Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Suprajit Engineering Ltd

Eyeing diversification

Automobiles	Sharekhan code: SUPRAJIT
Reco/View: Buy ↔	CMP: **Rs. 411**
Price Target: **Rs. 457** ↑	

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 21.25

Updated Aug 08, 2023

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 5,688 cr
52-week high/low:	Rs. 446/315
NSE volume: (No of shares)	2.2 lakh
BSE code:	532509
NSE code:	SUPRAJIT
Free float: (No of shares)	7.7 cr

Shareholding (%)

Promoters	44.6
FII	5.1
DII	15.9
Others	34.3

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-3.9	3.8	26.8	21.5
Relative to Sensex	-3.1	-2.0	19.1	10.1

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy rating on Suprajit Engineering Ltd (SEL) with a revised PT of Rs 457 on its diversified business model, healthy traction in automotive business and continued order wins.
- EBITDA margin expanded by 220 bps y-o-y to 10.5% in Q1FY24, while non-automotive business has yet to recover.
- The company's diversified, de-risked and innovation driven business model supports the growth momentum.
- Stock trades at P/E multiple of 20.6x and EV/EBITDA multiple of 11.8x its FY25E estimates.

While Q1FY24 operating performance lagged estimates, OPM decently rose y-o-y. Revenue increased by 5.3% y-o-y to Rs 680 crore (versus estimate of Rs 728 crore) on 7.9% y-o-y growth in the control division and a 5% y-o-y growth in lamp division as domestic cable division registered flat growth on y-o-y basis. The domestic market contributed 44% to total revenues, while the global market contributed the rest. EBITDA increased by 32.5% y-o-y to Rs 71 crore (versus estimate of Rs 94 crore). EBITDA margin expanded by 220 bps y-o-y to 10.5% (versus estimate of 12.9%) due to 220 bps expansion in gross margin. While the newly formed electronic division is very small, all other 3 divisions have reported healthy EBITDA margin expansion on y-o-y basis. Its (1) controls Division (SCD) reported 240 bps y-o-y expansion in EBITDA margin to 7.2%, (2) domestic cable division (DCD) reported 230 bps y-o-y expansion in EBITDA margin to 17.7% and (3) phoenix lamps division (PLD) reported 250 bps y-o-y expansion in EBITDA margin to 8.0%. With this operating performance APAT has increased by 21.2% y-o-y to Rs 33 crore. The segmental revenue contribution in Q1Fy24 stood as: Automotive - 39%, Two-wheelers - 25%, Aftermarket - 17% and non-automotive - 20%. In Q1FY24, while domestic cables business remained flat the overseas automotive cable business drove its performance in Q1FY24. Aftermarket segment was seasonally weak in Q1FY24 though a healthy uptick in PV segment supported the performance in the DCD division.

Key positives

- All leading 3 divisions (SCD, DCD and PLD) registered healthy expansion in EBITDA Margin on y-o-y basis.
- The company is continuously acquiring healthy business in automotive and electronic divisions.
- The Suprajit Technology Centre (STC) is continuously working on new projects and its key products are at different levels of approval stage with the customers.

Key negatives

- EBITDA margins shrunk by 190 bps q-o-q to 10.5% on account of gross margin contraction by 160 bps and lack of operating leverage benefits.
- Non-automotive division continue to witness headwinds overseas.

Management Commentary

- The PLD division would deliver double digit EBITDA margin once its restructuring is over.
- Management shared a positive outlook for the medium term due to new orders wins.
- Non-auto business would remain weak in Q2Fy24, and gradual improvement would be seen from Q3FY24 onwards.

Our Call

Valuation - Maintain Buy with a revised PT of Rs 457: SEL has been gaining healthy orders in the automotive space, while facing headwinds in the non-automotive business in overseas market. Non-automotive business would remain subdued in Q2FY24 also. However, the management is expecting an improvement in its performance from Q3FY24 onwards on execution of new orders and hence guided for a better performance in H2FY24 as compared to in H1FY24. The newly-formed electronics division is at its nascent stage but has been receiving healthy response across customer segments and the management is highly optimistic on the growth prospects in electronic segment. PLD division is expected to register a sharp improvement in its performance on completion of ongoing restructuring. The management has guided for a double-digit EBITDA margin after the completion of restructuring. Further, the management continue to aim to outperform the domestic automotive industry growth and targets to grow ahead of domestic automotive industry by 5-10%. The two-wheeler segment has contributed 25% to its revenue in Q1FY24 as compared to 34% in FY22 and 61% in FY12. We continue to maintain our Buy rating on the stock with revised PT of Rs. 457 on its diversified business model, healthy traction in automotive business and continued order wins.

Key Risks

Inflationary pressure in overseas market, rising commodity prices, and transportation constraints remain key concerns. Moreover, delayed approval from OEMs for incremental business may affect performance.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenues (Rs cr)	1,840	2,752	3,127	3,464
Growth (%)	12.2	49.5	13.6	10.8
AEBIDTA (Rs cr)	260	313	372	488
OPM (%)	14.1	11.4	11.9	14.1
Adj Net Profit (Rs cr)	161	152	197	276
Growth (%)	13.1	-5.8	29.6	40.2
AEPS	11.7	11.0	14.2	20.0
P/E (x)	35.2	37.4	28.8	20.6
P/BV (x)	5.2	4.6	4.1	3.5
EV/EBIDTA (x)	20.9	18.5	15.5	11.8
ROE (%)	15.6	13.2	15.1	18.3
ROCE (%)	12.9	10.8	11.6	14.2

Source: Company; Sharekhan estimates

Control division (SCD): Gaining new orders

- Control division reported 7.9% y-o-y increase in revenue to 349.4 crore and contributed 51.4% to the total revenue. Further, EBITDA margin expanded by 240 bps y-o-y to 7.2%.
- Chinese business was impacted in Q1Fy24 due to macro challenges and the management expects the Chinese business would remain subdued in near term.
- Non-automotive business has been facing headwinds and likely to remain in pressure in near term due to rising inflationary pressures in North America
- Despite macro headwinds, SEL has been registering decent business gains due to its one Suprajit platform where it has been offering manufacturing solutions to the global customers as per their suitability. SCD division has faced some unfavourable currency fluctuations.
- SCD won new orders with lifetime value of USD 145.9 million in automotive segment and of USD 22.8 million in non-automotive segment in last one year.

Domestic cable division (DCD): Aftermarket segment is expected to recover in coming quarters

- DCD reported 0.8% y-o-y increase in revenue to Rs 239.8 crore and contributed 35.3% to the total revenue. EBITDA registered 230 bps y-o-y expansion in EBITDA margin to 17.7%
- Along with EVs, the domestic two-wheeler segment has been observing a delay in recovery and after market segment has been following seasonal trends.
- Aftermarket segment is expected to pick up in coming quarters.
- Despite seasonality in aftermarket segment the DCD has registered healthy expansion in margins in Q1FY24 on y-o-y basis.

Phoenix Lamps Division (PLD): Double-digit EBITDA margin expected

- PLD reported 5.0% y-o-y increase in revenue to Rs 87.7 crore and contributed 12.9% to the total revenue. EBITDA expanded by 250 bps y-o-y to 8.0%.
- PLD division has been going through business restructuring in its European business.
- Post restricting PLD division is expected to deliver double-digit EBITDA margin.

Suprajit Electronics Division (SED): nascent stage but gaining traction

- SED business has reported of Rs 2.79 crore with EBITDA loss of Rs 0.44 crore in Q1FY24
- Though SED division has been at its nascent stage but has been receiving healthy visibility amongst the customers.
- SED has begun supplying to electric two wheelers and observed that the content per vehicle in EV segment is higher than the IC segment.
- SED business has already won an orders with estimated life time value of Rs 350cr.

Outlook: H2FY24 would be better than H1FY24

- Overall, automotive business is expected to perform better than non-automotive business in FY24.
- Global non-automotive business is likely to register muted performance in near term and the management expects the gradual improvement in overseas non-automotive business may be visible from Q3FY24 onwards. The management assumes that some of the new orders would go for execution in H2FY24. Hence, the company assumes H2FY24 is expected to be better than H1FY24.
- The company has been consistently gaining healthy business in automotive and electronic division.
- Management continue to aim to outperform domestic automotive industry by 5-10%.

Results Rs cr

Particulars	Q1FY24	Q1FY23	YoY %	Q4FY23	QoQ %
Revenues	680	645	5.3	699	(2.8)
Total operating expenses	608	591	2.9	612	(0.6)
EBITDA	71	54	32.5	87	(17.9)
Depreciation	25	24	4.1	23	6.7
Interest	12	6	94.2	11	2.5
Other income	13	18	(29.1)	6	130.3
PBT	48	42	13.2	58	(17.5)
Tax	15	15	(1.4)	17	(13.2)
Adjusted PAT	33	27	21.2	41	(19.2)
Reported PAT	33	27	21.2	41	(19.2)
Adjusted EPS (Rs)	2.4	2.0	21.2	3.0	(19.2)

Source: Company, Sharekhan Research

Key Ratios (Consolidated)

Particulars	Q1FY24	Q1FY23	YoY (bps)	Q4FY23	QoQ (bps)
Gross margin (%)	42.5	40.4	220	44.1	(160)
EBIDTA margin (%)	10.5	8.4	220	12.5	(190)
Net profit margin (%)	4.9	4.2	60	5.9	(100)
Effective tax rate (%)	30.9	35.5	(460)	29.4	150

Source: Company, Sharekhan Research

Segmental performance Rs cr

Particulars	Q1FY24	Q1FY23	YoY %
Controls Division (SCD)			
Operating revenue	349.4	323.7	7.9
EBITDA (Operational)	25.0	15.3	63.1
EBITDA margin (%)	7.2	4.7	
Domestic Cable Division (DCD)			
Operating revenue	239.8	237.9	0.8
EBITDA (Operational)	42.3	36.6	15.6
EBITDA margin (%)	17.7	15.4	
Phoenix Lamps Division PLD			
Operating revenue	87.7	83.5	5.0
EBITDA (Operational)	7.0	4.6	52.9
EBITDA margin (%)	8.0	5.5	
Electronics Division (SED)			
Operating revenue	2.8	-	-
EBITDA (Operational)	(0.0)	-	-
EBITDA margin (%)	(1.6)	-	
Total			
Operating revenue	679.7	645.2	5.3
EBITDA (Operational)	74.4	56.6	31.4
EBITDA margin (%)	10.9	8.8	

Source: Company, Sharekhan Research

Change in earning estimates Rs cr

Particulars	New		Earlier		% change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	3,127	3,464	3,127	3,464	-	-
EBITDA	372	488	372	488	-	-
EBITDA margin (%)	11.9	14.1	11.9	14.1		
PAT	197	276	197	276	-	-
EPS	14.2	20.0	14.2	20.0	-	-

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Demand remains strong, while near-term supply disruption remains a challenge

The business outlook for the automotive segment is expected to improve as economic activities normalise. Automotive demand is expected to recover in the two-wheeler and four-wheeler segments, aided by a pent-up demand and increased personal mobility transport. Rural and semi-urban markets remain buoyant on robust farm income from the previous year, with a large reservoir and early arrival of monsoon. Recovery in export destinations is auguring well for the sector. Moreover, exports provide a considerable growth potential, given India's cost-effective manufacturing, being geographically closer to key markets of the Middle East and Europe and being the second largest producer of key raw material, steel.

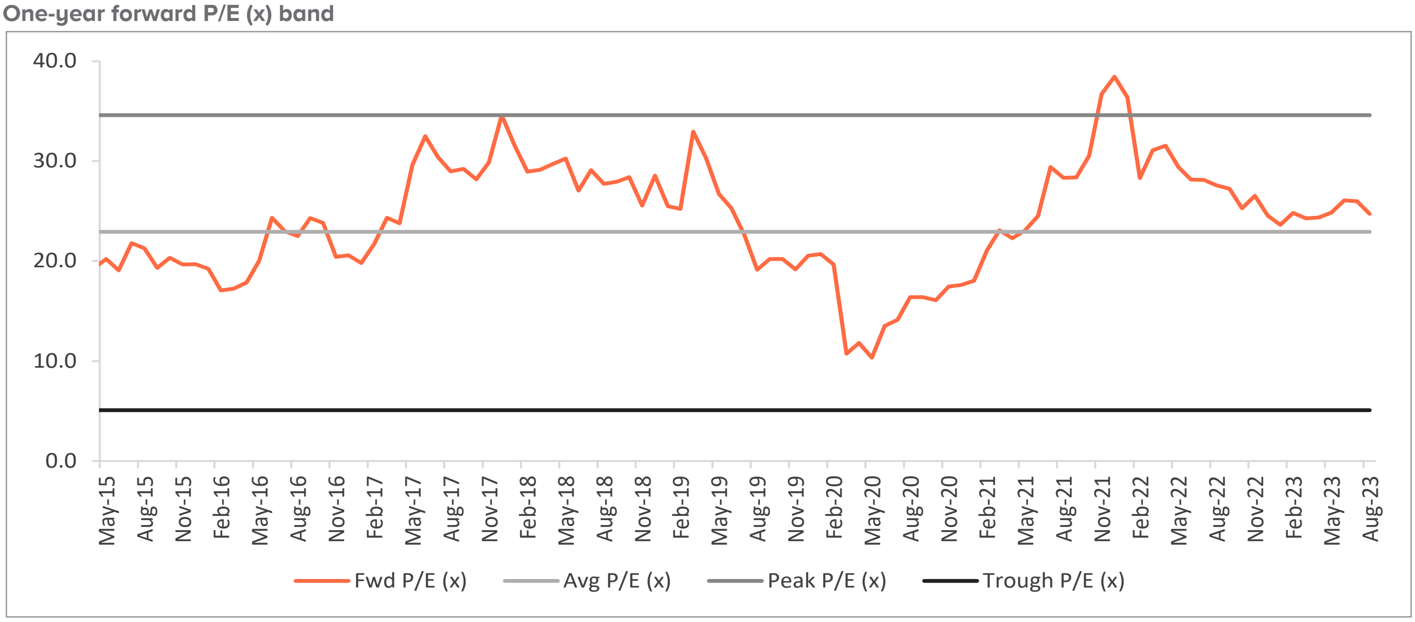
■ Company outlook - Beneficiary of two-wheeler and PV demand

Suprajit is one of the largest manufacturers of mechanical control cables with a presence in both automotive and non-automotive segments. The company has entered segments such as lamps, started catering to non-automotive segments through acquisitions, and has augmented capacities in the cables business. The In non-automotive cables, the company is planning to enter new segments such as medical device equipment, consumer durables, and agriculture and construction equipment, which would drive growth. We remain positive on Suprajit as the company continues strengthening its value proposition to its domestic and global clients, aided by a leadership position in the domestic cable business and locational advantage over its global peers.

■ Valuation - Maintain Buy with a revised PT of Rs 457

SEL has been gaining healthy orders in the automotive space, while facing headwinds in the non-automotive business in overseas market. Non-automotive business would remain subdued in Q2FY24 also. However, the management is expecting an improvement in its performance from Q3FY24 onwards on execution of new orders and hence guided for a better performance in H2FY24 as compared to in H1FY24. The newly-formed electronics division is at its nascent stage but has been receiving healthy response across customer segments and the management is highly optimistic on the growth prospects in electronic segment. PLD division is expected to register a sharp improvement in its performance on completion of ongoing restructuring. The management has guided for a double-digit EBITDA margin after the completion of restructuring. Further, the management continue to aim to outperform the domestic automotive industry growth and targets to grow ahead of domestic automotive industry by 5-10%. The two-wheeler segment has contributed 25% to its revenue in Q1FY24 as compared to 34% in FY22 and 61% in FY12. We continue to maintain our Buy rating on the stock with revised PT of Rs. 457 on its diversified business model, healthy traction in automotive business and continued order wins.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Suprajit is a global leader in the automotive cable and halogen bulb industry. With a competitive manufacturing base in India, UK, US, and Mexico, along with technical and logistical support worldwide, the company provides optimal product development and manufacturing solutions to its domestic and international customers. With a CAGR of over 25%, Suprajit has one of the largest manufacturing capacities in the world with 300+ million cables per year and 110+ million bulbs per year. Suprajit is a well-diversified company deriving 53% of its revenue from global operations, while 47% is derived domestically. Automotive (4W) segment is the largest segment contributing 35% to revenue, while 25% is derived from the 2W segment. Aftermarket constitutes 19% of revenue, while the non-automotive segment includes 22%.

Investment theme

Suprajit is one of the largest manufacturers of mechanical control cables with a presence in both automotive and non-automotive segments. Revenue growth has been healthy driven by steady offtake and diversification into aftermarket and export segments. The company continues strengthening its value proposition to its domestic and global clients, aided by its leadership position in the domestic cable business and locational advantage over its global peers. Suprajit's success is its ability to produce low-cost cables among domestic players, aided by its operational efficiency and dedicated plants for respective clients. The company has entered segments such as lamps, started catering to non-automotive segments through acquisitions, and has augmented capacities in the cables business. The company has been gaining market share in the domestic cable division with an increased share of business with automotive clients. The aftersales market both at Suprajit and Phoenix Lamps division has been strong, along with encouraging offtake from OEMs. We expect Suprajit to benefit from the strong demand witnessed in domestic and export markets, aided by a recovery in economic activities. The company will also benefit from its capex plan strategy, which will help it capitalise further in the next peak season.

Key Risks

- Chips supply shortage, rising commodity prices, and transportation constraints remain key concerns.
- Delayed approval from OEMs for incremental business could impact performance.
- Slow down in non-automobile segment in overseas market.

Additional Data

Key management personnel

Ajith Rai	Executive Chairman
Mohan N.S.	Managing Director and Group CEO
Medappa Gowda J	CFO and Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Supriyajhit Family Trust	38.04%
2	DSP Investment Managers Pvt Ltd	7.24%
3	HDFC Asset Management Co Ltd	6.14%
4	India Capital Fund Ltd	2.80%
5	Rai Kula Ajith Kumar	2.75%
6	Punja Shobita	1.47%
7	Emerging Securities Pvt Ltd	1.37%
8	Rai Kula Ramprasad	1.30%
9	Rai Supriya Ajit	1.26%
10	ICICI Prudential Asset Management Co Ltd	1.05%

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

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