

Suprajit Engineering Limited's (SEL) Q3 margin performance was strong (rose 220bps QoQ to 12.1%), with PAT largely in-line with our estimates. While the global-facing business (particularly non-autos) may remain weak in the near term, we believe that: i) market-share gains owing to competitive pricing/scale and industry consolidation, ii) growth in content per vehicle (led by new products), iii) healthy order wins, and iv) cyclical recovery in domestic 2Ws, would drive ~12% revenue CAGR over FY24E-26E. We have cut FY24E/FY25E/FY26E EPS by ~5%/~8%/~8% on soft non-auto exports outlook for next few quarters and higher interest expenses. Retain ADD with revised TP of Rs420 at 18x FY26E EPS. Key risks: Lower-than-expected growth in underlying segments and adverse movement in currency/commodity prices.

### Suprajit Engineering: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	18,405	27,524	28,357	31,341	35,495
EBITDA	2,599	3,126	3,187	4,232	5,240
Adj. PAT	1,614	1,521	1,538	2,452	3,192
Adj. EPS (Rs)	11.7	11.0	11.1	17.7	23.1
EBITDA margin (%)	14.1	11.4	11.2	13.5	14.8
EBITDA growth (%)	9.8	20.3	2.0	32.8	23.8
Adj. EPS growth (%)	22.6	(12.1)	1.1	59.5	30.2
RoE (%)	15.6	13.2	12.0	17.0	19.2
RoIC (%)	15.0	12.8	11.2	15.4	19.0
P/E (x)	33.0	35.1	34.7	21.7	16.7
EV/EBITDA (x)	20.0	17.4	16.8	12.4	9.7
P/B (x)	4.9	4.4	4.0	3.5	3.0
FCFF yield (%)	2.5	2.7	2.8	3.6	4.8

Source: Company, Emkay Research

### Strong margin performance in Q3

Revenue grew ~5% YoY to ~Rs7.2bn (in-line); Domestic Cables Division (DCD) revenues grew 8% YoY; Suprajit Controls Division (SCD) revenues declined 4.6%. EBITDA margins improved ~220bps QoQ to 12.1% (Emkay est.:10.6%; Consensus est.:10.7%) on account of gross margin expansion and reduction in employee cost. SCD/DCD margins improved by ~280bps/~180bps QoQ; Phoenix Lamps Division (PLD) margins sustained QoQ at 12.4%, while Suprajit Electronics Division (SED) margins stood at 11.1% vs. 5.1% in Q2. Reported PAT grew ~6% YoY to Rs402mn. Company declared an interim dividend of Rs.1.1/sh for FY24. Debt stands at Rs6.2bn.

### Earnings call KTAs

1) Company expects Q4 to be a decent quarter overall, with comfortable double-digit growth next year; Indian automotive market is showing signs of growth; hopeful that weakness in non-automotive category in North America would bottom out soon; 2) In SCD (currently operating at ~50% utilization), the company has won new orders in auto and non-auto; comfortable double-digit revenue growth is seen in automotive category for FY25E and FY26E. It expects to gain from global vendor consolidation in this division; SCD margins to reach double-digits in 3-4 quarters, driven by better pricing in new wins, operating leverage and shifting of low-margin businesses outside India to within India; 3) DCD to be helped by improvement seen in 2Ws and aftermarket segment, which have been tepid till Q3; 4) PLD continues to grow with consistent double-digit margins; Trifa brand has now been acquired by SEL with liquidation expected in couple of quarters; 5) SED has ramped-up deliveries of actuators, digital clusters, and throttle position controls to ICE and EV 2/3W clients – with new wins progressing well; it has crossed Rs100mn/mth revenue run rate, which will continue for few more quarters; 6) The Red Sea issue has led to 7-9x spike in container costs, and would affect Q4 margins, but growth and other initiatives are seen offsetting some of the impact; 7) SEL has acquired land recently and is looking for more land parcels to cater to growth requirements.

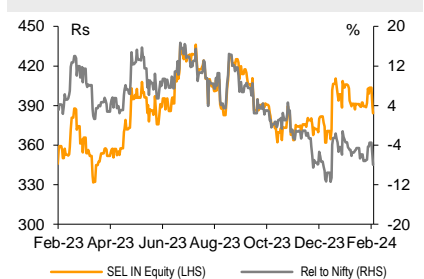
Target Price – 12M	Mar-25
Change in TP (%)	(6.7)
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	9.0
CMP (14-Feb-24) (Rs)	385.4

Stock Data	Ticker
52-week High (Rs)	447
52-week Low (Rs)	323
Shares outstanding (mn)	138.4
Market-cap (Rs bn)	53
Market-cap (USD mn)	642
Net-debt, FY24E (Rs mn)	274
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	135.0
ADTV-3M (USD mn)	1.6
Free float (%)	55.4
Nifty-50	21,840
INR/USD	83.0
<b>Shareholding, Dec-23</b>	
Promoters (%)	44.6
FPIs/MFs (%)	4.6/16.2

### Price Performance

(%)	1M	3M	12M
Absolute	(5.1)	5.9	11.1
Rel. to Nifty	(4.8)	(5.7)	(8.8)

### 1-Year share price trend (Rs)



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**Exhibit 1: Quarterly snapshot (Q3FY24): Revenue up by ~5% YoY; margins expand ~220bps sequentially on account of gross margins expansion and lower employee cost**

(Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>6,921</b>	<b>6,990</b>	<b>6,797</b>	<b>7,089</b>	<b>7,242</b>	<b>4.6</b>	<b>2.2</b>
Expenditure	6,112	6,119	6,082	6,391	6,369	4.2	(0.3)
<i>as % of sales</i>	88.3	87.5	89.5	90.2	87.9		
Consumption of RM	4,080	3,907	3,906	4,201	4,234	3.8	0.8
<i>as % of sales</i>	58.9	55.9	57.5	59.3	58.5		
Employee Cost	1,389	1,484	1,535	1,565	1,510	8.7	(3.5)
<i>as % of sales</i>	20.1	21.2	22.6	22.1	20.8		
Other expenditure	643	728	641	625	626	(2.7)	0.1
<i>as % of sales</i>	9.3	10.4	9.4	8.8	8.6		
EBITDA	809	871	715	698	873	7.9	25.0
<b>EBITDA margin (%)</b>	<b>11.7</b>	<b>12.5</b>	<b>10.5</b>	<b>9.8</b>	<b>12.1</b>		
Depreciation	247	231	247	257	258	4.6	0.6
EBIT	562	640	468	441	614	9.3	39.3
Other Income	52	56	129	187	90	73.1	(52.2)
Interest	104	115	118	136	132	27.3	(3.2)
PBT	510	581	479	492	572	12.2	16.2
Total Tax	129	171	148	145	169	30.8	17.2
Minority interest/ Associate share							
Adjusted PAT	380	410	331	348	402	5.8	15.8
Extra ordinary items Loss/(Gain)	0	0	0	0	0		
Reported PAT	380	410	331	348	402	5.8	15.8
<b>Adjusted EPS (Rs)</b>	<b>2.7</b>	<b>3.0</b>	<b>2.4</b>	<b>2.5</b>	<b>2.9</b>	<b>5.8</b>	<b>15.8</b>

(%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (bps)	QoQ (bps)
EBIDTAM	11.7	12.5	10.5	9.8	12.1	36	220
EBITM	8.1	9.2	6.9	6.2	8.5	36	226
EBTM	7.4	8.3	7.1	6.9	7.9	53	95
PATM	5.5	5.9	4.9	4.9	5.6	6	65
Effective Tax rate	25.4	29.4	30.9	29.4	29.6	422	24

Source: Company, Emkay Research

**Exhibit 2: Actual vs. Estimates (Q3FY24)**

(Rs mn)	Actual	Emkay Est	% Variance	Consensus	% Variance
Net sales	7,242	7,171	1.0	7,321	(1.1)
EBITDA	873	759	15.0	787	10.9
EBITDA margin (%)	12.1	10.6	147 bps	10.7	130 bps
Adj net income	402	408	(1.3)	422	(4.7)
FDEPS (Rs)	2.9	2.9	(1.3)	3.1	(4.7)

Source: Company, Emkay Research

**Exhibit 3: SCD reported revenue decline, while margins expanded sequentially; DCD reported healthy revenue growth and margin expansion QoQ**

Segmental revenues (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Suprajit Controls Division	3,237	3,430	3,286	3,494	3,244	3,136	(5)	(3)
Domestic Cable Division	2,379	2,820	2,669	2,398	2,795	2,886	8	3
Phoenix Lamps Division	835	910	966	877	980	1,029	7	5
Suprajit Electronics Division	28	70	28	28	70	191	586	175
Segmental EBITDA (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Suprajit Controls Division	153	233	217	250	111	193	(11)	74
Domestic Cable Division	366	486	493	423	463	530	8	15
Phoenix Lamps Division	46	68	105	70	121	128	21	6
Suprajit Electronics Division	(0)	4	(0)	(0)	4	21	(4,905)	499
Segmental margins (%)	Q1FY23	Q2FY23	Q3FY23	Q1FY24	Q2FY24	Q3FY24	YoY (bps)	QoQ (bps)
Suprajit Controls Division	4.7	6.8	6.6	7.2	3.4	6.2	(44)	275
Domestic Cable Division	15.4	17.2	18.5	17.7	16.6	18.4	(7)	183
Phoenix Lamps Division	5.5	7.5	10.9	8.0	12.3	12.4	150	8
Suprajit Electronics Division	-1.6	5.1	-1.6	-1.6	5.1	11.1	1,263	598

Source: Company, Emkay Research

**Exhibit 4: Revenue model – We build-in 12% revenue CAGR over FY24E-26E**

(Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>16,409</b>	<b>18,405</b>	<b>27,524</b>	<b>28,357</b>	<b>31,341</b>	<b>35,495</b>
EBITDA	2,367	2,599	3,126	3,187	4,232	5,240
<b>EBITDA margin (%)</b>	<b>14.4</b>	<b>14.1</b>	<b>11.4</b>	<b>11.2</b>	<b>13.5</b>	<b>14.8</b>
EBIT	1,800	2,014	2,172	2,168	3,156	4,116
EBIT margin (%)	11.0	10.9	7.9	7.6	10.1	11.6
Interest	192	145	356	511	433	397
PAT	1,427	1,614	1,521	1,538	2,452	3,192
PAT margin (%)	8.7	8.8	5.5	5.4	7.8	9.0
<b>EPS (Rs.)</b>	<b>10.2</b>	<b>11.7</b>	<b>11.0</b>	<b>11.1</b>	<b>17.7</b>	<b>23.1</b>
Capex	251	525	916	1,400	1,400	1,400
% of sales	1.5	2.9	3.3	4.9	4.5	3.9

Source: Company, Emkay Research

**Exhibit 5: Change in estimates: We cut our FY24E/FY25E/FY26E EPS by ~5%/~8%/~8% on expected weakness in non-auto exports for a few more quarters and higher interest costs**

(Rs mn)	FY24E				FY25E				FY26E			
	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY
Revenues	28,588	28,357	(0.8)	3.0	32,732	31,341	(4.3)	10.5	37,678	35,495	(5.8)	13.3
EBITDA	3,080	3,187	3.5	2.0	4,337	4,232	(2.4)	32.8	5,460	5,240	(4.0)	23.8
Margin (%)	10.8	11.2	47 bps	-12 bps	13.3	13.5	25 bps	226 bps	14.5	14.8	27 bps	126 bps
Net Profit	1,613	1,538	(4.7)	1.1	2,653	2,452	(7.5)	59.5	3,466	3,192	(7.9)	30.2
EPS (Rs)	11.7	11.1	(4.7)	1.1	19.2	17.7	(7.5)	59.5	25.0	23.1	(7.9)	30.2

Source: Emkay Research

## Suprajit Engineering: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>18,405</b>	<b>27,524</b>	<b>28,357</b>	<b>31,341</b>	<b>35,495</b>
Revenue growth (%)	12.2	49.5	3.0	10.5	13.3
<b>EBITDA</b>	<b>2,599</b>	<b>3,126</b>	<b>3,187</b>	<b>4,232</b>	<b>5,240</b>
EBITDA growth (%)	9.8	20.3	2.0	32.8	23.8
Depreciation & Amortization	585	955	1,020	1,075	1,124
<b>EBIT</b>	<b>2,014</b>	<b>2,172</b>	<b>2,168</b>	<b>3,156</b>	<b>4,116</b>
EBIT growth (%)	11.9	7.8	(0.2)	45.6	30.4
Other operating income	0	0	0	0	0
Other income	366	386	509	731	777
Financial expense	145	356	511	433	397
<b>PBT</b>	<b>2,235</b>	<b>2,202</b>	<b>2,166</b>	<b>3,454</b>	<b>4,496</b>
Extraordinary items	116	0	0	0	0
Taxes	621	681	628	1,002	1,304
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>1,731</b>	<b>1,521</b>	<b>1,538</b>	<b>2,452</b>	<b>3,192</b>
PAT growth (%)	21.3	(12.1)	1.1	59.5	30.2
<b>Adjusted PAT</b>	<b>1,614</b>	<b>1,521</b>	<b>1,538</b>	<b>2,452</b>	<b>3,192</b>
<b>Diluted EPS (Rs)</b>	<b>11.7</b>	<b>11.0</b>	<b>11.1</b>	<b>17.7</b>	<b>23.1</b>
Diluted EPS growth (%)	22.6	(12.1)	1.1	59.5	30.2
<b>DPS (Rs)</b>	<b>2.0</b>	<b>2.3</b>	<b>2.3</b>	<b>3.7</b>	<b>4.8</b>
<b>Dividend payout (%)</b>	<b>16.0</b>	<b>20.9</b>	<b>20.9</b>	<b>20.9</b>	<b>20.9</b>
EBITDA margin (%)	14.1	11.4	11.2	13.5	14.8
EBIT margin (%)	10.9	7.9	7.6	10.1	11.6
Effective tax rate (%)	27.8	30.9	29.0	29.0	29.0
<b>NOPLAT (pre-IndAS)</b>	<b>1,455</b>	<b>1,500</b>	<b>1,539</b>	<b>2,241</b>	<b>2,922</b>
Shares outstanding (mn)	138.4	138.4	138.4	138.4	138.4

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	2,235	2,202	2,166	3,454	4,496
Others (non-cash items)	484	2,587	1,534	1,518	1,528
Taxes paid	(584)	(847)	(626)	(998)	(1,299)
Change in NWC	(435)	(1,551)	(197)	(668)	(893)
<b>Operating cash flow</b>	<b>1,816</b>	<b>2,391</b>	<b>2,877</b>	<b>3,306</b>	<b>3,832</b>
Capital expenditure	(525)	(916)	(1,400)	(1,400)	(1,400)
Acquisition of business	888	(4,886)	(500)	(500)	(500)
Interest & dividend income	2	8	0	0	0
<b>Investing cash flow</b>	<b>365</b>	<b>(5,793)</b>	<b>(1,900)</b>	<b>(1,900)</b>	<b>(1,900)</b>
Equity raised/(repaid)	(591)	0	0	0	0
Debt raised/(repaid)	(43)	2,918	(812)	(380)	(519)
Payment of lease liabilities	(56)	(67)	0	0	0
Interest paid	(150)	(335)	(511)	(433)	(397)
Dividend paid (incl tax)	(275)	(284)	(318)	(322)	(513)
Others	(128)	359	0	0	0
<b>Financing cash flow</b>	<b>(1,242)</b>	<b>2,591</b>	<b>(1,641)</b>	<b>(1,135)</b>	<b>(1,429)</b>
Net chg in Cash	938	(811)	(664)	271	502
OCF	1,816	2,391	2,877	3,306	3,832
Adj. OCF (w/o NWC chg.)	2,251	3,942	3,074	3,974	4,725
FCFF	1,291	1,475	1,477	1,906	2,432
FCFE	1,147	1,128	966	1,473	2,034
OCF/EBITDA (%)	69.9	76.5	90.3	78.1	73.1
FCFE/PAT (%)	66.3	74.2	62.8	60.1	63.7
<b>FCFF/NOPLAT (%)</b>	<b>88.7</b>	<b>98.4</b>	<b>96.0</b>	<b>85.1</b>	<b>83.2</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	138	138	138	138	138
Reserves & Surplus	10,701	12,106	13,322	15,262	17,786
<b>Net worth</b>	<b>10,840</b>	<b>12,245</b>	<b>13,461</b>	<b>15,400</b>	<b>17,924</b>
Minority interests	0	0	0	0	0
Deferred tax liability (net)	554	607	609	613	617
<b>Total debt</b>	<b>3,115</b>	<b>6,417</b>	<b>5,606</b>	<b>5,226</b>	<b>4,707</b>
<b>Total liabilities &amp; equity</b>	<b>14,509</b>	<b>19,269</b>	<b>19,676</b>	<b>21,239</b>	<b>23,249</b>
Net tangible fixed assets	3,511	4,663	5,118	5,443	0
Net intangible assets	702	1,161	1,161	1,161	0
Net ROU assets	402	887	887	887	0
Capital WIP	102	278	203	203	203
Goodwill	1,261	1,364	1,364	1,364	1,364
Investments [JV/Associates]	31	25	25	25	25
<b>Cash &amp; equivalents</b>	<b>4,467</b>	<b>5,495</b>	<b>5,331</b>	<b>6,103</b>	<b>7,105</b>
Current assets (ex-cash)	6,909	10,473	10,836	12,033	13,609
Current Liab. & Prov.	2,877	5,076	5,249	5,979	6,824
<b>NWC (ex-cash)</b>	<b>4,033</b>	<b>5,397</b>	<b>5,587</b>	<b>6,054</b>	<b>6,785</b>
<b>Total assets</b>	<b>14,509</b>	<b>19,269</b>	<b>19,676</b>	<b>21,239</b>	<b>23,249</b>
Net debt	(1,352)	922	274	(877)	(2,398)
Capital employed	14,509	19,269	19,676	21,239	23,249
<b>Invested capital</b>	<b>9,909</b>	<b>13,472</b>	<b>14,117</b>	<b>14,909</b>	<b>15,916</b>
BVPS (Rs)	78.3	88.5	97.3	111.3	129.5
Net Debt/Equity (x)	(0.1)	0.1	0.0	(0.1)	(0.1)
Net Debt/EBITDA (x)	(0.5)	0.3	0.1	(0.2)	(0.5)
Interest coverage (x)	0.1	0.1	0.2	0.1	0.1
<b>RoCE (%)</b>	<b>12.6</b>	<b>11.4</b>	<b>10.3</b>	<b>14.3</b>	<b>16.5</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	33.0	35.1	34.7	21.7	16.7
P/CE(x)	24.2	21.5	20.9	15.1	12.4
P/B (x)	4.9	4.4	4.0	3.5	3.0
EV/Sales (x)	2.8	2.0	1.9	1.7	1.4
EV/EBITDA (x)	20.0	17.4	16.8	12.4	9.7
EV/EBIT(x)	25.8	25.0	24.7	16.6	12.4
EV/IC (x)	5.2	4.0	3.8	3.5	3.2
FCFF yield (%)	2.5	2.7	2.8	3.6	4.8
FCFE yield (%)	2.2	2.1	1.8	2.8	3.8
Dividend yield (%)	0.5	0.6	0.6	1.0	1.3
<b>DuPont-RoE split</b>					
Net profit margin (%)	8.8	5.5	5.4	7.8	9.0
Total asset turnover (x)	1.3	1.6	1.5	1.5	1.6
Assets/Equity (x)	1.4	1.5	1.5	1.4	1.3
<b>RoE (%)</b>	<b>15.6</b>	<b>13.2</b>	<b>12.0</b>	<b>17.0</b>	<b>19.2</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	7.9	5.4	5.4	7.1	8.2
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
<b>RoIC (%)</b>	<b>15.0</b>	<b>12.8</b>	<b>11.2</b>	<b>15.4</b>	<b>19.0</b>
<b>Operating metrics</b>					
Core NWC days	80.0	71.6	71.9	70.5	69.8
<b>Total NWC days</b>	<b>80.0</b>	<b>71.6</b>	<b>71.9</b>	<b>70.5</b>	<b>69.8</b>
Fixed asset turnover	2.2	2.7	2.3	2.3	2.3
Opex-to-revenue (%)	27.3	29.9	31.0	30.7	29.8

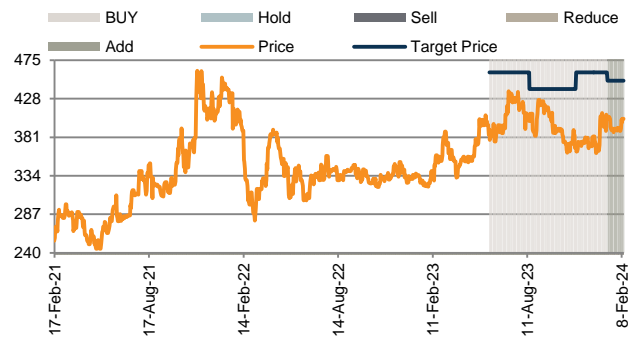
Source: Company, Emkay Research

## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
11-Jan-24	404	450	Add	Chirag Jain
30-Nov-23	381	460	Buy	Chirag Jain
12-Nov-23	372	460	Buy	Chirag Jain
15-Aug-23	401	440	Buy	Chirag Jain
30-May-23	390	460	Buy	Chirag Jain

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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<b>SELL</b>	<15% downside

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