

Suprajit Engineering | BUY

WIP Qtr; Robust order wins / restructuring to drive performance

Suprajit Engineering (SEL) reported consolidated EBITDAM margin of 9.8% (+110bps YoY, -70bps QoQ), 100bps below JMFe due to weak non-auto cables sales and restructuring related costs for Controls Division. Restructuring at PLD has started yielding results. Company indicated that new order wins for SCD and SED division continues to remain robust. However, growth in non-automotive cables segment is expected to remain muted in the near-term owing to slowing demand in the end-market. Near-term margin performance is expected to be muted owing to on-going restructuring. Benefit of softening inflationary pressure and cost control initiatives (via restructuring operations) are expected to support margin expansion during FY25/26. We expect revenue/EBITDA CAGR of 8%/14% over FY23-26E. We maintain BUY with Sept'24 TP of INR 420 (1-yr fwd PE: 20x). Inability to deliver healthy performance at subsidiaries is a key risk.

- 2QFY24 – margin misses estimates:** SEL reported consol. net sales stood of INR 7bn (-1% YoY, +4% QoQ), 3% above JMFe. EBITDA stood at INR 698mn (-11% YoY, -2% QoQ). EBITDA margin stood at 9.8% (+110bps YoY, -70bps QoQ), 100bps below JMFe. Sequential decline was due to 1) negative operating leverage (in Wescon and LDC) and 2) China plant relocation and restructuring related costs impacting profitability of SCD. Adj. PAT came-in at INR 348mn (-24% YoY, +5% QoQ). Gross debt declined by INR 129mn during 1H to INR 6.28bn. Company has guided for capex of INR 1.4bn over next 12-18 months towards capacity addition and restructuring operations.
- Suprajit Controls Division (SCD):** Revenue for 2Q stood at INR 3.2bn (flat YoY; -7% QoQ). EBITDA margin declined 130bps YoY to 3.4%. Automotive business performance was affected by UAW strike in North America. Non-automotive cables business (Wescon and Shangai Lonestar) witnessed slowdown due to macro headwinds. The company indicated that China plant relocation / restructuring and integration of all divisions within SCD (i.e. SAL, SEU, Wescon, LDC) is progressing well. And, the strategy of 'One Suprajit' as a global platform has led to significant new business wins (across both Auto and non-Auto cables and Actuators) and is expected to drive healthy growth in the coming quarters.
- Domestic cable division (DCD):** Revenue for 2Q stood at INR 2.8bn (+17.5% YoY; +16.5% QoQ). Margin came at 16.6% (+120bps YoY). The company indicated that while domestic PV segment reported strong growth, domestic 2W market was muted during 2Q. However, 2W demand is picking up in 3Q led by festive season. Aftermarket segment continued to remain sluggish. DCD has started winning new 'non-cable' businesses some of which are commercialised and expected to ramp-up in the coming quarters.
- Phoenix Lamps division (PLD):** Revenue stood at INR 980mn (+8% YoY, +12% QoQ). Margin came in at 12.3% (+480bps YoY, +430bps QoQ), 330bps 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. The LED retrofit for both 2W and PV 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	29,369	32,451	35,115
Sales Growth (%)	12.2	49.5	6.7	10.5	8.2
EBITDA	2,599	3,126	3,159	4,072	4,683
EBITDA Margin (%)	14.1	11.4	10.8	12.5	13.3
Adjusted Net Profit	1,614	1,521	1,734	2,523	3,116
Diluted EPS (INR)	11.7	11.0	12.5	18.2	22.5
Diluted EPS Growth (%)	14.3	-5.8	14.0	45.5	23.5
ROIC (%)	15.3	12.7	11.6	16.0	18.5
ROE (%)	15.6	13.2	13.4	17.1	18.1
P/E (x)	31.5	33.5	29.4	20.2	16.3
P/B (x)	4.7	4.2	3.7	3.2	2.7
EV/EBITDA (x)	19.1	16.8	16.2	12.1	10.0
Dividend Yield (%)	0.5	0.6	0.6	0.7	0.7

Source: Company data, JM Financial. Note: Valuations as of 10/Nov/2023



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	420
Upside/(Downside)	14.1%
Previous Price Target	430
Change	-2.3%

Key Data – SEL IN

Current Market Price	INR368
Market cap (bn)	INR50.9/US\$0.6
Free Float	51%
Shares in issue (mn)	138.4
Diluted share (mn)	138.4
3-mon avg daily val (mn)	INR78.2/US\$0.9
52-week range	447/315
Sensex/Nifty	64,905/19,425
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	-6.0	-6.8	10.8
Relative*	-4.0	-11.0	5.5

* 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 and turned EBITDA positive during 2Q. SED has won new orders (annual value INR 1.5bn) for multiple products like Digital Clusters, Electro Mechanical Actuators, Rotary Sensors, Throttle Position Sensors, etc. from traditional and new-age OEMs. The company has started deliveries of actuators for two marquee E2W OEMs where the content is significant higher than ICE business. SEL continues to receive significant customer interest and these products are at different levels of approval with prospective customers.

Exhibit 1. Quarterly financial result (consolidated)

(INR mn)	2QFY24	2QFY23	% YoY	1QFY24	% QoQ	2QFY24	% A/E
Sales	7,089	7,161	-1.0	6,797	4.3	6,905	2.7
RM	4,201	4,336	-3.1	3,906	7.6	3,950	6.4
As a % of sales	59.3	60.5	-130bps	57.5	180bps	57.2	210bps
Employee Exp	1,565	1,443	8.4	1,535	1.9	1,554	0.7
As a % of sales	22.1	20.2	190bps	22.6	-50bps	22.5	-40bps
Other Costs	625	595	5.1	641	-2.5	656	-4.8
As a % of sales	8.8	8.3	50bps	9.4	-60bps	9.5	-70bps
Expenditure	6,391	6,374	0.3	6,082	5.1	6,159	3.8
Adj. EBITDA	698	787	-11.3	715	-2.4	746	-6.4
Adj. EBITDA Margin	9.8	11.0	-110bps	10.5	-70bps	10.8	-100bps
Other Income	187	217	-13.8	129	45.6	135	38.8
Interest	136	77	77.4	118	16.0	121	12.6
Depreciation	257	239	7.5	247	4.2	260	-1.2
PBT	492	688	-28.5	479	2.7	500	-1.5
Tax	145	231	-37.4	148	-2.5	155	-6.7
Tax rate (%)	29.4	33.5	-420bps	30.9	-150bps	31.0	-160bps
PAT Reported	348	457	-24.0	331	5.0	345	0.8
PAT (Adjusted)	348	457	-24.0	331	5.0	345	0.8
PAT Margin (%)	4.9	6.4	-150bps	4.9	0bps	5.0	-10bps
EPS (INR)	2.5	3.3	-24.0	2.4	5.0	2.5	0.8

Source: Company, JM Financial

Exhibit 2. Segmental performance

(INR mn)	2QFY24	2QFY23	% YoY	1QFY24	% QoQ
Suprajit Controls Division (SCD)					
Net sales	3,244	3,237	0.2	3,494	-7.2
EBITDA	111	153	-27.6	250	-55.6
EBITDA Margin	3.4	4.7	-130bps	7.2	-370bps
Domestic Cable Division (DCD)					
Net sales	2,795	2,379	17.5	2,398	16.5
EBITDA	463	366	26.3	423	9.3
EBITDA Margin	16.6	15.4	120bps	17.7	-110bps
Phoenix lamps					
Net sales	980	910	7.7	877	11.8
EBITDA	121	68	77.1	70	71.6
EBITDA Margin	12.3	7.5	480bps	8.0	430bps
Suprajit Electronics Division (SED)					
Net sales	70	NA	NA	28	149.7
EBITDA	4	NA	NA	0	NA
EBITDA Margin	5.1	NA	NA	-1.6	660bps

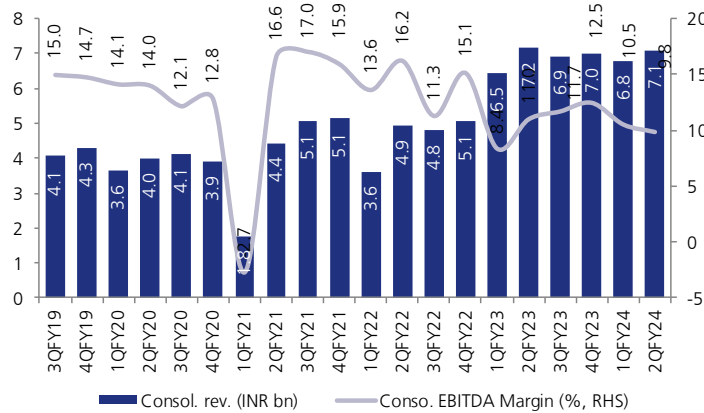
Source: Company, JM Financial

Exhibit 3. Quarterly financial result (standalone)

(INR mn)	2QFY24	2QFY23	% YoY	1QFY24	% QoQ	2QFY24	% A/E
Net revenue	3,855	3,866	-0.3	3,332	15.7	3,499	10.2
RM	2,415	2,485	-2.8	2,011	20.1	2,099	15.0
As a % of sales	62.6	64.3	-160bps	60.3	230bps	60.0	260bps
Employee Exp	522	476	9.6	480	8.7	493	5.9
As a % of sales	13.6	12.3	120bps	14.4	-90bps	14.1	-50bps
Other Costs	257	242	6.1	251	2.3	269	-4.7
As a % of sales	6.7	6.3	40bps	7.5	-90bps	7.7	-100bps
Expenditure	3,194	3,203	-0.3	2,742	16.5	2,862	11.6
EBITDA	661	662	-0.2	590	12.0	637	3.8
EBITDA Margin (%)	17.1	17.1	0bps	17.7	-60bps	18.2	-110bps
PAT (Adjusted)	587	530	10.8	509	15.3	521	12.7
EPS (INR)	4.2	3.8	10.8	3.7	15.3	3.8	12.7

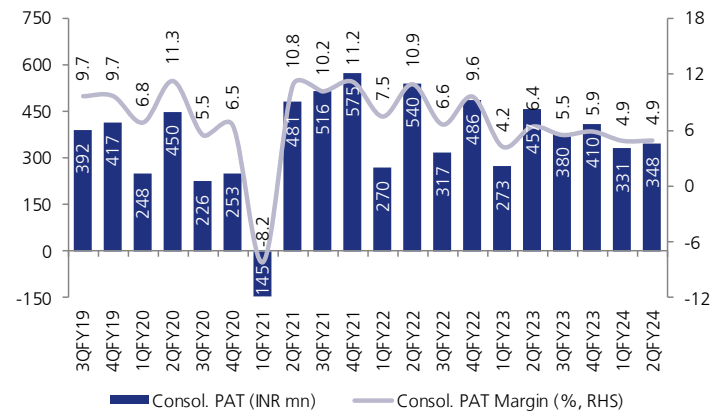
Source: Company, JM Financial

Exhibit 4. Consolidated revenue and margin trend



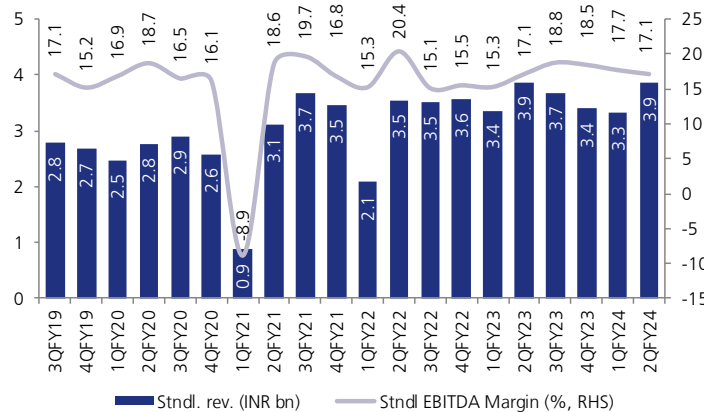
Source: Company, JM Financial

Exhibit 5. Consolidated profit trend



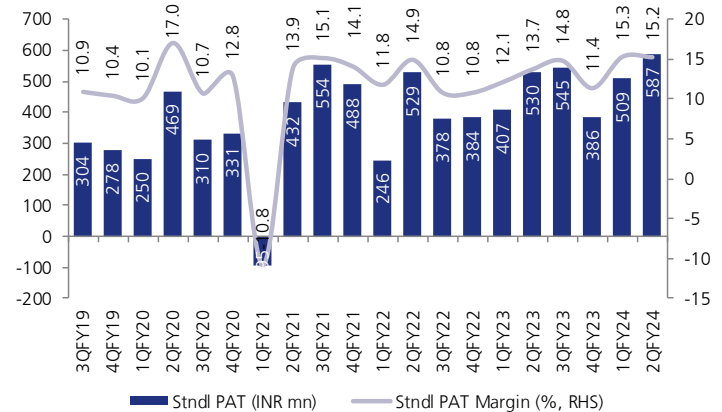
Source: Company, JM Financial

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)	29,369	32,451	35,115	29,679	32,402	34,795	-1%	0%	1%
EBITDA (INR mn)	3,159	4,072	4,683	3,680	4,393	4,876	-14%	-7%	-4%
EBITDAM (%)	10.8%	12.5%	13.3%	12.4%	13.6%	14.0%	(160bps)	(110bps)	(70bps)
PAT (INR mn)	1,734	2,523	3,116	2,062	2,698	3,137	-16%	-7%	-1%
EPS (INR)	12.5	18.2	22.5	14.9	19.5	22.7	-16%	-7%	-1%

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	29,369	32,451	35,115
Sales Growth	12.2%	49.5%	6.7%	10.5%	8.2%
Total Revenue	18,405	27,524	29,369	32,451	35,115
Cost of Goods Sold/Op. Exp	10,787	16,169	17,097	18,502	19,933
Personnel Cost	3,364	5,744	6,471	7,029	7,488
Other Expenses	1,655	2,484	2,643	2,848	3,010
EBITDA	2,599	3,126	3,159	4,072	4,683
EBITDA Margin	14.1%	11.4%	10.8%	12.5%	13.3%
EBITDA Growth	9.8%	20.3%	1.0%	28.9%	15.0%
Depn. & Amort.	585	955	1,004	1,038	1,082
EBIT	2,014	2,172	2,154	3,033	3,601
Other Income	366	386	638	733	843
Finance Cost	145	356	476	397	284
PBT before Excep. & Forex	2,235	2,202	2,316	3,369	4,161
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	2,235	2,202	2,316	3,369	4,161
Taxes	621	681	582	846	1,045
Extraordinary Inc./Loss(-)	-116	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	1,498	1,521	1,734	2,523	3,116
Adjusted Net Profit	1,614	1,521	1,734	2,523	3,116
Net Margin	8.8%	5.5%	5.9%	7.8%	8.9%
Diluted Share Cap. (mn)	138.4	138.4	138.4	138.4	138.4
Diluted EPS (INR)	11.7	11.0	12.5	18.2	22.5
Diluted EPS Growth	14.3%	-5.8%	14.0%	45.5%	23.5%
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	2,316	3,369	4,161
Depn. & Amort.	585	955	1,004	1,038	1,082
Net Interest Exp. / Inc. (-)	145	356	476	397	284
Inc (-) / Dec in WCap.	111	-3,622	-180	-523	-339
Others	-116	0	0	0	0
Taxes Paid	-621	-681	-582	-846	-1,045
Operating Cash Flow	2,339	-791	3,035	3,436	4,142
Capex	-532	-3,329	-1,400	-1,000	-1,000
Free Cash Flow	1,807	-4,120	1,635	2,436	3,142
Inc (-) / Dec in Investments	0	0	0	0	0
Others	-145	-356	-476	-397	-284
Investing Cash Flow	-678	-3,685	-1,876	-1,397	-1,284
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	-1,750
Others	-233	153	0	0	0
Financing Cash Flow	-723	3,665	-1,054	-1,846	-2,096
Inc / Dec (-) in Cash	938	-811	104	192	763
Opening Cash Balance	941	1,879	1,068	1,173	1,365
Closing Cash Balance	1,879	1,068	1,173	1,365	2,128

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	10,840	12,245	13,674	15,851	18,621
Share Capital	138	138	138	138	138
Reserves & Surplus	10,701	12,106	13,536	15,713	18,482
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	3,175
Def. Tax Liab. / Assets (-)	554	482	482	482	482
Total - Equity & Liab.	14,759	19,902	20,582	21,259	22,278
Net Fixed Assets	5,978	8,353	8,748	8,710	8,628
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	4,755	5,793	6,875
Capital WIP	102	278	278	278	278
Investments	2,619	4,451	4,951	4,951	4,951
Current Assets	8,788	11,416	11,774	13,013	14,688
Inventories	3,433	4,826	4,828	5,334	5,772
Sundry Debtors	2,972	4,608	4,828	5,334	5,772
Cash & Bank Balances	1,879	1,068	1,173	1,365	2,128
Loans & Advances	327	646	678	712	748
Other Current Assets	178	267	267	267	267
Current Liab. & Prov.	2,626	4,318	4,891	5,416	5,988
Current Liabilities	1,980	3,007	3,362	3,632	3,906
Provisions & Others	646	1,311	1,529	1,784	2,082
Net Current Assets	6,162	7,098	6,882	7,597	8,699
Total - Assets	14,759	19,902	20,582	21,259	22,278

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	8.8%	5.5%	5.9%	7.8%	8.9%
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%	13.4%	17.1%	18.1%

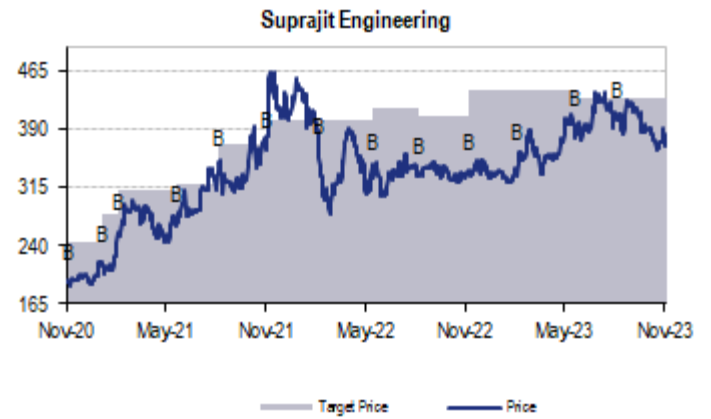
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	78.3	88.5	98.8	114.5	134.6
ROIC	15.3%	12.7%	11.6%	16.0%	18.5%
ROE	15.6%	13.2%	13.4%	17.1%	18.1%
Net Debt/Equity (x)	-0.1	0.1	0.0	-0.1	-0.2
P/E (x)	31.5	33.5	29.4	20.2	16.3
P/B (x)	4.7	4.2	3.7	3.2	2.7
EV/EBITDA (x)	19.1	16.8	16.2	12.1	10.0
EV/Sales (x)	2.7	1.9	1.7	1.5	1.3
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

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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Definition of ratings	
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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