Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Suprajit Engineering Ltd

In-line result, optimistic outlook

Automobiles	Sharekhan code: SUPRAJIT
Reco/View: Buy ↔	CMP: Rs. 437 / Price Target: Rs. 535 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Stock Update

Result Update

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		↔	

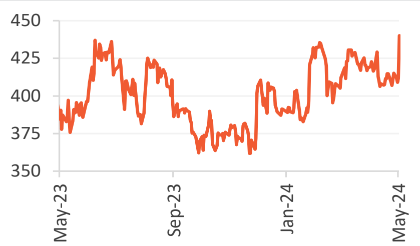
Company details

Market cap:	Rs. 6,048 cr
52-week high/low:	Rs. 456/353
NSE volume: (No of shares)	2.5 lakh
BSE code:	532509
NSE code:	SUPRAJIT
Free float: (No of shares)	7.7 cr

Shareholding (%)

Promoters	44.6
FII	4.8
DII	17.5
Others	33.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.9	11.0	17.2	10.6
Relative to Sensex	6.0	10.0	5.2	-8.6

Sharekhan Research, Bloomberg

Summary

- For Q4FY2024, Suprajit's EBITDA was in line with estimates, while PAT beat was led by higher other income and lower tax provisioning.
- Non-auto business in the USA has bottomed out, while control division continues to gain new orders.
- We maintain BUY with a revised PT of Rs. 535 on its long-term growth prospects with healthy traction in the automotive business, continued order wins, and expected revival in the non-auto business.
- The stock trades at a P/E multiple of 20.4x and EV/EBITDA multiple of 11.5x.

Suprajit Engineering Limited's (SEL) reported EBITDA in Q4FY2024 was in line with estimates, while the bottom line was ahead of estimates on higher other income and lower tax provisioning. Going forward, management is looking for a double-digit revenue growth with double-digit EBITDA margin in FY2025, backed by new contract wins, arrest of the downtrend in the non-auto segment in the U.S. and favourable benefit of business restructuring. Revenue increased by 8.1% q-o- q to Rs. 783 crore (against our estimate of Rs. 746 crore) on account of 20.3% q-o-q growth in domestic revenue as overseas revenue declined by 4% q-o-q. EBITDA increased by 8.2% q-o-q to Rs. 94 crore (against our estimate of Rs. 95 crore). Despite the 80bps contraction in gross margin, EBITDA margin came flat at 12.1% q-o-q (against our estimate of 12.8%) on favourable operating leverage. With this operating performance, higher-than-expected other income stood at Rs. 19 crore (against Rs. 9 crore in Q3FY2024) and lower tax provisioning at 19.5% (against 29.6% in Q3FY2024). PAT increased by 47% q-o-q to Rs. 59 crore (against our estimate of Rs. 47 crore). Other income was significantly high due to MTM gains.

Key positives

- Except the domestic cable division, all other business segments reported EBITDA margin expansion on a q-o-q basis.
- Domestic revenue increased by 20.3% q-o-q.
- As a % of sales, employee cost and other expenses contracted by 40bps and 30bps, respectively, on a q-o-q basis.

Key negatives

- Gross margin contracted by 80bps q-o-q.
- Overseas revenue declined by 4% q-o-q.
- The domestic cable division performed well in the 4W and 2W segments, but the aftermarket segment was impacted by unorganised players.

Management Commentary

- Overall, consolidated revenue is expected to grow at a double-digit rate with double-digit EBITDA margin.
- Capex is scheduled at Rs. 180 crore. Almost 50% of the fund is earmarked for the new product or new project development.
- The decline in the non-auto business in the U.S. has halted.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 535: Post reporting in line with expected operating performance in Q4FY2024 backed by healthy performance in the domestic market, management has guided for double-digit revenue growth along with double-digit EBITDA margin in FY2025 as it foresees most of its leading business divisions to register double-digit revenue growth and assumes that the U.S. non-auto segment has bottomed out. The non-automotive business in the U.S. dropped by 30% in FY2024 but is stabilizing. Further, management appeared optimistic on the braking system business and has scheduled a capex of Rs. 180 crore in FY2025. We assume the restructuring of its business would make it competitive for a medium to long-term play. Further, order wins in the electronic division and control division provide medium to long-term revenue visibility. SEL's diversified, de-risked, and innovation-driven business model is expected to support the growth momentum in upcycling. Along with that, the expected consolidation in the cable industry due to pricing pressure may offer it a suitable inorganic growth opportunity. Post Q4FY2024 performance, we maintain our BUY rating on the stock with a revised price target (PT) of Rs. 535 on its long-term growth prospects with healthy traction in the automotive business, continued order wins, and expected revival in the non-auto business.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24P	FY25E	FY26E
Revenue	1,840	2,752	2,896	3,230	3,651
Growth (%)	12.2	49.5	5.2	11.5	13.0
EBITDA	260	313	323	455	526
OPM (%)	14.1	11.4	11.2	14.1	14.4
Net Profit	161	152	167	251	296
Growth (%)	13.1	-5.8	10.0	49.8	18.2
EPS (Rs.)	11.7	11.0	12.1	18.1	21.4
P/E	37.5	39.8	36.2	24.1	20.4
P/BV	5.6	4.9	4.4	3.8	3.3
EV/EBITDA	22.3	19.6	18.7	13.2	11.5
ROE (%)	15.6	13.2	12.9	17.0	17.4
ROCE (%)	12.9	10.8	10.6	13.8	14.4

Source: Company; Sharekhan estimates

Suprajit Controls Division (SCD)

- Revenue increased by 19.4% q-o-q to Rs. 374.4 crore and EBITDA margin expanded by 110bps q-o-q to 7.3%.
- SCD has been continuously working on restructuring in the division for a long-term sustainable performance.
- SCD has been regularly gaining healthy orders recently. It won a large order of USD8mn/year from a U.S.-based customer.
- Weakness in the non-automotive segment impacted SCD's performance in FY2024. Along with that, legacy orders, increased wages in Mexico, and forex volatility have impacted its margins in FY2024.
- Management expects improvement in volumes and completion of restructuring would augur well for SCD in the coming years.
- SCD has relocated its plant in China and the relocated plant has commenced production. Going forward, the company would continue to focus on new business development in China, as one-time cost pertaining to relocation has already been absorbed.
- Backed by new contracts and healthy volume growth in Hungary, SCD has performed well in the European business.
- The decline in the non-automotive segment in the U.S. has been halted and U.S. non-automotive segment has stabilised.
- SCD has been benefiting from China plus one strategy, followed by global players.

Domestic Cable Division (DCD)

- Revenue declined by 2.6% q-o-q to Rs. 281.1 crore and EBITDA margin contracted by 110bps q-o-q to 17.3%.
- India cable business performed well, both in the 2W and 4W markets.
- The aftermarket segment was impacted by the rise in business activity in the unorganised market.
- DCD is getting traction in 'beyond cable projects,' including CBS, latch assembly, and actuators.

Phoenix Lamps Division (PLD)

- Revenue declined by 1.9% q-o-q to Rs. 100.9 crore and EBITDA margin expanded by 270bps q-o-q to 15.1%.
- PLD is performing well in the aftermarket segment and export markets.
- A larger part of the restructuring is over.

Suprajit Electronics Division (SED)

- Revenue increased by 39.9% q-o-q to Rs. 26.8 crore and EBITDA margin expanded by 170bps q-o-q to 12.8%.
- Double-digit EBITDA margin has been sustaining for the last two quarters and SED continues to gain new orders.
- SED has started manufacturing electronic boards for internal consumption by SCD and PLD.
- SED has added mechanical speedometer and has been focussing on 2W-related actuators along with North American non-auto actuator market.

Braking system

- It is working with one of the marquee customers for braking products.
- The company has been in talks with three OEMs for braking-related components and braking system business relates with more advanced braking system.
- SEL has dedicated one facility for braking system products and is aspiring to emerge as a complete braking system solution player over the period.

Outlook

- SCD division is expected to deliver double-digit revenue growth and improvement in EBITDA margin in FY2025.
- With increased focus on the non-cable segment, the DCD division is expected to register double-digit revenue growth with margins in the range of its historical band.
- PLD is expected to report double-digit revenue growth and double-digit EBITDA margin as restructuring has been completed and PLD has been focussing on the global business.
- SED is expected to sustain its strong performance due to low base and healthy traction.
- Overall, consolidated revenue is expected to grow at a double-digit rate with double-digit EBITDA margin.
- Capex is scheduled at Rs. 180 crore. Almost 50% of the fund is earmarked for new products or new project development.

Results Rs cr

Particulars	Q4FY24	Q4FY23	YoY %	Q3FY24	QoQ %
Revenues	783	699	12.0	724	8.1
Total operating expenses	689	612	12.6	637	8.1
EBITDA	94	87	8.4	87	8.2
Depreciation	28	23	19.0	26	6.5
Interest	13	11	11.6	13	(3.0)
Other income	19	6	246.6	9	116.2
PBT	73	58	26.4	57	28.4
Tax	14	17	(16.3)	17	(15.6)
Adjusted PAT	59	41	44.2	40	47.0
Reported PAT	59	41	44.2	40	47.0
Adjusted EPS (Rs)	4.3	2.96	44.2	2.9	47.0

Source: Company, Sharekhan Research

Key Ratios (Consolidated)

Particulars	Q4FY24	Q4FY23	YoY (bps)	Q3FY24	QoQ (bps)
Gross margin (%)	40.7	44.1	(340)	41.5	(80)
EBIDTA margin (%)	12.1	12.5	(40)	12.1	-
Net profit margin (%)	7.6	5.9	170	5.6	200
Effective tax rate (%)	19.5	29.4	(990)	29.6	(1,020)

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 2W and 4W segments, aided by 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 the monsoon season. 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 2W and PV demand

SEL is one of the largest manufacturers of mechanical control cables present 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. 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 SEL as the company continues to strengthen 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. 535

Post reporting in line with expected operating performance in Q4FY2024 backed by healthy performance in the domestic market, management has guided for double-digit revenue growth along with double-digit EBITDA margin in FY2025 as it foresees most of its leading business divisions to register double-digit revenue growth and assumes that the U.S. non-auto segment has bottomed out. The non-automotive business in the U.S. dropped by 30% in FY2024 but is stabilizing. Further, management appeared optimistic on the braking system business and has scheduled a capex of Rs. 180 crore in FY2025. We assume the restructuring of its business would make it competitive for a medium to long-term play. Further, order wins in the electronic division and control division provide medium to long-term revenue visibility. SEL's diversified, de-risked, and innovation-driven business model is expected to support the growth momentum in upcycling. Along with that, the expected consolidation in the cable industry due to pricing pressure may offer it a suitable inorganic growth opportunity. Post Q4FY2024 performance, we maintain our BUY rating on the stock with a revised PT of Rs. 535 on its long-term growth prospects with healthy traction in the automotive business, continued order wins, and expected revival in the non-auto business.

Change in earning estimates **(Rs cr)**

Change in estimates	New		Earlier		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	3,230	3,651	3,230	3,650	(0.0)	0.0
EBITDA	455	526	455	522	(0.0)	0.7
EBITDA margin (%)	14.1	14.4	14.1	14.3		
PAT	251	296	248	291	1.0	1.7
EPS (Rs)	18.1	21.4	17.9	21.0	1.0	1.7

Source: Company, Sharekhan Research

About company

SEL is a global leader in the automotive cable and halogen bulb industry. With a competitive manufacturing base in India, U.K., U.S., 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%, SEL has one of the largest manufacturing capacities in the world with 300+ million cables per year and 110+ million bulbs per year. SEL is a well-diversified company deriving 53% of its revenue from global operations, while 47% is derived domestically. The automotive (4W) segment is the largest segment contributing 36% to revenue, while 27% is derived from the 2W segment. Aftermarket constitutes 18% of revenue, while the non-automotive segment includes 19%.

Investment theme

SEL is one of the largest manufacturers of mechanical control cables present 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 to strengthen 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. SEL'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 increased share of business with automotive clients. The aftersales market both at SEL and Phoenix Lamps division has been strong, along with encouraging offtake from OEMs. We expect SEL 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

- Delayed approval from OEMs for incremental business could impact performance.
- Slowdown in the non-automobile segment in the 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	SUPRIYAJITH FAMILY TRUST	38.02
2	HDFC Asset Management Co Ltd	7.93
3	DSP Investment Managers Pvt Ltd	6.82
4	Rai Kula Ajith Kumar	2.74
5	India Capital Fund Ltd	2.58
6	ICICI Prudential Asset Management	1.44
7	Emerging Securities Pvt Ltd	1.37
8	Rai Kula Ramprasad	1.3
9	Rai Supriya Ajit	1.26
10	Mishra Samiha Grewal	1.18

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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by BNP PARIBAS

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