

Suprajit Engineering | BUY

Healthy Qtr; Strong order wins / restructuring to drive performance

Suprajit Engineering (SEL) reported consolidated EBITDAM margin of 12.1% (+40bps YoY, +220bps QoQ), 110bps above JMFe led by better operating efficiencies. Restructuring at PLD has started yielding results. Company indicated that new order wins for SCD and SED division remain healthy led by its strategy of 'beyond cables products'. However, growth in non-automotive cables segment is expected to remain muted in the near-term owing to weak demand in the end-markets. Near-term margin performance is expected to be supported by moderating commodity cost, better mix, operating efficiencies and cost control measures. We expect revenue/EPS CAGR of 8%/24% over FY23-26E. Maintain BUY with Mar'25 TP of INR 420 (1yr fwd PE: 20x). Inability to deliver healthy performance at subsidiaries is a key risk.

- 3QFY24 – margin beats estimates:** SEL reported consol. net sales stood at INR 7.2bn (+5% YoY, +2% QoQ), 2% above JMFe. EBITDA stood at INR 873mn (+8% YoY, +25% QoQ). EBITDA margin stood at 12.1% (+40bps YoY, +220bps QoQ), 110bps above JMFe. Sequential improvement was led by operating efficiencies owing to completion of restructuring exercise in Phoenix lamps and LDC-China. Adj. PAT came-in at INR 402mn (+6% YoY, +16% QoQ). Gross debt declined by INR 194mn during 9M to INR 6.2bn. Company maintained its capex guidance of INR 1.4bn over next 12-18 months towards capacity addition and restructuring operations.
- Suprajit Controls Division (SCD):** Revenue for 3Q stood at INR 3.1bn (-5% YoY; -3% QoQ). EBITDA margin improved 270bps QoQ to 6.2% (-40bpsYoY). Automotive business performance was affected owing to UAW strikes in North America during Oct'23. Non-automotive cables business has declined by c.15 YoY owing to inventory correction and muted demand environment. However, SEL remains hopeful of NA non-automotive market bottoming-out during 4Q. China plant relocation / restructuring is complete and the management is working towards new business development. During 3Q, SEL won an order worth USD 5mn / year from a marquee NA customer. The strategy of 'One Suprajit' as a global platform has led to multiple new businesses wins (across both Auto and non-Auto cables and Actuators) and is expected to drive healthy growth going forward.
- Domestic cable division (DCD):** Revenue for 3Q stood at INR 2.9bn (+8% YoY; +3% QoQ). Margin came at 18.4% (-10bps YoY; +180bps QoQ). The company indicated growth in the DCD vertical is led by PVs. Domestic 2W market has also started recovering (though entry-level segment still remains a laggard). Aftermarket segment continued to remain tepid but the company expects a gradual recovery going ahead. DCD vertical has started winning new 'non-cable' businesses (includes CBS, actuators, latch assembly etc) some of which are commercialised and expected to ramp-up in the coming qtrs.
- Phoenix Lamps division (PLD):** Revenue stood at INR 1.03bn (+7% YoY, +5% QoQ). Margin came in at 12.4% (+150bps YoY, +10bps QoQ), 40bps above JMFe. Restructuring at PLD has started yielding results and the company expects further improvement in operational efficiencies. The company reiterated its stance to be the last man standing for PLD and expects aftermarket segment to drive growth. Recent launch of LED retrofit has been received well in the aftermarket segment.

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	18,405	27,524	28,855	31,880	34,577
Sales Growth (%)	12.2	49.5	4.8	10.5	8.5
EBITDA	2,599	3,126	3,286	4,046	4,628
EBITDA Margin (%)	14.1	11.4	11.4	12.7	13.4
Adjusted Net Profit	1,614	1,521	1,590	2,364	2,918
Diluted EPS (INR)	11.7	11.0	11.5	17.1	21.1
Diluted EPS Growth (%)	14.3	-5.8	4.5	48.7	23.4
ROIC (%)	15.3	12.7	11.4	15.9	18.2
ROE (%)	15.6	13.2	12.3	16.3	17.3
P/E (x)	33.0	35.0	33.5	22.5	18.3
P/B (x)	4.9	4.4	3.9	3.4	2.9
EV/EBITDA (x)	20.0	17.5	16.3	12.8	10.7
Dividend Yield (%)	0.5	0.6	0.6	0.6	0.6

Source: Company data, JM Financial. Note: Valuations as of 14/Feb/2024



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	420
Upside/(Downside)	9.0%
Previous Price Target	420
Change	0.0%

Key Data – SEL IN

Current Market Price	INR385
Market cap (bn)	INR53.3/US\$0.6
Free Float	51%
Shares in issue (mn)	138.4
Diluted share (mn)	138.4
3-mon avg daily val (mn)	INR135.0/US\$1.6
52-week range	447/323
Sensex/Nifty	71,823/21,840
INR/US\$	83.0

Price Performance

%	1M	6M	12M
Absolute	-5.1	-3.9	11.1
Relative*	-4.1	-12.5	-5.6

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- **Suprajit Electronics Division and Technology Centre (SED & STC):** The segment has started ramping-up with revenue at INR 191mn (vs. INR 70mn in 2Q). EBITDA margins also improved sequentially to c.11% (vs. 5% in 2Q). SED continues to win new orders for multiple products like Digital Clusters, Electro Mechanical Actuators, Rotary Sensors, Throttle Position Sensors, etc. from traditional and new-age OEMs. Current capacity utilisation for some of these products stand at c.54% and the company plans to ramp this up to c.70-80% in the near-term. SEL continues to receive positive customer interest and these products are at different levels of approval with prospective customers.
- **Other Highlights:** Red Sea crisis has led to increase in shipping cost and delays in shipments which may impact the near-term performance.

Exhibit 1. Quarterly financial result (consolidated)

(INR mn)	3QFY24	3QFY23	% YoY	2QFY24	% QoQ	3QFY24E	% A/E
Sales	7,242	6,921	4.6	7,089	2.2	7,084	2.2
RM	4,234	4,080	3.8	4,201	0.8	4,109	3.0
As a % of sales	58.5	58.9	-50bps	59.3	-80bps	58.0	50bps
Employee Exp	1,510	1,389	8.7	1,565	-3.5	1,566	-3.6
As a % of sales	20.8	20.1	80bps	22.1	-120bps	22.1	-130bps
Other Costs	626	643	-2.7	625	0.1	630	-0.8
As a % of sales	8.6	9.3	-70bps	8.8	-20bps	8.9	-30bps
Expenditure	6,369	6,112	4.2	6,391	-0.3	6,305	1.0
Adj. EBITDA	873	809	7.9	698	25.0	779	12.0
Adj. EBITDA Margin	12.1	11.7	40bps	9.8	220bps	11.0	110bps
Other Income	90	52	73.1	187	-52.2	150	-40.3
Interest	132	104	27.3	136	-3.2	140	-5.7
Depreciation	258	247	4.6	257	0.6	265	-2.5
PBT	572	510	12.2	492	16.2	524	9.1
Tax	169	129	30.8	145	17.2	152	11.4
Tax rate (%)	29.6	25.4	420bps	29.4	20bps	29.0	60bps
PAT Reported	402	380	5.8	348	15.8	372	8.1
PAT (Adjusted)	402	380	5.8	348	15.8	372	8.1
PAT Margin (%)	5.6	5.5	10bps	4.9	70bps	5.3	30bps
EPS (INR)	2.9	2.7	5.8	2.5	15.8	2.7	8.1

Source: Company, JM Financial

Exhibit 2. Segmental performance

(INR mn)	3QFY24	3QFY23	% YoY	2QFY24	% QoQ
Suprajit Controls Division (SCD)					
Net sales	3,136	3,286	-4.6	3,244	-3.3
EBITDA	193	217	-10.9	111	74.2
EBITDA Margin	6.2	6.6	-40bps	3.4	270bps
Domestic Cable Division (DCD)					
Net sales	2,886	2,669	8.1	2,795	3.2
EBITDA	530	493	7.7	463	14.6
EBITDA Margin	18.4	18.5	-10bps	16.6	180bps
Phoenix lamps					
Net sales	1,029	966	6.6	980	5.0
EBITDA	128	105	21.3	121	5.7
EBITDA Margin	12.4	10.9	150bps	12.3	10bps
Suprajit Electronics Division (SED)					
Net sales	191	NA	NA	70	174.7
EBITDA	21	NA	NA	4	498.9
EBITDA Margin	11.1	NA	NA	5	600bps

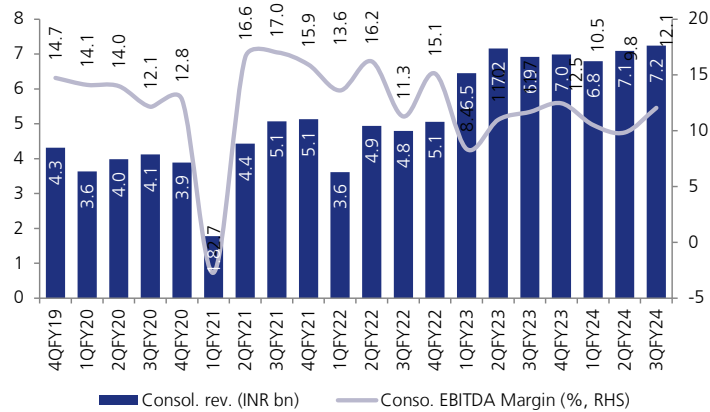
Source: Company, JM Financial

Exhibit 3. Quarterly financial result (standalone)

(INR mn)	3QFY24	3QFY23	% YoY	2QFY24	% QoQ	3QFY24E	% A/E
Net revenue	4,052	3,683	10.0	3,855	5.1	4,048	0.1
RM	2,502	2,292	9.2	2,415	3.6	2,530	-1.1
As a % of sales	61.7	62.2	-50bps	62.6	-90bps	62.5	-80bps
Employee Exp	535	465	14.9	522	2.3	548	-2.5
As a % of sales	13.2	12.6	60bps	13.6	-40bps	13.6	-40bps
Other Costs	271	235	15.7	257	5.6	267	1.6
As a % of sales	6.7	6.4	30bps	6.7	0bps	6.6	10bps
Expenditure	3,308	2,992	10.6	3,194	3.6	3,345	-1.1
EBITDA	744	692	7.6	661	12.6	702	6.0
EBITDA Margin (%)	18.4	18.8	-40bps	17.1	120bps	17.4	100bps
PAT (Adjusted)	573	545	5.2	587	-2.4	594	-3.5
EPS (INR)	4.1	3.9	5.2	4.2	-2.4	4.3	-3.5

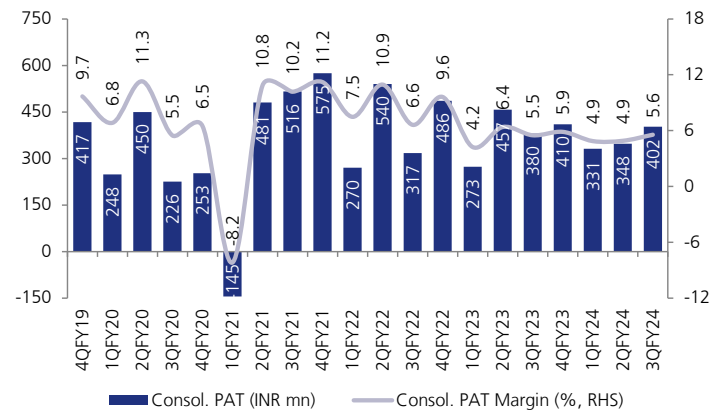
Source: Company, JM Financial

Exhibit 4. Consolidated revenue and margin trend



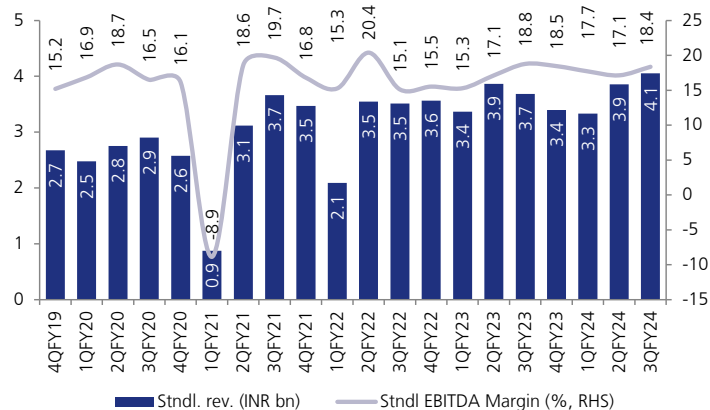
Source: Company, JM Financial

Exhibit 5. Consolidated profit trend



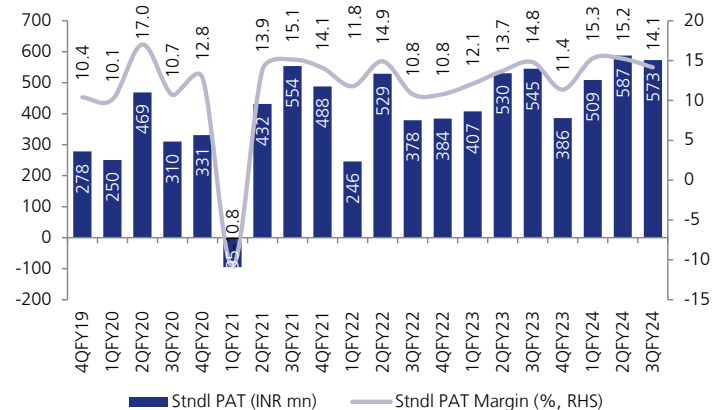
Source: Company, JM Financial

Exhibit 6. Standalone revenue and margin trend



Source: Company, JM Financial

Exhibit 7. Standalone profit trend



Source: Company, JM Financial

Exhibit 8. SEL - change in assumptions (Consolidated)

SEL - Consolidated	New assumption			Old assumption			% Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (INR mn)	28,855	31,880	34,577	29,369	32,451	35,115	-2%	-2%	-2%
EBITDA (INR mn)	3,286	4,046	4,628	3,159	4,072	4,683	4%	-1%	-1%
EBITDAM (%)	11.4%	12.7%	13.4%	10.8%	12.5%	13.3%	60bps	20bps	10bps
PAT (INR mn)	1,590	2,364	2,918	1,734	2,523	3,116	-8%	-6%	-6%
EPS (INR)	11.5	17.1	21.1	12.5	18.2	22.5	-8%	-6%	-6%

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	18,405	27,524	28,855	31,880	34,577
Sales Growth	12.2%	49.5%	4.8%	10.5%	8.5%
Total Revenue	18,405	27,524	28,855	31,880	34,577
Cost of Goods Sold/Op. Exp	10,787	16,169	16,828	18,178	19,663
Personnel Cost	3,364	5,744	6,210	6,909	7,366
Other Expenses	1,655	2,484	2,531	2,746	2,919
EBITDA	2,599	3,126	3,286	4,046	4,628
EBITDA Margin	14.1%	11.4%	11.4%	12.7%	13.4%
EBITDA Growth	9.8%	20.3%	5.1%	23.1%	14.4%
Depn. & Amort.	585	955	1,027	1,063	1,136
EBIT	2,014	2,172	2,259	2,983	3,493
Other Income	366	386	522	600	690
Finance Cost	145	356	510	426	285
PBT before Excep. & Forex	2,235	2,202	2,271	3,158	3,897
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	2,235	2,202	2,271	3,158	3,897
Taxes	621	681	681	793	979
Extraordinary Inc./Loss(-)	-116	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	1,498	1,521	1,590	2,364	2,918
Adjusted Net Profit	1,614	1,521	1,590	2,364	2,918
Net Margin	8.8%	5.5%	5.5%	7.4%	8.4%
Diluted Share Cap. (mn)	138.4	138.4	138.4	138.4	138.4
Diluted EPS (INR)	11.7	11.0	11.5	17.1	21.1
Diluted EPS Growth	14.3%	-5.8%	4.5%	48.7%	23.4%
Total Dividend + Tax	277	298	304	346	346
Dividend Per Share (INR)	2.0	2.2	2.2	2.5	2.5

Source: Company, JM Financial

Cash Flow Statement					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	2,235	2,202	2,271	3,158	3,897
Depn. & Amort.	585	955	1,027	1,063	1,136
Net Interest Exp. / Inc. (-)	145	356	510	426	285
Inc (-) / Dec in WCap.	111	-3,622	-62	-515	-339
Others	-116	0	0	0	0
Taxes Paid	-621	-681	-681	-793	-979
Operating Cash Flow	2,339	-791	3,064	3,338	4,000
Capex	-532	-3,329	-1,400	-1,000	-1,000
Free Cash Flow	1,807	-4,120	1,664	2,338	3,000
Inc (-) / Dec in Investments	0	0	0	0	0
Others	-145	-356	-510	-426	-285
Investing Cash Flow	-678	-3,685	-1,910	-1,426	-1,285
Inc / Dec (-) in Capital	-1	0	0	0	0
Dividend + Tax thereon	-277	-298	-304	-346	-346
Inc / Dec (-) in Loans	-212	3,810	-750	-1,500	-2,250
Others	-233	153	0	0	0
Financing Cash Flow	-723	3,665	-1,054	-1,846	-2,596
Inc / Dec (-) in Cash	938	-811	100	67	119
Opening Cash Balance	941	1,879	1,068	1,168	1,235
Closing Cash Balance	1,879	1,068	1,168	1,235	1,353

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	10,840	12,245	13,530	15,548	18,121
Share Capital	138	138	138	138	138
Reserves & Surplus	10,701	12,106	13,392	15,410	17,982
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	3,365	7,175	6,425	4,925	2,675
Def. Tax Liab. / Assets (-)	554	482	482	482	482
Total - Equity & Liab.	14,759	19,902	20,438	20,956	21,278
Net Fixed Assets	5,978	8,353	8,726	8,663	8,527
Gross Fixed Assets	7,411	10,461	11,861	12,861	13,861
Intangible Assets	1,261	1,364	1,364	1,364	1,364
Less: Depn. & Amort.	2,795	3,750	4,777	5,840	6,976
Capital WIP	102	278	278	278	278
Investments	2,619	4,451	4,951	4,951	4,951
Current Assets	8,788	11,416	11,600	12,695	13,736
Inventories	3,433	4,826	4,743	5,241	5,684
Sundry Debtors	2,972	4,608	4,743	5,241	5,684
Cash & Bank Balances	1,879	1,068	1,168	1,235	1,353
Loans & Advances	327	646	678	712	748
Other Current Assets	178	267	267	267	267
Current Liab. & Prov.	2,626	4,318	4,840	5,354	5,937
Current Liabilities	1,980	3,007	3,311	3,570	3,855
Provisions & Others	646	1,311	1,529	1,784	2,082
Net Current Assets	6,162	7,098	6,760	7,342	7,800
Total - Assets	14,759	19,902	20,438	20,956	21,278

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	8.8%	5.5%	5.5%	7.4%	8.4%
Asset Turnover (x)	1.3	1.6	1.4	1.5	1.6
Leverage Factor (x)	1.4	1.5	1.6	1.4	1.3
RoE	15.6%	13.2%	12.3%	16.3%	17.3%

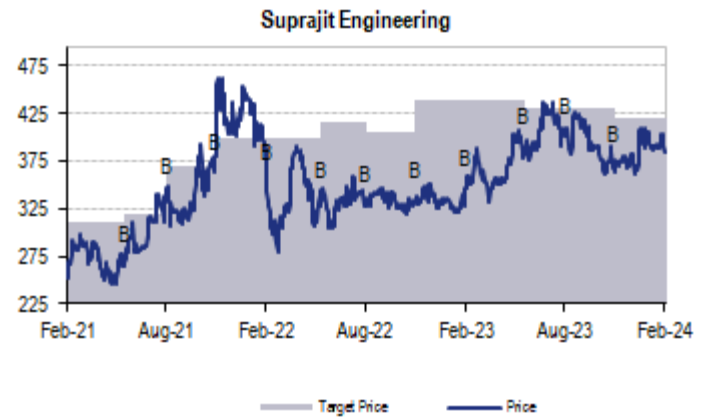
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	78.3	88.5	97.8	112.4	130.9
ROIC	15.3%	12.7%	11.4%	15.9%	18.2%
ROE	15.6%	13.2%	12.3%	16.3%	17.3%
Net Debt/Equity (x)	-0.1	0.1	0.0	-0.1	-0.2
P/E (x)	33.0	35.0	33.5	22.5	18.3
P/B (x)	4.9	4.4	3.9	3.4	2.9
EV/EBITDA (x)	20.0	17.5	16.3	12.8	10.7
EV/Sales (x)	2.8	2.0	1.9	1.6	1.4
Debtor days	59	61	60	60	60
Inventory days	68	64	60	60	60
Creditor days	45	44	46	46	46

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
3-Feb-20	Buy	230	
13-Apr-20	Buy	170	-26.1
16-Jun-20	Buy	165	-2.9
20-Jul-20	Buy	190	15.2
24-Aug-20	Buy	245	28.9
13-Nov-20	Buy	245	0.0
14-Jan-21	Buy	280	14.3
11-Feb-21	Buy	310	10.7
31-May-21	Buy	320	3.2
15-Aug-21	Buy	370	15.6
11-Nov-21	Buy	400	8.1
14-Feb-22	Buy	400	0.0
26-May-22	Buy	415	3.8
15-Aug-22	Buy	405	-2.4
15-Nov-22	Buy	440	8.6
14-Feb-23	Buy	440	0.0
30-May-23	Buy	430	-2.3
15-Aug-23	Buy	430	0.0
12-Nov-23	Buy	420	-2.3

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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