

**BUY** Suprajit Engineering

Your success is our success

**Weak Q2; longer-term growth outlook intact**

Auto &amp; Auto Ancillaries ▶ Result Update ▶ November 12, 2023

**TARGET PRICE (Rs): 460**

**Suprajit Engineering Limited's (SEL) Q2 performance was a miss, with margins declining by 67bps QoQ to 9.8% (Emkay est. 10.8%). We believe while the global-facing business (particularly non-autos) may remain weak in the near term 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 ~10% revenue CAGR in FY23-26E. We have cut FY24E/FY25E/FY26E EPS by ~13%/~8%/~2% on weak Q2 margins and soft non-auto exports outlook for the next few quarters. We retain our BUY rating with a revised TP of Rs460 at 18x its FY26E EPS (rolled-over). Key risks: Lower-than-expected growth in underlying segments and adverse movement in currency/commodity prices.**

**Suprajit Engineering: Financial Snapshot (Consolidated)**

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	18,405	27,524	28,588	32,489	37,127
EBITDA	2,599	3,126	3,373	4,564	5,512
Adj. PAT	1,614	1,521	1,810	2,814	3,503
Adj. EPS (Rs)	11.7	11.0	13.1	20.3	25.3
EBITDA margin (%)	14.1	11.4	11.8	14.0	14.8
EBITDA growth (%)	9.8	20.3	7.9	35.3	20.8
Adj. EPS growth (%)	22.6	(12.1)	19.0	55.5	24.5
RoE (%)	15.6	13.2	14.0	19.0	20.3
RoIC (%)	15.0	12.8	12.1	17.0	19.9
P/E (x)	31.5	33.5	28.1	18.1	14.5
EV/EBITDA (x)	19.1	16.6	15.1	10.9	8.7
P/B (x)	4.7	4.2	3.7	3.2	2.7
FCFF yield (%)	2.6	2.8	3.3	3.9	5.2

Source: Company, Emkay Research

**Gross margin deterioration impacts sequential EBITDA**

Revenue declined by 1% YoY to ~Rs7.1bn; on a segmental basis, Suprajit Controls Division (SCD; comprises automotive and non-automotive exports from India and businesses outside India) reported a ~5% decline, while Phoenix Lamps Division's (PLD) revenue growing 8%. Consolidated EBITDA fell ~11% YoY to Rs698mn, with margins down 67bps QoQ to 9.8% (Emkay est.:10.7%) amid ~180bps gross margin deterioration. SCD reported a 374bps QoQ margin decline to 3.4%, while the domestic cables division's (DCD) margins fell 110bps QoQ to 16.6%. PLD's margins grew strongly by 483bps QoQ to 12.3%. Reported PAT declined by ~24% YoY to Rs348mn (below estimates), with the miss being largely on account of lower-than-expected EBITDA.

**Earnings call KTAs**

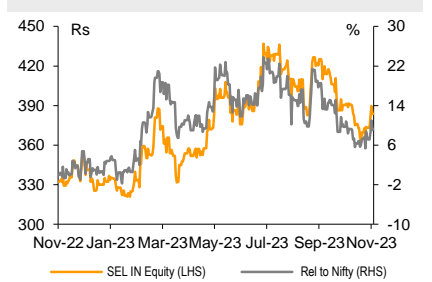
1) The domestic commuter 2W segment is yet to pick up, though signs of positivity are being witnessed in the festive season; the domestic business has been strong so far in Q3, providing confidence for the remaining H2; SCD prospects remain challenged for the remaining part of FY24E, though DCD and PLD are expected to do well; longer-term growth visibility remains intact, led partly by consolidation of auto component suppliers globally; 2) Management expects adverse macros and climatic conditions in the U.S. to continue imparting pressure on the non-auto business in particular (amid weakness in non-discretionary spends for lawn mowers, etc.) for the coming few quarters; European markets are still unstable, though Suprajit continues to register healthy business wins; 3) While auto exports are healthy (e.g., 4W cables), there is postponement of demand at the customer-end due to tough macros (across auto and non-auto); non-auto margins in particular are unlikely to see much improvement during H2; 4) Suprajit's offering of the U.S./Europe front-end with back-end in India is seeing good traction; the company is looking at moving production of certain parts to India to improve profitability; 5) Suprajit Electronics Division (SED) turned EBITDA positive within the first year of operations; started supplying actuators to large E-2W customers with digital clusters also seeing increased traction; 6) FY24E capex guidance unchanged at Rs1.4bn.

Target Price – 12M	Sep-24
<b>Change in TP (%)</b>	<b>4.5</b>
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	25.0
CMP (10-Nov-23) (Rs)	368.0

Stock Data	Ticker
52-week High (Rs)	447
52-week Low (Rs)	315
Shares outstanding (mn)	138.4
Market-cap (Rs bn)	51
Market-cap (USD mn)	611
Net-debt, FY24E (Rs mn)	51
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	77.5
ADTV-3M (USD mn)	0.9
Free float (%)	55.4
Nifty-50	19,425
INR/USD	83.3
<b>Shareholding, Sep-23</b>	
Promoters (%)	44.6
FPIs/MFs (%)	4.8/15.9

**Price Performance**

(%)	1M	3M	12M
Absolute	(6.0)	(9.6)	12.4
Rel. to Nifty	(4.7)	(9.1)	4.3

**1-Year share price trend (Rs)****Jaimin Desai**

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**Exhibit 1: Quarterly snapshot (Q2FY24): Revenue flat YoY; margins down 67bps QoQ on lower gross margins**

Rs mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Revenue	6,452	7,161	6,921	6,990	6,797	7,089	(1.0)	4.3
Expenditure	5,912	6,374	6,112	6,119	6,082	6,391	0.3	5.1
As a % of sales	91.6	89.0	88.3	87.5	89.5	90.2		
Consumption of RM	3,847	4,336	4,080	3,907	3,906	4,201	(3.1)	7.6
As a % of sales	59.6	60.5	58.9	55.9	57.5	59.3		
Employee Cost	1,428	1,443	1,389	1,484	1,535	1,565	8.4	1.9
As a % of sales	22.1	20.2	20.1	21.2	22.6	22.1		
Other expenditure	638	595	643	728	641	625	5.1	(2.5)
As a % of sales	9.9	8.3	9.3	10.4	9.4	8.8		
EBITDA	540	787	809	871	715	698	(11.3)	(2.4)
<b>EBITDA Margin (%)</b>	<b>8.4</b>	<b>11.0</b>	<b>11.7</b>	<b>12.5</b>	<b>10.5</b>	<b>9.8</b>		
Depreciation	237	239	247	231	247	257	7.5	4.2
EBIT	303	548	562	640	468	441	(19.5)	(5.8)
Other Income	181	217	52	56	129	187	(13.8)	45.6
Interest	61	77	104	115	118	136	77.4	16.0
PBT	423	688	510	581	479	492	(28.5)	2.7
Total Tax	150	231	129	171	148	145	(37.4)	(2.5)
Minority Interest/Associate Share								
Adjusted PAT	273	457	380	410	331	348	(24.0)	5.0
Extraordinary Items Loss/(Gain)	0	0	0	0	0	0		
Reported PAT	273	457	380	410	331	348	(24.0)	5.0
<b>Adjusted EPS (Rs)</b>	<b>2.0</b>	<b>3.3</b>	<b>2.7</b>	<b>3.0</b>	<b>2.4</b>	<b>2.5</b>	<b>(24.0)</b>	<b>5.0</b>

Margins (%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (bps)	QoQ (bps)
EBIDTA	8.4	11.0	11.7	12.5	10.5	9.8	(114)	(67)
EBIT	4.7	7.6	8.1	9.2	6.9	6.2	(143)	(67)
EBT	6.6	9.6	7.4	8.3	7.1	6.9	(267)	(11)
PAT	4.2	6.4	5.5	5.9	4.9	4.9	(149)	3
Effective Tax rate	35.5	33.5	25.4	29.4	30.9	29.4	(416)	(155)

Source: Company, Emkay Research

**Exhibit 2: Actual vs. Estimates (Q2FY24)**

(Rs mn)	Actual	Emkay Est	% variance	Consensus	% variance
Net sales	7,089	6,933	2.2	7,256	(2.3)
EBITDA	698	742	(5.9)	837	(16.6)
EBITDA margin (%)	9.8	10.7	-85 bps	11.5	-169 bps
Adj. net income	348	396	(12.3)	387	(10.3)
FDEPS (Rs)	2.5	2.9	(12.3)	2.8	(10.3)

Source: Company, Emkay Research

**Exhibit 3: SCD reported revenue and margin decline; PLD outperforms with a return to double-digit margins**

Segmental revenue (Rs mn)	Q2FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Suprajit Controls Division	3,430	3,494	3,244	(5)	(7)
Domestic Cable Division	2,820	2,398	2,795	(1)	17
Phoenix Lamps Division	910	877	980	8	12
Suprajit Electronics Division	28	28	70	150	150
Segmental EBITDA (Rs mn)	Q2FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Suprajit Controls Division	233	250	111	(52)	(56)
Domestic Cable Division	486	423	463	(5)	9
Phoenix Lamps Division	68	70	121	77	72
Suprajit Electronics Division	(0)	(0)	4	(902)	(902)
Segmental margins (%)	Q2FY23	Q1FY24	Q2FY24	YoY (bps)	QoQ (bps)
Suprajit Controls Division	6.8	7.2	3.4	(338)	(374)
Domestic Cable Division	17.2	17.7	16.6	(67)	(110)
Phoenix Lamps Division	7.5	8.0	12.3	483	429
Suprajit Electronics Division	-1.6	-1.6	5.1	665	665

Source: Company, Emkay Research

**Exhibit 4: Revenue model: We build ~10%/~32% revenue/PAT CAGR over FY23-26E**

Rs mn	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	12,028	14,311	15,899	15,628	16,409	18,405	27,524	28,588	32,489	37,127
EBITDA	2,020	2,366	2,328	2,187	2,367	2,599	3,126	3,373	4,564	5,512
EBITDA margin (%)	16.8	16.5	14.6	14.0	14.4	14.1	11.4	11.8	14.0	14.8
EBIT	2,091	2,236	2,298	1,896	2,136	2,380	2,558	3,030	4,234	5,181
EBIT margin (%)	17.4	15.6	14.5	12.1	13.0	12.9	9.3	10.6	13.0	14.0
Interest	291	271	246	227	192	145	356	481	271	248
PAT	1,295	1,416	1,338	1,381	1,427	1,614	1,521	1,810	2,814	3,503
PAT margin (%)	10.8	9.9	8.4	8.8	8.7	8.8	5.5	6.3	8.7	9.4
EPS (Rs.)	9.3	10.1	9.6	9.9	10.2	11.7	11.0	13.1	20.3	25.3
Capex	1,348	211	677	1,155	309	540	3,226	1,400	1,400	1,400
As a % of sales	11.2	1.5	4.3	7.4	1.9	2.9	11.7	4.9	4.3	3.8

Source: Company, Emkay Research

**Exhibit 5: We have cut our FY24E/FY25E EPS to reflect weak Q2 margins and soft non-auto exports outlook for the next few quarters**

Rs mn	FY24E				FY25E				FY26E			
	Earlier	Revised	Change (%)	YoY (%)	Earlier	Revised	Change (%)	YoY (%)	Earlier	Revised	Change (%)	YoY (%)
Revenue	29,953	28,588	(4.6)	3.9	33,773	32,489	(3.8)	13.6	37,644	37,127	(1.4)	14.3
EBITDA	3,683	3,373	(8.4)	7.9	4,899	4,564	(6.8)	35.3	5,592	5,512	(1.4)	20.8
Margin (%)	12.3	11.8	-50 bps	44 bps	14.5	14.0	-46 bps	225 bps	14.9	14.8	-1 bps	80 bps
Net Profit	2,084	1,810	(13.1)	19.0	3,073	2,814	(8.4)	55.5	3,583	3,503	(2.2)	24.5
EPS (Rs)	15.1	13.1	(13.1)	19.0	22.2	20.3	(8.4)	55.5	25.9	25.3	(2.2)	24.5

Source: Emkay Research

## Suprajit Engineering: Consolidated Financials and Valuations

Profit and Loss					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>18,405</b>	<b>27,524</b>	<b>28,588</b>	<b>32,489</b>	<b>37,127</b>
Revenue growth (%)	12.2	49.5	3.9	13.6	14.3
<b>EBITDA</b>	<b>2,599</b>	<b>3,126</b>	<b>3,373</b>	<b>4,564</b>	<b>5,512</b>
EBITDA growth (%)	9.8	20.3	7.9	35.3	20.8
Depreciation & Amortization	585	955	1,016	1,075	1,124
<b>EBIT</b>	<b>2,014</b>	<b>2,172</b>	<b>2,356</b>	<b>3,489</b>	<b>4,388</b>
EBIT growth (%)	11.9	7.8	8.5	48.1	25.8
Other operating income	0	0	0	0	0
Other income	366	386	674	745	794
Financial expense	145	356	481	271	248
<b>PBT</b>	<b>2,235</b>	<b>2,202</b>	<b>2,549</b>	<b>3,963</b>	<b>4,933</b>
Extraordinary items	116	0	0	0	0
Taxes	621	681	739	1,149	1,431
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>1,810</b>	<b>2,814</b>	<b>3,503</b>
PAT growth (%)	21.3	(12.1)	19.0	55.5	24.5
<b>Adjusted PAT</b>	<b>1,614</b>	<b>1,521</b>	<b>1,810</b>	<b>2,814</b>	<b>3,503</b>
<b>Diluted EPS (Rs)</b>	<b>11.7</b>	<b>11.0</b>	<b>13.1</b>	<b>20.3</b>	<b>25.3</b>
Diluted EPS growth (%)	22.6	(12.1)	19.0	55.5	24.5
<b>DPS (Rs)</b>	<b>2.0</b>	<b>2.3</b>	<b>2.7</b>	<b>4.3</b>	<b>5.3</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	11.8	14.0	14.8
EBIT margin (%)	10.9	7.9	8.2	10.7	11.8
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>1,673</b>	<b>2,477</b>	<b>3,115</b>
Shares outstanding (mn)	138.4	138.4	138.4	138.4	138.4

Source: Company, Emkay Research

Cash Flows					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	2,235	2,202	2,549	3,963	4,933
Others (non-cash items)	484	2,587	1,500	1,355	1,379
Taxes paid	(584)	(847)	(737)	(1,145)	(1,426)
Change in NWC	(435)	(1,551)	(243)	(852)	(990)
<b>Operating cash flow</b>	<b>1,816</b>	<b>2,391</b>	<b>3,070</b>	<b>3,321</b>	<b>3,896</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)	(481)	(271)	(248)
Dividend paid (incl tax)	(275)	(284)	(318)	(379)	(589)
Others	(128)	359	0	0	0
<b>Financing cash flow</b>	<b>(1,242)</b>	<b>2,591</b>	<b>(1,611)</b>	<b>(1,029)</b>	<b>(1,356)</b>
Net chg in Cash	938	(811)	(441)	392	640
OCF	1,816	2,391	3,070	3,321	3,896
Adj. OCF (w/o NWC chg.)	2,251	3,942	3,313	4,173	4,886
FCFF	1,291	1,475	1,670	1,921	2,496
FCFE	1,147	1,128	1,189	1,650	2,248
OCF/EBITDA (%)	69.9	76.5	91.0	72.8	70.7
FCFE/PAT (%)	66.3	74.2	65.7	58.7	64.2
<b>FCFF/NOPLAT (%)</b>	<b>88.7</b>	<b>98.4</b>	<b>99.8</b>	<b>77.6</b>	<b>80.1</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	138	138	138	138	138
Reserves & Surplus	10,701	12,106	13,538	15,763	18,532
<b>Net worth</b>	<b>10,840</b>	<b>12,245</b>	<b>13,676</b>	<b>15,901</b>	<b>18,671</b>
Minority interests	0	0	0	0	0
Deferred tax liability (net)	554	607	610	614	619
<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>19,892</b>	<b>21,741</b>	<b>23,996</b>
Net tangible fixed assets	3,511	4,663	5,122	5,446	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>5,554</b>	<b>6,446</b>	<b>7,586</b>
Current assets (ex-cash)	6,909	10,473	10,915	12,426	14,168
Current Liab. & Prov.	2,877	5,076	5,338	6,217	7,120
<b>NWC (ex-cash)</b>	<b>4,033</b>	<b>5,397</b>	<b>5,576</b>	<b>6,209</b>	<b>7,049</b>
<b>Total assets</b>	<b>14,509</b>	<b>19,269</b>	<b>19,892</b>	<b>21,741</b>	<b>23,996</b>
Net debt	(1,352)	922	51	(1,220)	(2,879)
Capital employed	14,509	19,269	19,892	21,741	23,996
<b>Invested capital</b>	<b>9,909</b>	<b>13,472</b>	<b>14,110</b>	<b>15,067</b>	<b>16,183</b>
BVPS (Rs)	78.3	88.5	98.8	114.9	134.9
Net Debt/Equity (x)	(0.1)	0.1	0.0	(0.1)	(0.2)
Net Debt/EBITDA (x)	(0.5)	0.3	0.0	(0.3)	(0.5)
Interest coverage (x)	0.1	0.1	0.2	0.1	0.0
<b>RoCE (%)</b>	<b>12.6</b>	<b>11.4</b>	<b>11.6</b>	<b>15.3</b>	<b>17.0</b>

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	31.5	33.5	28.1	18.1	14.5
P/CE(x)	23.2	20.6	18.0	13.1	11.0
P/B (x)	4.7	4.2	3.7	3.2	2.7
EV/Sales (x)	2.7	1.9	1.8	1.5	1.3
EV/EBITDA (x)	19.1	16.6	15.1	10.9	8.7
EV/EBIT(x)	24.6	23.9	21.6	14.2	11.0
EV/IC (x)	5.0	3.8	3.6	3.3	3.0
FCFF yield (%)	2.6	2.8	3.3	3.9	5.2
FCFE yield (%)	2.3	2.2	2.3	3.2	4.4
Dividend yield (%)	0.5	0.6	0.7	1.2	1.4
<b>DuPont-RoE split</b>					
Net profit margin (%)	8.8	5.5	6.3	8.7	9.4
Total asset turnover (x)	1.3	1.6	1.5	1.6	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>14.0</b>	<b>19.0</b>	<b>20.3</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	7.9	5.4	5.9	7.6	8.4
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>12.1</b>	<b>17.0</b>	<b>19.9</b>
<b>Operating metrics</b>					
Core NWC days	80.0	71.6	71.2	69.8	69.3
<b>Total NWC days</b>	<b>80.0</b>	<b>71.6</b>	<b>71.2</b>	<b>69.8</b>	<b>69.3</b>
Fixed asset turnover	2.2	2.7	2.3	2.3	2.4
Opex-to-revenue (%)	27.3	29.9	30.7	29.7	28.5

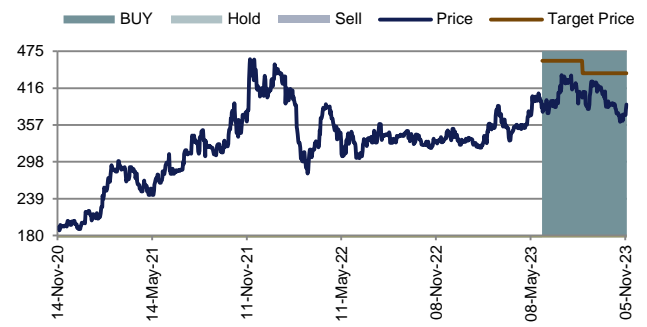
Source: Company, Emkay Research

## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
15-Aug-23	401	440	Buy	Chirag Jain
30-May-23	390	460	Buy	Chirag Jain

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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