



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	✓	↔	✓

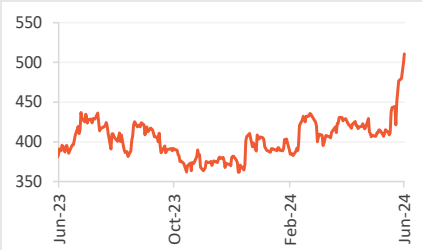
Company details

Market cap:	Rs. 7,072 cr
52-week high/low:	Rs. 516/353
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	25.3	18.0	34.7	33.3
Relative to Sensex	20.2	14.3	20.8	10.9

Sharekhan Research, Bloomberg

Suprajit Engineering Ltd

Inorganic moves to fuel growth

Automobiles

Sharekhan code: SUPRAJIT

Reco/View: Buy



Upgrade



Maintain

CMP: Rs. 511

Price Target: Rs. 642



Downgrade

Summary

- SCS's acquisition would be EPS accretive for Suprajit as volumes ramp up and business turns around.
- SCS would have a revenue potential of Rs 450 crore, while it offers multiple synergy benefits.
- We maintain BUY with a revised PT of Rs 642 on its long-term growth prospects with healthy traction in the automotive business, continued order wins, and expected revival in the non-auto business.
- Stock trades at P/E multiple of 23.9x and EV/EBITDA multiple of 13.4x its FY26 estimates.

Suprajit has decided to acquire **Stahlschmidt Cable Systems (SCS)** as a result of insolvency proceedings in Germany, for a preliminary EV of 13.5 million euros (Rs 121.5 crore). The deal is subject to completion of SCS' restructuring and will be funded through internal accruals. On completion of the acquisition, SCS will contribute 50 million euros (Rs 450 crore) to Suprajit's topline, implying a valuation of 0.27x its potential revenue, which seems attractive assuming that the SCS business sees a successful turnaround. The equity component of the transaction will further fall on reduction of corporate debt and other debt-linked instruments. Suprajit foresees multiple synergies between SCS and itself. If the current acquisition would deliver its full potential in FY26, Suprajit's revenues would exceed our estimates by 11% to Rs 4101 crore in FY26 (versus current expectation of Rs 3651 crore) on consolidation of SCS. The management considers SCS as an EPS accretive acquisition on ramping up of its business.

- SCS – An Overview** – SCS is a century-old establishment with distorted financials, but it has a strong product and customer profile. It caters to global marquee clients. Suprajit had earlier also tried to acquire SCS but had been unable to do so on lack of funding. SCS largely caters to the PVs and has marginal exposure to non-auto segment as well. SCS got succumbed mainly due to pricing pressure and its endeavour to relocate manufacturing operations from Germany to Morocco, Poland, Canada and China, to cut costs. In place of cost benefits the relocation has resulted in rise in cost and hence the company went for insolvency in Germany. Suprajit has been negotiating with the German Insolvency administrator for a probable acquisition. As per the Suprajit's management, SCS has decent business size however it went through tough time during Covid period.
- Deal to conclude in two tranches:** Suprajit is acquiring SCS via an insolvency proceeding and hence it has not disclosed much of deal contours yet as it has been negotiating with insolvency administrators. The acquisition would be completed in two tranches. In first tranche Suprajit will acquire SCS' assets in Europe (Germany, Poland and Morocco) by July 1, 2024, while in the second tranche, it would acquire SCS' assets at Canada and China in next few months. The acquisition will be done through a wholly owned subsidiary Suprajit USA Inc. Suprajit USA has already set up a wholly owned subsidiary in Canada "Suprajit Canada Limited" for acquiring SCS' business. As SCS' restructuring will take almost a year, Suprajit foresees an additional expenditure of 4-5 million euros (Rs. 36-45 crore).
- Multiple synergies; topline to rise:** Suprajit assumes multiple synergies and benefits on consolidation of SCS' business with itself along with a probable rise in revenue potential. It believes that SCS may contribute ~50 million euros (Rs 450 crore) to its topline on revamp of production and may be able to deliver potential profitability on completion of restructuring. Suprajit considers the acquisition to be EPS accretive. SCS' strong engineering and sales team overseas would help Suprajit strengthen its position by cross-selling of products. Further it would have manufacturing footprints at multiple geographic locations which would help it cater to customers as per their requirements and financial suitability. The management highlighted that the SCS is facing a financial crunch, it has excellent production facilities and customer profile. Suprajit largely assumes SCS' clientele customers would largely stay with it after the acquisition, given most of the customers are common for both the companies. The management is confident on price hikes from customers as the pricing pressure was the key issue behind the distortion of SCS' financial health.

Our Call

Valuation – Maintain BUY with a revised PT of Rs.642: The cables industry is expected to consolidate amid pricing pressure. The SCS acquisition is in line with Suprajit's inorganic growth strategy. Though it faces financial stress, the deal may turn out to be a value accretive for Suprajit assuming, the business sees a turnaround as expected. Considering the revenue potential of SCS (Rs 450 crore) and ascribed value (EV of Rs 121.5 crore) and multiple synergies, the valuation appears attractive. The management considers SCS to be an EPS accretive acquisition, on ramping up of its business. Moreover, the expected halt in the US non-auto segment is favourable for Suprajit. Further, order wins in the electronics and control division provide medium to long-term revenue visibility. Suprajit's diversified, de-risked, and innovation-driven business model is expected to support the growth momentum in upcycle. We maintain a Buy rating on the stock with a revised price target (PT) of Rs. 642 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 overseas market, rising commodity prices, and transportation constraints remain key concerns. Moreover, delayed approval from OEMs for incremental business may affect performance.

Valuation

Particulars	FY22	FY23	FY24	FY25E	FY26E
Revenues (Rs cr)	1,840	2,752	2,896	3,230	3,651
Growth (%)	12.2	49.5	5.2	11.5	13.0
AEBIDTA (Rs cr)	260	313	323	455	526
OPM (%)	14.1	11.4	11.2	14.1	14.4
Adj Net Profit (Rs cr)	161	152	167	251	296
Growth (%)	13.1	-5.8	10.0	49.8	18.2
AEPS	11.7	11.0	12.1	18.1	21.4
P/E (x)	43.8	46.5	42.3	28.2	23.9
P/BV (x)	6.5	5.8	5.2	4.5	3.9
EV/EBIDTA (x)	26.2	22.9	21.9	15.5	13.4
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

Control division (SCD) : looking beyond cables

The SCD has been continuously working on restructuring its division to ensure long-term sustainable performance and has been consistently securing healthy orders. However, the weakness in the non-automotive segment has negatively affected SCD's performance in FY24. Additionally, legacy orders, rising wages in Mexico, and forex volatility have impacted its margins in FY24. Management anticipates that improved volumes and the completion of restructuring will benefit SCD in the coming years. SCD has relocated its plant in China, and the new facility has commenced production. Moving forward, the company will continue to focus on new business development in China, as the one-time relocation costs have already been absorbed. Supported by new contracts and robust volume growth in Hungary, SCD has shown strong performance in its European business. The decline in the non-automotive segment in the US has ceased, and this segment is now stabilizing. SCD is benefiting from the China Plus One strategy adopted by global players. The Indian cable business (DCD) performed well in both two-wheeler and four-wheeler markets. However, the aftermarket segment was impacted by increased business activity in the unorganized market. DCD is gaining traction in "beyond cable projects," including CBS, latch assemblies, actuators, and more.

Electronics division: Traction continues

The Phoenix Lamps Division (PLD) is performing well in the aftermarket and export segments. Most of the restructuring in PLD is complete. Additionally, the electronic division has been receiving substantial orders and has maintained double-digit margins for the last two quarters. The electronic division has begun manufacturing electronic boards for internal use by SCD and PLD. It has also introduced mechanical speedometers and is focusing on two-wheeler-related actuators, as well as the North American non-auto actuator market.

Diversification continues

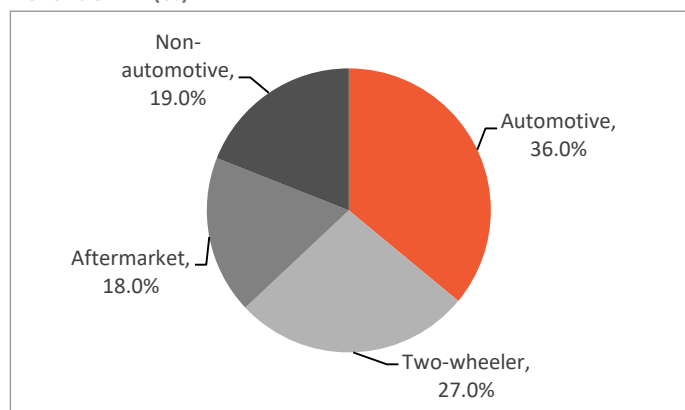
Suprajit is collaborating with a prominent customer on braking products and is in discussions with three OEMs regarding braking components and advanced braking systems. The company has dedicated one facility to braking system products and aims to become a comprehensive braking system solution provider over time.

Optimistic guidance

The control cables division is projected to achieve double-digit revenue growth and an improvement in EBITDA margin in FY25. With rising focus on the non-cable segment, the domestic control division is also expected to register double-digit revenue growth, maintaining margins within the historical range. Management remains optimistic about the lamps division, anticipating double-digit revenue growth and double-digit EBITDA margins now that restructuring is complete and PLD is focusing on global business. The electronic division is expected to continue its strong performance due to a low base and healthy traction. Overall, consolidated revenue and EBITDA margins are projected to grow at a double-digit rate.

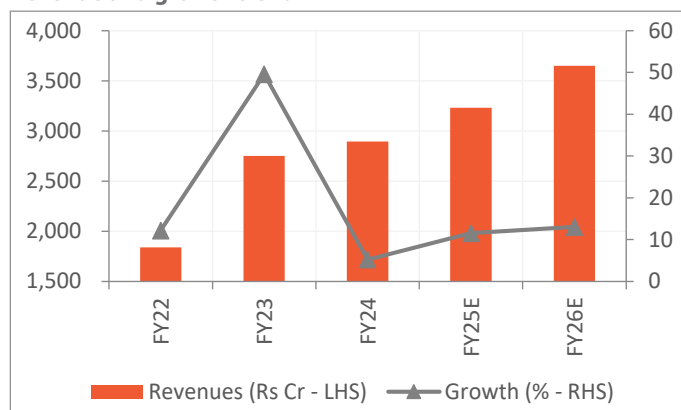
Financials in charts

Revenue Mix (%)



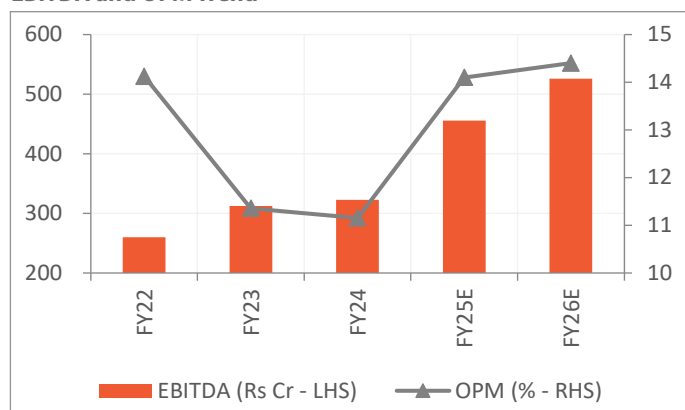
Source: Company, Sharekhan Research

Revenue and growth trend



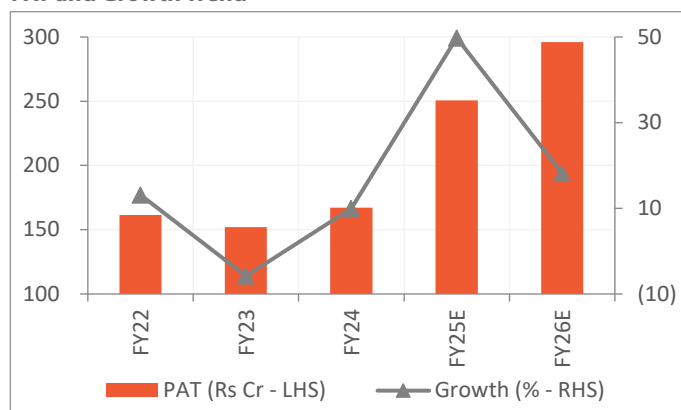
Source: Company, Sharekhan Research

EBITDA and OPM Trend



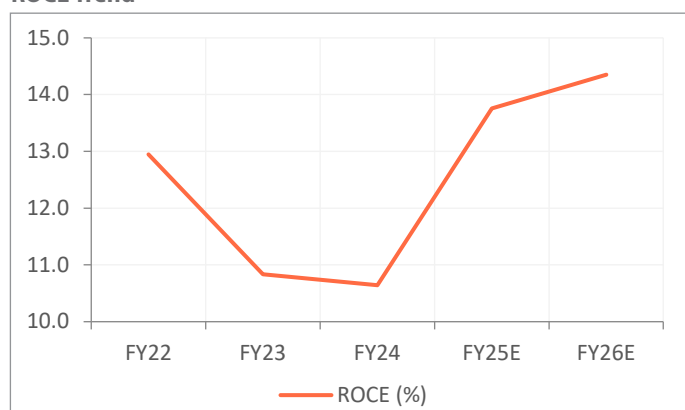
Source: Company, Sharekhan Research

PAT and Growth Trend



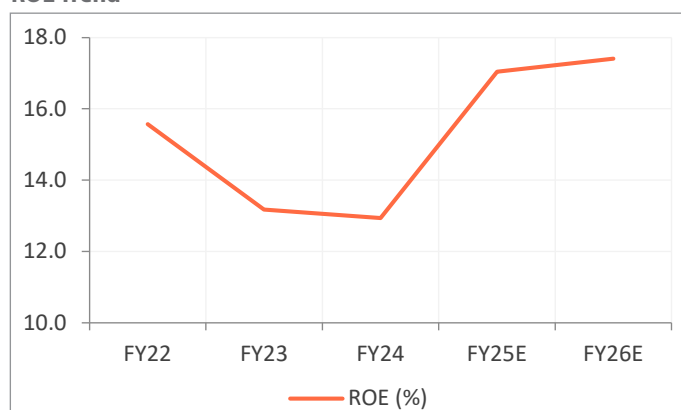
Source: Company, Sharekhan Research

ROCE Trend



Source: Company, Sharekhan Research

ROE Trend



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 need of increased personal mobility transport. Rural and semi-urban markets started showing uptick. Recovery in export destinations is gradual and 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 - Riding on a rise in 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.642

The cables industry is expected to consolidate amid pricing pressure. The SCS acquisition is in line with Suprajit's inorganic growth strategy. Though it faces financial stress, the deal may turn out to be a value accretive for Suprajit assuming, the business sees a turnaround as expected. Considering the revenue potential of SCS (Rs 450 crore) and ascribed value (EV of Rs 121.5 crore) and multiple synergies, the valuation appears attractive. The management considers SCS to be an EPS accretive acquisition, on ramping up of its business. Moreover, the expected halt in the US non-auto segment is favourable for Suprajit. Further, order wins in the electronics and control division provide medium to long-term revenue visibility. Suprajit's diversified, de-risked, and innovation-driven business model is expected to support the growth momentum in upcycle. We maintain a Buy rating on the stock with a revised price target (PT) of Rs. 642 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

Particulars	New		Earlier		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	3,230	3,651	3,230	3,651	-	-
EBITDA	455	526	455	526	-	-
EBITDA margin (%)	14.1	14.4	14.1	14.4		
PAT	251	296	251	296	-	-
EPS (Rs)	18.1	21.4	18.1	21.4	-	-

Source: Company, 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 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

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

- ♦ 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	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

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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 deteriorating 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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