

Company Update

Suprajit Engineering Ltd

Bloomberg Code: SEL IN

India Research - Stock Broking

HOLD

Tapping Newer Segments...

Suprajit Engineering Ltd (SEL) reported good traction in the US and domestic cable business for FY18 which led revenue to improve by 18.0% YoY at Rs. 14311 Mn. Domestic automobile industry picked up by 14.2% during FY17-18 and so we believe that there is sizeable opportunity to supply cables and lamps in the after-market channel. However, there have been headwinds in the European business with respect to Phoenix Lamps which led sales from that division to decline by 1.6% YoY as the company lost few of its customers due to product design specifications. Anyway, with the installation of H7 (lamps) line, the company expects to deliver better results during the next few quarters as they have managed to bring back few of their customers. Therefore, we recommend a **"HOLD"** for the stock with an upside of 11%.

Quarterly review: Revenue for Q4FY18 came in at Rs. 4064 Mn, in line with our estimates of Rs. 4103 Mn but missed consensus by 7%. EBITDA margin reported 18.1% during Q4FY18 with not much deviation from the previous year quarter. PAT came in higher by 40.7% for the quarter supported by lower interest cost and reduction in the effective tax rate.

Capacity expansion in the cables segment: The existing capacity of 250 Mn cables is expected to be ramped up to 270 Mn cables for FY19E and to 300 Mn in FY20E which will include a new green-field facility at Bangalore for Suprajit Automotive Ltd. The capex for this is estimated at Rs. 100 Cr which is expected to be deployed in the next 2-3 years. With this, SEL is trying to assess certain inorganic opportunities to strengthen its position in its core business.

Valuation and Risks

We expect revenue to increase at CAGR of 15% during FY18-20E on the back of better industry outlook and export opportunities. EBITDA margin is expected to sustain at 16.4% and EPS is expected to grow at CAGR of 21.9% supported by lower finance costs. However, we believe that the employee expense is at a higher level than the industry average at 18% of revenue. We value the company at a P/E of 21.0x for FY20E EPS of Rs. 14.2 for a target price of Rs. 299 having a potential upside of 11%.

Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	9525	12138	14311	16668	18879
EBITDA	1543	2009	2365	2739	3110
EBITDA Margin (%)	16.2	16.5	16.5	16.4	16.5
Net Profit	772	1243	1385	1705	1991
EPS (Rs.)	5.5	8.9	9.9	12.2	14.2
RoE (%)	22.4	25.8	23.7	23.6	22.9
PE (x)	48.7	30.3	27.2	22.1	18.9

Source: Company, Karvy Research; *Represents multiples for FY16 - FY18 are based on historic market price

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Recommendation (Rs.)

CMP (as on Jun 04, 2018)	269
Target Price	299
Previous Target Price	305
Upside (%)	11

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	37668 / 561
52-wk High/Low (Rs.)	349 / 227
3M Avg. daily value (Rs. mn)	15.7
Beta (x)	0.6
Sensex/Nifty	35012 / 10629
O/S Shares(mn)	139.9
Face Value (Rs.)	1.0

Shareholding Pattern (%)

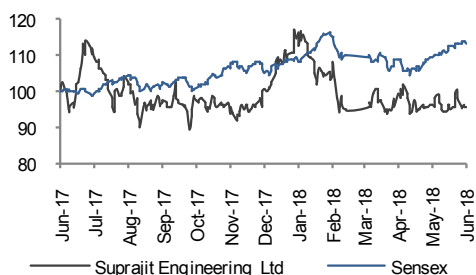
Promoters	44.5
FIIIs	11.5
DIIIs	4.4
Others	39.5

Stock Performance (%)

	1M	3M	6M	12M
Absolute	(6)	(3)	(8)	(10)
Relative to Sensex	(6)	(6)	(13)	(19)

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

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SEL to benefit from the new tax regime in the US.

Suprajit USA posted revenue of Rs. 2563 Mn for FY18, higher by 74.2% driven by Wescon performance.

Key takeaways from quarterly earnings

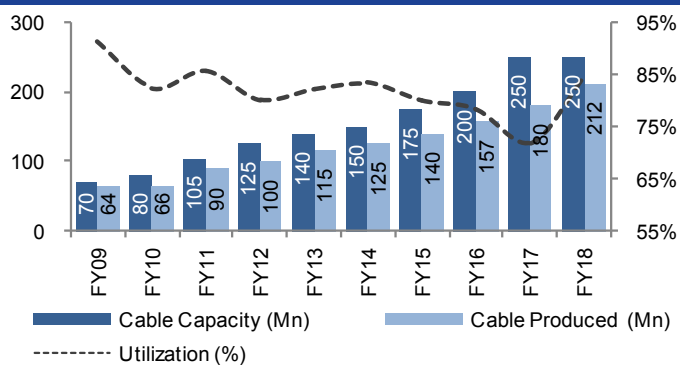
- Management expects higher cable opportunity in clusters and ABS (Anti-lock Braking System).
- Line for manufacturing H7 lamps has been installed where the capacity utilization has improved to 25% and is expected to reach 45% by September end.
- Headwinds in Europe are expected to be sorted as some of the customers the company lost have come back.
- Capacity of cables to be increased by 50 Mn at Suprajit Automotive and Suprajit Engineering for a capex of Rs. 100 Cr over the next two years.
- Management expects cables volumes to exceed 270 Mn for FY19E and 300 Mn+ for FY20E.
- Phoenix lamps to enter USA through LED Bulbs while Wescon is also expected to cater to the OTR segment in addition to industrial requirements.
- Effective tax rate for the quarter came in at lower levels attributed to the new tax regime in the USA.

Exhibit 2: Q4FY18

YE Mar (Rs. Mn)	Q4FY18	Q3FY18	QoQ %	Q4FY17	YoY %
Turnover	4064	3663	11.0	3605	12.7
Expenditure	3330	3062	8.7	2953	12.8
EBITDA	734	601	22.2	652	12.7
Depreciation	95	95	(0.5)	95	(0.6)
Interest	59	72	(18.4)	69	(14.7)
Other Income	68	39	71.5	49	39.4
PBT	649	474	37.0	536	21.0
Tax	85	191	(55.4)	136	(37.2)
Adjusted PAT	563	282	99.5	400	40.7
EBITDA Margin (%)	18.1	16.4	166 bps	18.1	(1) bps
EBIT Margin (%)	15.7	13.8	193 bps	15.4	30 bps
Net Profit Margin (%)	13.9	7.7	615 bps	11.1	275 bps

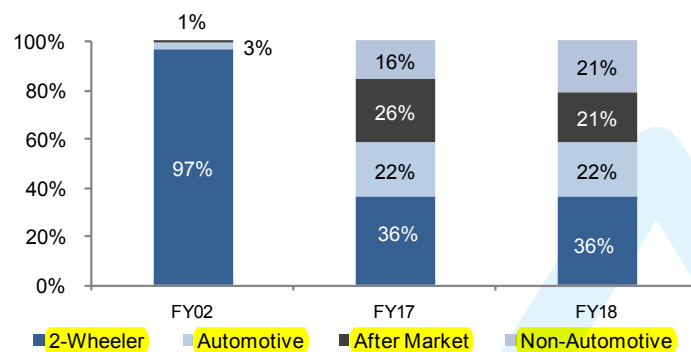
Source: Company, Karvy Research

Exhibit 3: Cable Utilization



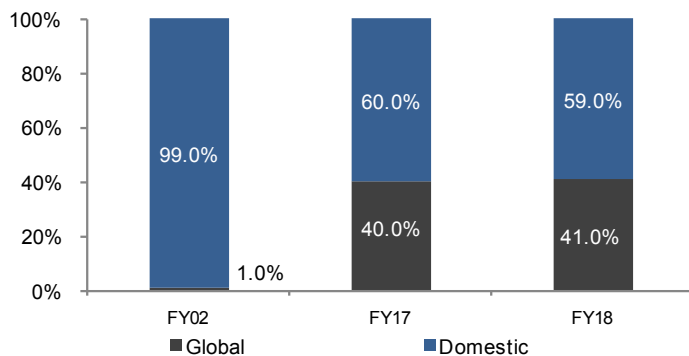
Source: Company, Karvy Research

Exhibit 4: Segment Contribution



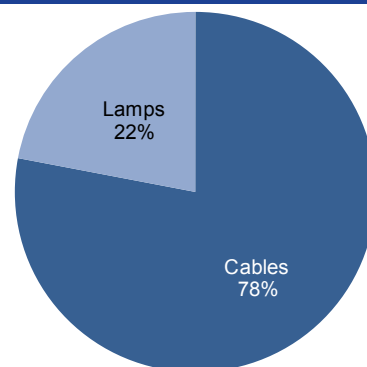
Source: Company, Karvy Research

Exhibit 5: Geographical Split



Source: Company, Karvy Research

Exhibit 6: Product Contribution



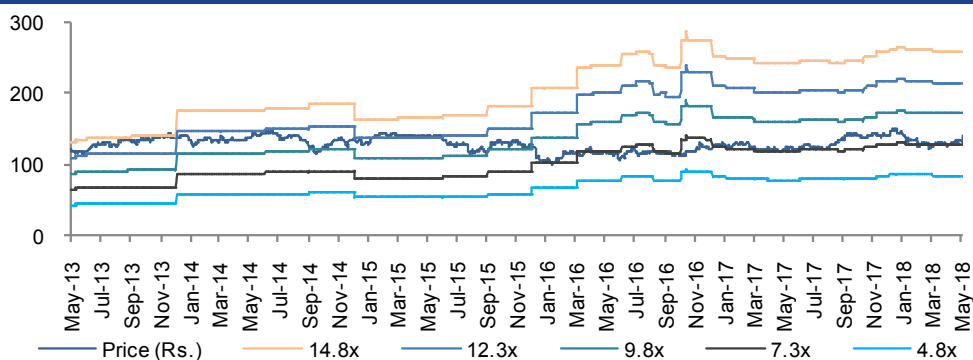
Source: Company, Karvy Research

Exhibit 7: SEL IN P/E Band



Source: Bloomberg, Karvy Research

Exhibit 8: S&P 500 Automobile and Components Industry PE band



Source: Bloomberg, Karvy Research

Financials

Exhibit 9: Income Statement

YE Mar (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
Revenues	9525	12138	14311	16668	18879
Growth (%)	55.7	27.4	17.9	16.5	13.3
Operating Expenses	7982	10129	11945	13929	15769
EBITDA	1543	2009	2365	2739	3110
Growth (%)	58.4	30.1	17.8	15.8	13.5
Depreciation & Amortization	158	219	372	460	511
EBIT	1386	1789	1993	2279	2599
Other income	156	240	212	316	349
Interest Expenses	250	289	271	227	182
PBT	1292	1741	1934	2367	2766
Adjusted PAT*	772	1243	1385	1705	1991
Growth (%)	53.5	60.9	11.4	23.1	16.8

Source: Company, Karvy Research, * Includes Minority interest for FY16

Exhibit 10: Balance Sheet

YE Mar (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
Cash & Cash Equivalents	189	223	321	540	746
Trade receivables	2096	2442	2890	3303	3732
Inventory	1669	2018	2365	2765	3041
Loans & Advances	628	595	59	263	296
Investments	1487	177	1304	1304	1304
Net Block	3481	5292	5473	6038	6552
Other assets	31	91	607	661	719
Total Assets	9581	10838	13019	14874	16389
Current Liabilities	1777	2023	3012	2747	3189
Debt	2586	3295	2846	2987	2400
Other Liabilities	200	371	611	1222	1310
Total Liabilities	4563	5688	6470	6956	6899
Share capital	131	140	140	140	140
Reserves & Surplus	4886	5009	6409	7778	9350
Total Network	5018	5149	6549	7918	9490
Total Network & Liabilities	9581	10838	13019	14874	16389

Source: Company, Karvy Research

We expect better traction from after-market segment and the non-automotive space.

Capacity Utilization at 85% for Lamps during FY18. Asset turn-over is expected to be maintained at 3.5x.

Capex of Rs. 100 Cr to be deployed in 2 years towards capacity expansion for cables.

Debt/Equity ratio to improve.

EPS to grow at 14.7% CAGR between FY18-20E.

Exhibit 11: Cash Flow Statement

YE Mar (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
PBT	1292	1741	1934	2367	2766
Depreciation	158	219	372	460	511
Net Interest flow	242	280	59	(89)	(167)
Tax Paid	(326)	87	(549)	(663)	(774)
Inc/dec in Net WC	(387)	(111)	427	(726)	(265)
Others	(111)	(177)	949	0	0
Cash flow from operating activities	867	2040	3191	1351	2071
Inc/dec in capital expenditure	(543)	(959)	(1220)	(1025)	(1025)
Inc/dec in investments	(296)	1450	(1127)	0	0
Acquisition of subsidiary	(1568)	(1414)	0	0	0
Others	5	(9)	212	316	349
Cash flow from investing activities	(2402)	(933)	(2135)	(710)	(676)
Inc/dec in borrowings	412	(769)	(449)	141	(587)
Dividend and dividend tax paid	(146)	(162)	(235)	(336)	(420)
Interest paid	(222)	(251)	(271)	(227)	(182)
Issue of share capital	1464	0	0	0	0
Others	60	(115)	0	0	0
Cash flow from financing activities	1567	(1297)	(955)	(422)	(1189)
Net change in cash	32	(189)	101	219	206

Source: Company, Karvy Research

Exhibit 12: Key Ratios

YE Mar	FY16	FY17	FY18	FY19E	FY20E
EBITDA Margin (%)	16.2	16.5	16.5	16.4	16.5
EBIT Margin (%)	14.5	14.7	13.9	13.7	13.8
Net Profit Margin (%)	8.1	10.2	9.7	10.2	10.5
Dividend Payout Ratio (%)	10.5	7.9	14.1	16.4	17.6
Net Debt/Equity (x)	0.5	0.6	0.4	0.3	0.2
RoE (%)	22.4	25.8	23.7	23.6	22.9
RoCE (%)	24.9	23.1	22.3	22.5	22.8

Source: Company, Karvy Research


Exhibit 13: Valuation Parameters

YE Mar	FY16	FY17	FY18	FY19E	FY20E
EPS (Rs.)	5.5	8.9	9.9	12.2	14.2
DPS (Rs.)	0.6	0.7	1.4	2.0	2.5
BVPS (Rs.)	35.9	36.8	46.8	56.6	67.8
PE (x)	48.7	30.3	27.2	22.1	18.9
P/BV (x)	7.5	7.3	5.7	4.8	4.0
EV/EBITDA (x)	26.0	20.0	17.0	14.7	12.9
EV/Sales (x)	4.2	3.3	2.8	2.4	2.1

Source: Company, Karvy Research;

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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