performance has improved. Company has a decent order book and key customers are ramping up the production.

- Improved product mix, operating leverage, favourable RM cost and operating efficiency aided margin expansion during the quarter. Going forward, sustainability of margin depends on the product mix and RM cost.
- Increase in margin was due to higher production from Unit 9 where operating cost is lower compared to the other plants.

**Exhibit 1: Actual vs Dart Estimates**

(Rs Mn)	Actual	DART Est	% Variance	Remarks
Revenue	4,431	4,510	(2)	
EBIDTA	735	676	9	Efficient cost control measures and lower RM cost
EBIDTA %	16.6	15.0	158(bps)	
PAT	481	437	10	

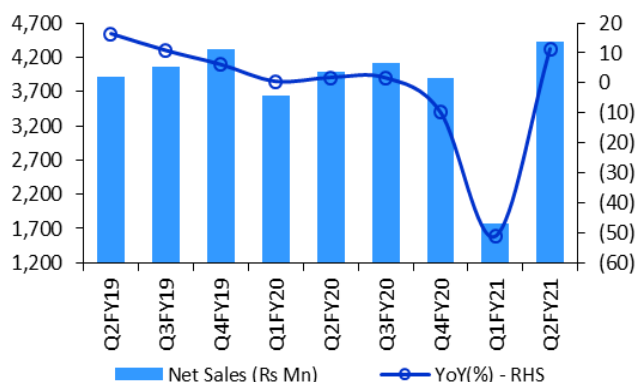
Source: DART, Company

**Exhibit 2: Change in Estimates**

Rs Mn	FY22E			FY23E		
	New	Previous	% Chg	New	Previous	% Chg
Net sales	17,322	16,280	6.4	19,624	18,679	5.1
EBITDA	2,624	2,315	13.3	2,973	2,830	5.1
EBITDA margin(%)	15.15	14.22	92.6 (bps)	15.15	15.15	0.1(bps)
APAT	1,467	1,241	18.2	1,711	1,606	6.5
EPS	10.5	8.9	18.2	12.2	11.4	6.5

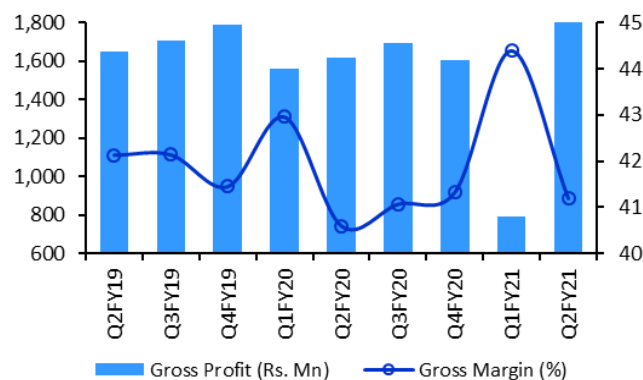
Source: DART, Company

**Exhibit 3: Revenue rebounded sharply +11% YoY**



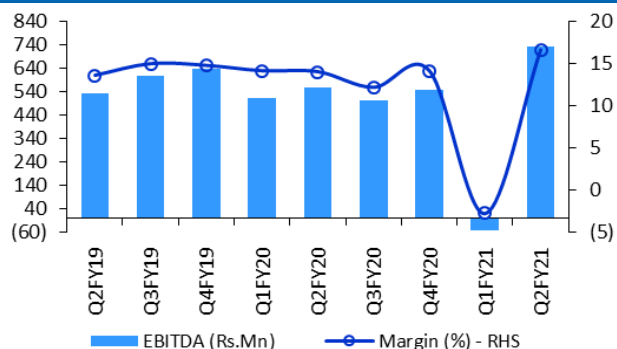
Source: DART, Company

**Exhibit 4: Gross margin improved 60bps YoY**



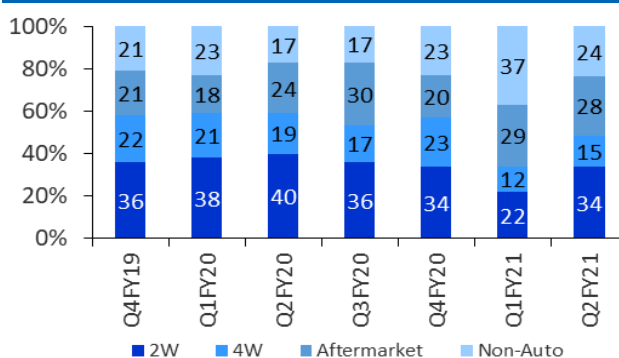
Source: DART, Company

**Exhibit 5: EBITDA margin rebounded sharply**

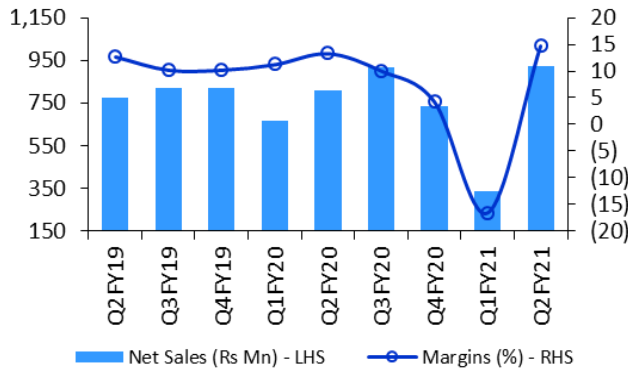


Source: DART, Company

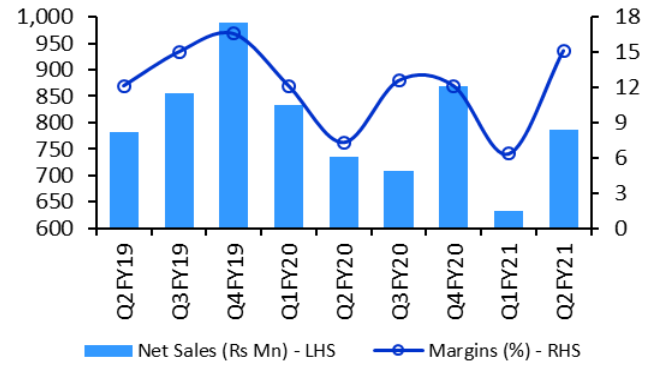
**Exhibit 6: Segment mix (%)**



Source: DART, Company

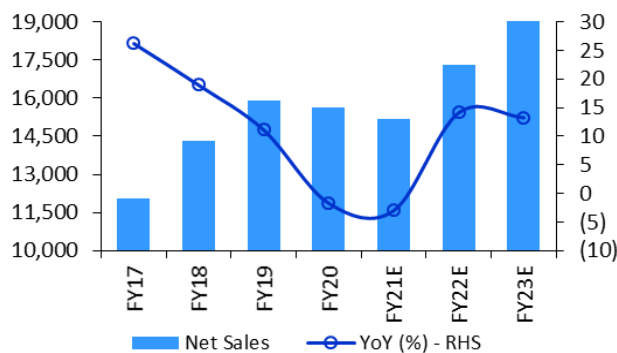
**Exhibit 7: Phoenix – margin expanded YoY sharply**


Source: DART, Company

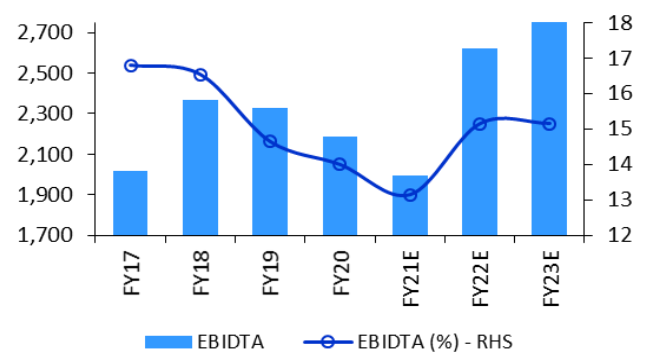
**Exhibit 8: SENA –margin jumped 780bps YoY**


Source: DART, Company

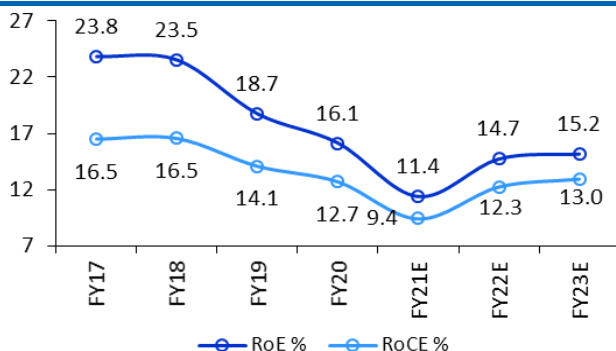
## Annual Charts

**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

### Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>15,628</b>	<b>15,168</b>	<b>17,322</b>	<b>19,624</b>
<b>Total Expense</b>	<b>13,441</b>	<b>13,174</b>	<b>14,698</b>	<b>16,651</b>
COGS	9,151	8,949	9,977	11,186
Employees Cost	2,927	2,859	3,197	3,738
Other expenses	1,364	1,365	1,524	1,727
<b>EBIDTA</b>	<b>2,187</b>	<b>1,994</b>	<b>2,624</b>	<b>2,973</b>
Depreciation	581	591	612	671
<b>EBIT</b>	<b>1,606</b>	<b>1,403</b>	<b>2,011</b>	<b>2,302</b>
Interest	227	223	231	222
Other Income	224	213	223	257
Exc. / E.O. items	(274)	0	0	0
<b>EBT</b>	<b>1,329</b>	<b>1,393</b>	<b>2,003</b>	<b>2,337</b>
Tax	289	373	537	626
RPAT	1,040	1,020	1,467	1,711
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>1,314</b>	<b>1,020</b>	<b>1,467</b>	<b>1,711</b>

### Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	140	140	140	140
Minority Interest	0	0	0	0
Reserves & Surplus	8,398	9,218	10,427	11,848
<b>Net Worth</b>	<b>8,538</b>	<b>9,358</b>	<b>10,567</b>	<b>11,988</b>
Total Debt	3,113	2,913	2,713	2,513
Net Deferred Tax Liability	563	563	563	563
<b>Total Capital Employed</b>	<b>12,214</b>	<b>12,834</b>	<b>13,843</b>	<b>15,064</b>

### Applications of Funds

Net Block	4,760	4,520	4,560	4,740
CWIP	152	152	152	152
Investments	2,264	2,264	2,264	2,264
<b>Current Assets, Loans &amp; Advances</b>	<b>8,629</b>	<b>8,962</b>	<b>10,427</b>	<b>11,992</b>
Inventories	2,762	2,452	2,847	3,280
Receivables	2,750	3,034	3,512	4,032
Cash and Bank Balances	2,509	2,815	3,392	3,988
Loans and Advances	145	281	295	312
Other Current Assets	463	380	380	380
<b>Less: Current Liabilities &amp; Provisions</b>	<b>3,592</b>	<b>3,065</b>	<b>3,560</b>	<b>4,085</b>
Payables	2,140	1,264	1,509	1,746
Other Current Liabilities	1,452	1,801	2,051	2,338
<i>sub total</i>				
Net Current Assets	5,038	5,897	6,867	7,907
<b>Total Assets</b>	<b>12,214</b>	<b>12,834</b>	<b>13,843</b>	<b>15,064</b>

E – Estimates

### Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	41.4	41.0	42.4	43.0
EBIDTA Margin	14.0	13.1	15.1	15.2
EBIT Margin	10.3	9.3	11.6	11.7
Tax rate	21.7	26.8	26.8	26.8
Net Profit Margin	6.7	6.7	8.5	8.7
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	58.6	59.0	57.6	57.0
Employee	18.7	18.9	18.5	19.0
Other	8.7	9.0	8.8	8.8
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.4	0.3	0.3	0.2
Interest Coverage	7.1	6.3	8.7	10.4
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	30	32	32
Working Capital days	118	142	145	147
FA T/O	3.3	3.4	3.8	4.1
<b>(D) Measures of Investment</b>				
AEPS (Rs)	9.4	7.3	10.5	12.2
CEPS (Rs)	13.6	11.5	14.9	17.0
DPS (Rs)	1.7	1.2	1.6	1.8
Dividend Payout (%)	18.6	16.7	15.0	14.5
BVPS (Rs)	61.0	66.9	75.5	85.7
RoANW (%)	12.8	11.4	14.7	15.2
RoACE (%)	13.1	9.9	12.7	13.4
RoAIC (%)	17.0	14.2	19.7	21.4
<b>(E) Valuation Ratios</b>				
CMP (Rs)	196	196	196	196
P/E	20.8	26.9	18.7	16.0
Mcap (Rs Mn)	27,394	27,394	27,394	27,394
MCap/ Sales	1.8	1.8	1.6	1.4
EV	27,998	27,492	26,715	25,920
EV/Sales	1.8	1.8	1.5	1.3
EV/EBITDA	12.8	13.8	10.2	8.7
P/BV	3.2	2.9	2.6	2.3
Dividend Yield (%)	0.9	0.6	0.8	0.9
<b>(F) Growth Rate (%)</b>				
Revenue	(1.7)	(2.9)	14.2	13.3
EBITDA	(6.0)	(8.8)	31.6	13.3
EBIT	(16.3)	(12.6)	43.3	14.5
PBT	(35.3)	4.9	43.8	16.6
APAT	(1.8)	(22.4)	43.8	16.6
EPS	(1.8)	(22.4)	43.8	16.6

### Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	2,320	1,280	1,917	2,160
CFI	(1,501)	(352)	(652)	(852)
CFE	(607)	(622)	(688)	(712)
FCFF	1,214	928	1,265	1,308
Opening Cash	2,186	2,509	2,815	3,392
Closing Cash	2,509	2,815	3,392	3,988

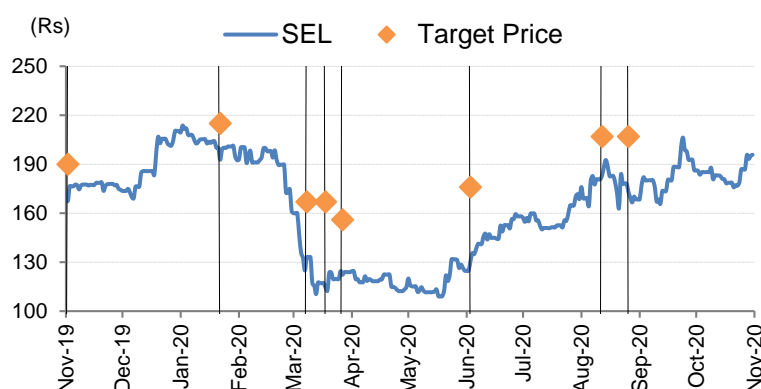
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### 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
Aug-20	Accumulate	207	183
Sep-20	Buy	207	173

\*Price as on recommendation date

### DART Team

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**I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**

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