

Buy

Spreading its wings

- Suprajit Engineering (SEL) **displayed resilient performance on the back of strong margin performance in the Automotive cable business.** Revenue grew 11.4% YoY to Rs. 4.94bn led by **10% YoY increase in cable division flat growth in PLD division and 29% YoY growth in Sena division.** EBITDA margin stood at 16.2% led by strong margin in core cable business
- Despite the weakness in domestic 2Ws OEMs production, core cable business outperformed **due to sharp jump in 4W export (won new business for EVs.) In automotive, the company has added many products like electronics instrument cluster, CBS for E 2W and the brake shoes which will aid revenue growth for medium term**
- Non-Automotive business (SENA division, Wescon and Unit 9) is on strong footing **led by new client and product addition (received gearbox cable order from Brazil for agriculture equipment and started supply of electronic throttle control in the US market)** along with strong infra push by US government through USD 2 trillion stimulus package.
- In Phoenix lamp margin pressure to continue due to share increase in prices of RM like special gases and Krypton.
- Recent acquisition of Light Duty Cable (LDC) business unit of Kongsberg Automotive ASA business at valuation of 0.5x EV/sales,** will help the company enhance its manufacturing footprint, customer base, product line and technology
- We maintain our positive stance on the stock led by 1) Strong market share in domestic 2W cable business (market share of 65%) and strong prospects for exports (both direct and indirect), 2) 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, 3) strong aftermarket in both cable and lamp division and 4) acquisition of LDC business.
- We incorporate LDC business numbers in our estimates and value the stock Rs. 433 (22x FY24E EPS) and maintain Buy rating**

Q2FY22 Result (Rs Mn)

Particulars	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)
Revenue	4,937	4,431	11.4	3,616	36.5
Total Expense	4,136	3,697	11.9	3,124	32.4
EBITDA	801	735	9.0	492	62.6
Depreciation	146	144	1.8	143	2.0
EBIT	654	591	10.7	349	87.6
Other Income	152	86	76.6	66	129.7
Interest	35	55	(35.9)	47	(25.2)
EBT	726	622	16.8	529	37.3
Tax	231	141	63.3	97	137.2
RPAT	496	481	3.1	432	14.8
APAT	540	481	12.4	270	99.8
			(bps)		(bps)
Gross Margin (%)	42.6	41.2	136	44.7	(210)
EBITDA Margin (%)	16.2	16.6	(36)	13.6	261
NPM (%)	10.0	10.8	(81)	11.9	(190)
Tax Rate (%)	31.7	22.7	905	18.4	1337
EBIT Margin (%)	13.3	13.3	(8)	9.6	361

CMP	Rs 364
Target / Upside	Rs 433 / 19%
NIFTY	18,017

Scrip Details

Equity / FV	Rs 140mn / Rs 1
Market Cap	Rs 50bn
	USD 677mn
52-week High/Low	Rs 399/ 179
Avg. Volume (no)	3,06,830
Bloom Code	SEL IN
Price Performance	1M 3M 12M
Absolute (%)	(1) 17 86
Rel to NIFTY (%)	(1) 6 48

Shareholding Pattern

	Mar'21	Jun'21	Sep'21
Promoters	44.6	44.6	44.6
MF/Banks/FIs	21.8	13.1	17.3
FIIIs	6.8	4.4	7.4
Public / Others	26.8	37.9	30.7

Valuation (x)

	FY22E	FY23E	FY24E
P/E	28.9	21.1	18.5
EV/EBITDA	17.2	13.2	11.5
ROE (%)	17.0	21.1	21.0
RoACE (%)	14.7	17.7	17.9

Estimates (Rs mn)

	FY22E	FY23E	FY24E
Revenue	18,923	28,406	31,981
EBITDA	2,910	4,072	4,569
PAT	1,743	2,391	2,719
EPS (Rs.)	12.6	17.3	19.7

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Acquisition of LDC business provides diversification

- Suprajit Engineering acquired the Light Duty Cable (LDC) business unit of Kongsberg Automotive ASA, Norway on October 28, 2021. This transaction involves the transfer of global sales and engineering expertise of the LDC business to Suprajit. The transaction is expected to close by the end of February 2022.
- Enterprise Value of the LDC business is pegged around Rs. 3.15bn (\$42mn) (cash+debt) with company clocking revenues of around Rs. 6.7bn (\$90mn) in CY21.
- All three subsidiaries of Kongsberg Automotive would be 100% step down subsidiary of Suprajit USA inc post competition of transaction.
- Post the acquisition engineering capability of company will strengthen further, also help Wescon to tap automotive segment going forward, would increase content per vehicle for existing customer and foray in to new segment electromechanical actuation (“EMA”) systems.
- Revenue is expected to grow at a CAGR of 10-15% between CY21 to CY25. In CY22, LDC business is positioned to clock revenue of around Rs. 7.5bn (\$100 mn) with an EBITDA margin estimated to be upwards of 10%.
- Major revenues of the company come from regions like America (59%), Europe (21%), APAC (15%) and others (5%). 72% revenue come from automotive and 28% from off highway.
- Main products that form the company's portfolio consists of Seats (38%), Body (31%), outdoor power equipment (20%), Motorcycles (5%) and others (6%).
- This integration of the LDC business will help the company enhance its manufacturing footprint, customer base, product line and technology. Through this transaction, Suprajit will also add key actuation technologies that will help serve the company's existing as well as new customers. EMA will emerge as a new product segment in the future for the company. This will help the company to serve new OEMs in Electric vehicle segments, i.e Lucid, Lordstown Motor, Tesla, Xpeng etc. The acquisition cost is 0.5x EV/sales which is much lower than current EV/sales of Suprajit at 3x, which looks lucrative.

Concall Highlights

SEL Consol

- Despite various challenges like supply chain constraints, port congestion, container shortages, commodity inflation and muted festive sale, the company outperformed due to strong growth in core cable business (new business won in 4W), price hike and strong aftermarket.
- Going forward for H2FY22 management expects, chip shortages continue to impact the business performance and margin pressure to continue. However, Company expects sustainable margin for consol business to be around 14-16% and expects new products, patents and LDC business to support business growth going forward.
- Automotive cable business margin increases on QoQ basis due to RM cost passed on (received RM compensation for prior period as well). Margins for SENA division is fluctuating and expected to improve further.

- Company expects shifting focus of global players for localization will help SEL as its manufacturing plants now are present in North America, India and China.
- Capex for next 2 years would be Rs.1.25bn for India and \$42mn for LDC business. Company expects debt levels to increase by Rs.750-800mn in FY23 due to capex as well as acquisition effect.
- Capex would be towards Narsmapura plant, consolidating of units 8 (for aftermarket), setting up new HS1 line (Phoenix lamp), electronic setup (instrument cluster) and solar panel (for captive consumption).
- Gross debt reduces from Rs.3.27bn in March-21 to Rs.3.16bn in 1HFY22.
- Company continue to focus on three 3C strategy i.e. Content increase, compensate (RM impact pass on) and connect (new business).

Automotive cable division

- In export segment company has done well by winning new orders. However, facing container shortage.

Phoenix Lamp

- Facing cost pricing pressure in the Phoenix Lamps Division (PLD) due to higher gas prices, company has pass on RM cost in certain segments to domestic customer.
- Trifa and Luxlite continue to be face challenges in Q2 as well, Management has taken a provisions related to Luxlite, and have fully written down the investment value of Rs.484.79 million in Luxlite due to revolution of assets. A provision for impairment of Rs.127.25 million towards goodwill is also made. Expect final restructuring to be done going forward.
- Company has started construction of new plant at Bommsandra ind area for aftermarket division with capacity of 140k SFT.
- Narsapura plant expected to complete by this year.

SENA Business (Suprajit Engineering non-automotive)

- SENa division has started experiencing pick up in Volumes and company expects this to continue and also in discussion with OEMs to pass on the RM prices.

Automotive LDC business- Kongsberg

- Enterprise Value of the LDC business is pegged around Rs. 3.15bn (\$42mn) with company clocking revenues of around Rs. 6.7bn (\$90mn) in CY21. Expect to close the transaction by Q4FY22. On completion, Suprajit's overall cable capacity will be 400 million / year with manufacturing footprints in China, Hungary and Mexico along with tech center in Detroit.
- Company expects to fund acquisition and capex to be funded by Debt: Equity in the ratio of 50:50.
- LDC business is positioned to clock revenue of around Rs. 7.5bn (\$100 mn) with an EBITDA margin estimated to be upwards of 10% (led by cost optimization method). Expect overall revenue to grow above industry growth with the help of LDC business.
- Under LDC business, company has only acquired the operating units of Kongsberg and not the overhead business of the company.

- Company expects ROCE for its US subsidiary to be at similar levels as its Indian business and expects this subsidiary to provide operational leverage to the company.
- Post the acquisition engineering capability of company will strengthen further, also help wescon to tap automotive segment going forward, would increase content per vehicle for existing customer and foray in to new segment electromechanical actuation (“EMA”) systems.
- With this acquisition company has broken the entry barrier to access large global OEM in premium seating arrangement which was not possible earlier.
- Company supply door and seat cable to OEMs, don’t expect any threat from EVs as most of the product is EV agnostic.

Suprajit Technology Centre-STC

- STC now fully operational, Initial business won and expected order annualised basis is over Rs. 1bn (production yet to start). Company will manufacture product such as Digital Speedo Meter, Throttle position sensor, Rotary sensor, CBS Mechanisms, Seeder gear boxes with electromechanical clutches.
- Under STC, Company has taken 15 patents registration till date.

Exhibit 1: Actual vs Dart Estimates

(Rs Mn)	Actual	DART Est	% Variance	Remarks
Revenue	4,937	4,658	6	RM cost pass on
EBIDTA	801	736	9	
EBIDTA Margin %	16.2	15.8	42bps	
PAT	540	459	18	

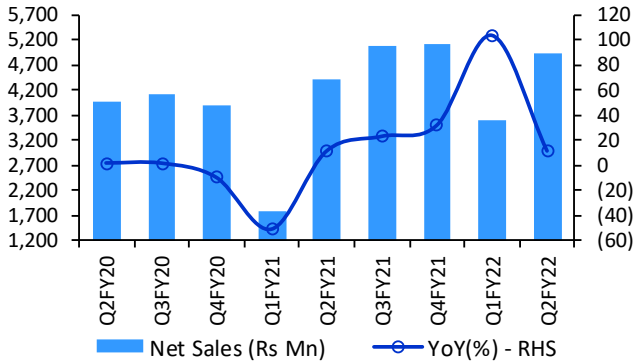
Source: DART, Company

Exhibit 2: Change in Estimates

Rs Mn	FY22E			FY23E		
	New	Previous	% Chg	New	Previous	% Chg
Net sales	18,923	18,923	0.0	28,406	21,552	31.8
EBITDA	2,910	2,910	0.0	4,072	3,390	20.1
EBITDA margin(%)	15.38	15.38	0.0	14.33	15.73	(139.7)
APAT	1,743	1,785	(2.4)	2,391	2,186	9.4
EPS	12.6	12.9	(2.4)	17.28	15.80	9.4

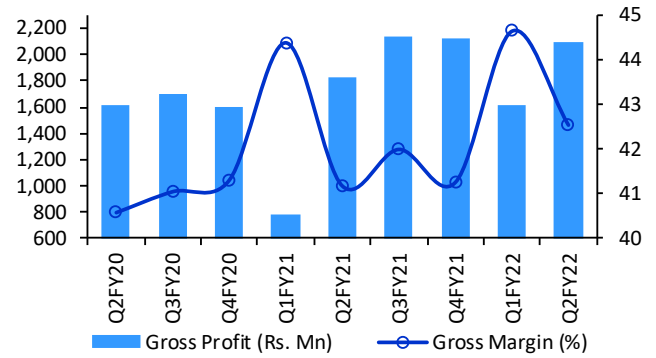
Source: DART, Company

Exhibit 3: Revenue grew QoQ



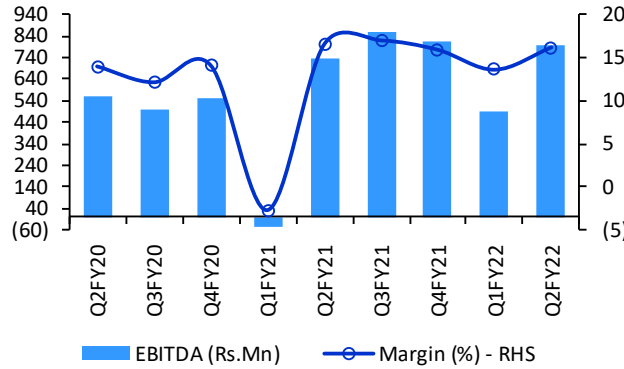
Source: DART, Company

Exhibit 4: Gross margin contracted QoQ



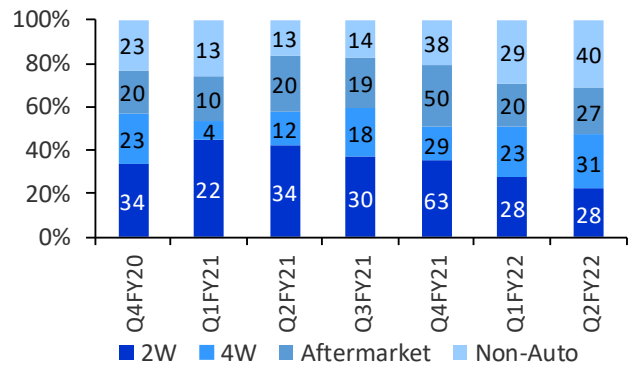
Source: DART, Company

Exhibit 5: EBITDA margin improved YoY



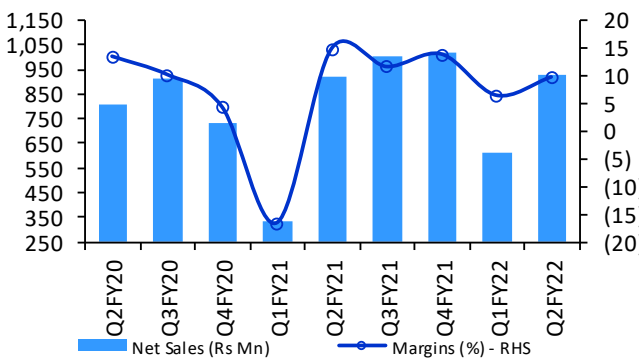
Source: DART, Company

Exhibit 6: Segment mix (%)



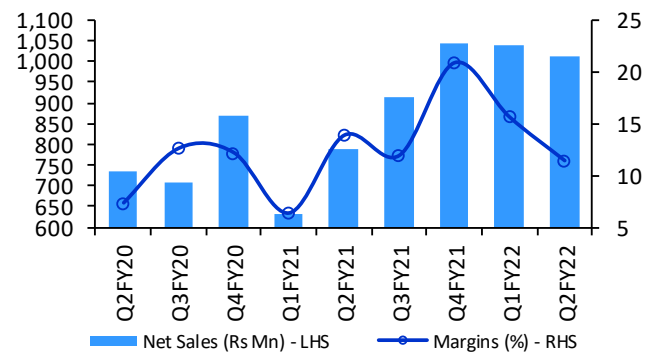
Source: DART, Company

Exhibit 7: Phoenix – margin improved QoQ



Source: DART, Company

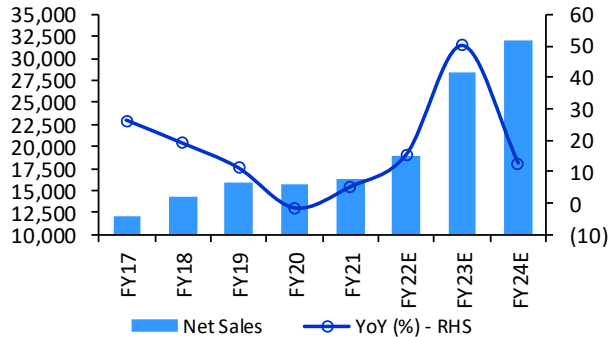
Exhibit 8: Wescon –margin contracted QoQ



Source: DART, Company

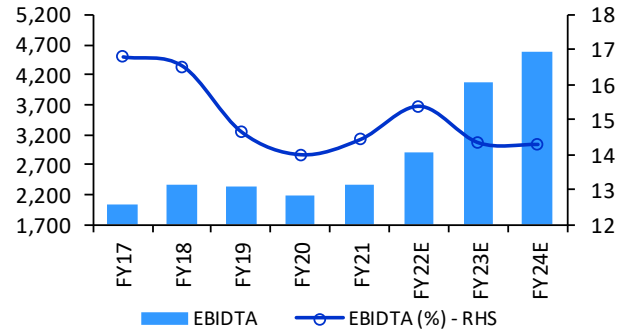
Annual Charts

Exhibit 9: Revenue to improve from FY22



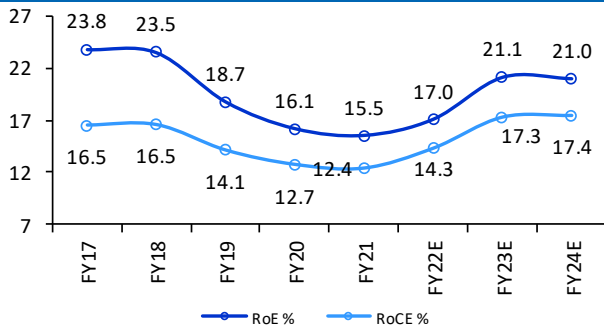
Source: DART, Company

Exhibit 10: Margin- US business mix to increase



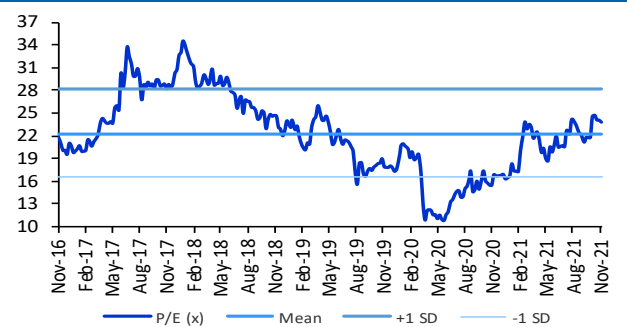
Source: DART, Company

Exhibit 11: RoE/ RoCE trend



Source: DART, Company

Exhibit 12: 1yrs Fwd PE Band



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY21A	FY22E	FY23E	FY24E
Revenue	16,409	18,923	28,406	31,981
Total Expense	14,041	16,013	24,335	27,412
COGS	9,547	10,976	16,731	18,837
Employees Cost	3,083	3,391	5,217	5,889
Other expenses	1,411	1,646	2,386	2,686
EBIDTA	2,367	2,910	4,072	4,569
Depreciation	568	684	973	1,019
EBIT	1,800	2,227	3,099	3,550
Interest	192	199	238	302
Other Income	336	353	406	466
Exc. / E.O. items	0	0	0	0
EBT	1,943	2,381	3,266	3,714
Tax	516	638	875	995
RPAT	1,427	1,743	2,391	2,719
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,427	1,743	2,391	2,719

Balance Sheet

(Rs Mn)	FY21A	FY22E	FY23E	FY24E
Sources of Funds				
Equity Capital	140	140	140	140
Minority Interest	0	0	0	0
Reserves & Surplus	9,757	10,408	11,960	13,692
Net Worth	9,897	10,548	12,100	13,832
Total Debt	2,704	2,204	3,754	2,954
Net Deferred Tax Liability	552	552	552	552
Total Capital Employed	13,154	13,305	16,406	17,338

Applications of Funds

Net Block	4,624	5,240	7,716	7,246
CWIP	49	49	49	49
Investments	1,705	1,705	1,705	1,705
Current Assets, Loans & Advances	10,749	9,919	11,046	12,992
Inventories	3,145	3,111	4,747	5,257
Receivables	3,320	3,629	5,448	6,309
Cash and Bank Balances	3,788	2,513	170	727
Loans and Advances	140	286	301	319
Other Current Assets	355	380	380	380
Less: Current Liabilities & Provisions	3,973	3,608	4,110	4,653
Payables	2,476	1,750	1,996	2,244
Other Current Liabilities	1,497	1,858	2,115	2,409
<i>sub total</i>				
Net Current Assets	6,776	6,311	6,935	8,338
Total Assets	13,154	13,305	16,406	17,338

E – Estimates

Important Ratios

Particulars	FY21A	FY22E	FY23E	FY24E
(A) Margins (%)				
Gross Profit Margin	41.8	42.0	41.1	41.1
EBIDTA Margin	14.4	15.4	14.3	14.3
EBIT Margin	11.0	11.8	10.9	11.1
Tax rate	26.6	26.8	26.8	26.8
Net Profit Margin	8.7	9.2	8.4	8.5
(B) As Percentage of Net Sales (%)				
COGS	58.2	58.0	58.9	58.9
Employee	18.8	17.9	18.4	18.4
Other	8.6	8.7	8.4	8.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.2	0.3	0.2
Interest Coverage	9.4	11.2	13.0	11.8
Inventory days	70	60	61	60
Debtors days	74	70	70	72
Average Cost of Debt	6.6	8.1	8.0	9.0
Payable days	55	34	26	26
Working Capital days	151	122	89	95
FA T/O	3.5	3.6	3.7	4.4
(D) Measures of Investment				
AEPS (Rs)	10.3	12.6	17.3	19.7
CEPS (Rs)	14.4	17.5	24.3	27.0
DPS (Rs)	1.8	3.8	5.2	6.1
Dividend Payout (%)	17.2	30.0	30.0	31.0
BVPS (Rs)	71.5	76.2	87.4	100.0
RoANW (%)	15.5	17.0	21.1	21.0
RoACE (%)	12.8	14.7	17.7	17.9
RoAIC (%)	18.9	22.1	22.9	21.6
(E) Valuation Ratios				
CMP (Rs)	364	364	364	364
P/E	35.3	28.9	21.1	18.5
Mcap (Rs Mn)	50,325	50,325	50,325	50,325
MCap/ Sales	3.1	2.7	1.8	1.6
EV	49,241	50,017	53,910	52,552
EV/Sales	3.0	2.6	1.9	1.6
EV/EBITDA	20.8	17.2	13.2	11.5
P/BV	5.1	4.8	4.2	3.6
Dividend Yield (%)	0.5	1.0	1.4	1.7
(F) Growth Rate (%)				
Revenue	5.0	15.3	50.1	12.6
EBITDA	8.2	23.0	39.9	12.2
EBIT	12.1	23.7	39.1	14.6
PBT	46.3	22.5	37.2	13.7
APAT	8.6	22.1	37.2	13.7
EPS	8.6	22.1	37.2	13.7

Cash Flow

(Rs Mn)	FY21A	FY22E	FY23E	FY24E
CFO	1,610	1,809	634	3,195
CFI	(598)	(1,299)	(3,449)	(549)
CFF	(860)	(1,785)	472	(2,088)
FCFF	1,280	510	(2,815)	2,645
Opening Cash	2,509	3,788	2,513	170
Closing Cash	3,788	2,513	170	727

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-20	Buy	245	196
Feb-21	Accumulate	284	257
May-21	Accumulate	298	267
Aug-21	Accumulate	377	338

*Price as on recommendation date

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