

01 June 2016

## Suprajit Engineering

*Decent revenue growth driven by greater export demand; Buy*

Rating: **Buy**

Target Price: ₹190

Share Price: ₹158

**Greater export demand pushed up Suprajit's consolidated sales 77% yoy to ₹2.74bn. The acquisition of a 62% controlling stake in Phoenix Lamps has resulted in robust (consol) growth. We maintain a Buy.**

**Q4 revenue surges.** For Q4 FY16 Suprajit's sales climbed 18% yoy to ₹1.57bn (beating our estimate by 5.3%). Consolidated revenue shot up 77.1% yoy to ₹2.74bn. There has been uptick in both direct and OEM aftermarket in Q4. FY16 standalone revenue grew 12.6% to ₹5.87bn. The share of domestic and exports (excl. Phoenix Lamps) was 81% and 19% respectively in FY16.

**Lower commodity prices cut into margins.** Higher other expenses (which included ~₹35m on account of the QIB issue and higher discounts to customers) led to the standalone Q4 margin contracting 128bps yoy to 15.4%. The consolidated margin was up 64bps yoy, to 17.3%.

**Profitability up 29% yoy.** Profit in Q4 declined 6.4% yoy to ₹101m, because of the high tax rate, interest and depreciation. Consolidated PAT grew 29% yoy to ₹172m due to the healthy top-line and margin growth.

**Ongoing expansions.** Suprajit has signed an MoU with a Korean company to set up a project in India to manufacture gear-shifters and brake-levers. For Phoenix, planned capex for FY17 is ~₹350m; for Suprajit, ~₹200m. The company expects auto exports to pick up fast, driven by new orders. The cable business is expected to grow ~40-50% in FY17. The new Chennai facility is under a trial run and is expected to commence in Jun'16.

**Valuation.** For better positioning the company will focus only on cables in the export market. With the capacity expansions, asset turnover is likely to rise. At our target, we value the stock at 20.5x Mar'18e PE and maintain a Buy. At present, it quotes at FY18e EV/EBITDA of 8.4x. **Risks:** Higher interest rates, commodity price rises and keener competition.

Key data	SEL IN / SUPE.BO
52-week high/low	₹166 / ₹117
Sensex/Nifty	26668 / 8160
3-m average volume	\$0.2m
Market cap	₹21bn / \$315m
Shares outstanding	131m

Shareholding pattern (%)	Mar'16	Dec'15	Sep'15
Promoters	47.4	51.8	51.8
- of which, Pledged	-	-	-
Free Float	52.6	48.2	48.2
- Foreign Institutions	5.9	4.8	4.6
- Domestic Institutions	8.4	2.8	2.5
- Public	38.4	40.6	41.0

Financials (YE Mar)	FY17e	FY18e
Sales (₹m)	11,526	14,057
Net profit (₹m)	936	1,217
EPS (₹)	7.1	9.3
Growth (%)	23.8	30.0
PE (x)	22.0	16.9
PBV (x)	4.0	3.3
RoE (%)	21.7	24.0
RoCE (%)	21.1	24.9
Dividend yield (%)	1.0	1.0
Net gearing (%)	0.5	0.4

Source: Anand Rathi Research

Quarterly results (YE Mar)	Q4 FY15	Q4FY16	% yoy	FY15	FY16	% yoy
Sales (₹ m)	1,333	1,572	18.0	5,222	5,879	12.6
EBITDA (₹ m)	223	243	9.0	840	992	18.1
EBITDA margin (%)	16.7	15.4	-128bps	16.1	16.9	79bps
Interest (₹ m)	32	64	96.2	135	194	43.8
Depreciation (₹ m)	15	23	50.2	75	84	12.5
Other income (₹ m)	(8)	35	NA	35	126	255.7
PBT (₹ m)	167	180	7.5	665	839	26.1
Tax (₹ m)	60	79	32.7	219	282	29.2
Tax rate (%)	35.6	43.9	833bps	32.9	33.7	80bps
PAT (₹ m)	108	101	(6.4)	447	500	11.9

Source: Company

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## Quick Glance – Consolidated Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end:Mar	FY14	FY15	FY16	FY17e	FY18e
Net revenues	5,452	6,118	9,525	11,526	14,057
Revenue growth (%)	17.9	12.2	55.7	21.0	22.0
- Oper. expenses	4,528	5,157	7,982	9,632	11,681
<b>EBITDA</b>	<b>924</b>	<b>961</b>	<b>1,543</b>	<b>1,894</b>	<b>2,376</b>
EBITDA margin (%)	17.0	15.7	16.2	16.4	16.9
- Interest expenses	134	164	250	303	342
- Depreciation	84	90	158	245	280
+ Other income	38	41	155	152	192
- Tax	236	245	431	449	584
Effective tax rate (%)	31.7	32.7	34.9	30.0	30.0
Reported PAT	508	503	719	936	1,217
+/- Extraordinary items	-	-	(57)	-	-
+/- Minority interest	508	503	756	936	1,217
Adjusted PAT	4.2	4.2	5.8	7.1	9.3
Adj. FDEPS (₹ / sh)	16.9	(1.0)	37.8	23.8	30.0
Adj. FDEPS growth (%)	1.0	1.0	1.1	1.5	1.5

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
Share capital	120	120	131	131	131
Reserves & surplus	1,927	2,288	4,344	5,050	6,037
Shareholders' fund	2,047	2,408	4,476	5,182	6,169
Debt	1,421	1,943	2,598	2,498	2,398
Minority interests	-	-	541.86	541.86	541.86
Deferred Tax Liab (net)	75	91	86	86	86
<b>Capital employed</b>	<b>3,543</b>	<b>4,442</b>	<b>7,702</b>	<b>8,308</b>	<b>9,195</b>
Net Fixed assets	1,531	1,850	3,481	3,370	3,390
Investments	748	1,118	1,487	2,093	2,699
- of which liquid					
Working capital	1,188	1,419	2,546	2,305	2,707
Cash	76	56	189	540	399
<b>Capital deployed</b>	<b>3,543</b>	<b>4,442</b>	<b>7,702</b>	<b>8,308</b>	<b>9,195</b>
Net Debt	597.6	769.5	922.3	(134.6)	(700.3)
Net Debt/Equity (%)	0.66	0.78	0.54	0.38	0.32
W C turn (days)	68.6	77.8	76.0	76.8	65.1

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
Consolidated PAT	508	503	719	936	1,217
+ Non Cash Items	98	106	153	245	280
Cash profit	606	609	873	1,182	1,498
- Incr/(Decr) in WC	327	230	1,127	(240)	402
Operating cash flow	279	379	(254)	1,422	1,096
- Capex	250	409	1,789	135	300
Free cash flow	29	(30)	(2,043)	1,287	796
- Dividend	134	137	161	230	230
+ Equity raised	-	(0)	11	-	-
+ Debt raised	392	521	655	(100)	(100)
- Investments	294	369	370	606	606
+ Others	5.3	(5.2)	2,040.2	-	-
Net cash flow	(1)	(20)	133	351	(140)
+ Opening cash	76	76	56	189	540
Closing cash	76	56	189	540	399

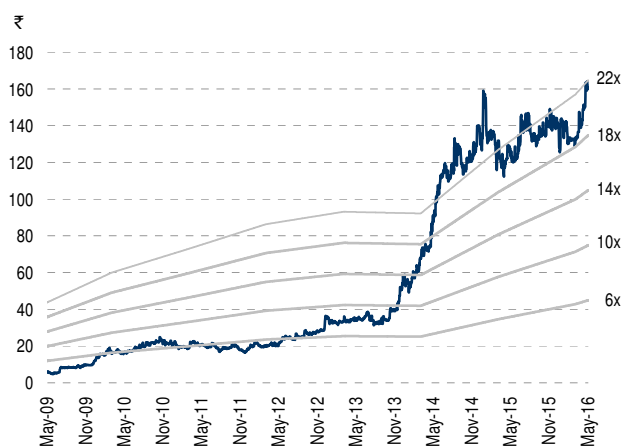
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹158**

Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	37.2	37.6	28.7	22.0	16.9
Cash P/E (x)	31.9	31.9	23.5	17.4	13.8
EV/EBITDA (x)	21.0	20.4	14.0	10.8	8.4
EV/Sales (x)	3.6	3.2	2.3	1.8	1.4
P/B (x)	9.2	7.8	4.6	4.0	3.3
RoAE (%)	27.4	22.6	23.3	21.7	24.0
RoACE (%)	26.7	21.8	22.8	20.5	23.9
Dividend yield (%)	0.6	0.6	0.7	1.0	1.0
Dividend payout (%)	26.3	26.6	22.4	24.6	18.9
Debt/Equity (x)	0.7	0.8	0.6	0.5	0.4
Receivable days	70.9	72.8	64.1	63.0	63.0
Inventory days	42.2	46.9	47.3	48.9	40.9
Payable days	86.5	79.8	76.5	65.0	65.0
Working capital days	68.6	77.8	76.0	76.8	65.1
Fixed asset T/O (x)	3.8	3.6	3.6	3.4	4.2

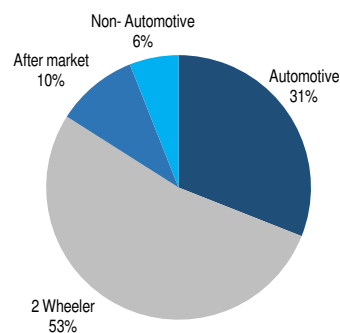
Source: Company, Anand Rathi Research

**Fig 5 – PE Chart**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – FY16 revenue break-up**



Source: Company

## Result Highlights

### Healthy operating performance

For Q4FY16 Suprajit's revenue came at ₹1.57bn (18% yoy), 5.3% above our estimate. During FY16, excl. Phoenix, two-wheelers, automotives, aftermarket and non-automotives contributed respectively 52%, 33%, 10% and 5% to revenue (incl. Phoenix, 40%, 25%, 32% and 3% respectively). The consolidated EBITDA margin in Q4FY16 inched up 64bps yoy to 17.3%.

Standalone profit declined 6.4% yoy due to the higher tax rate, interest and depreciation cost, whereas consolidated PAT grew 29% yoy on account of the healthy margins and sales growth. To cater to domestic demand and to increase its market share, Suprajit is expanding capacities. Of the standalone revenue, export constituted 19%, the balance being domestic sales.

**Fig 7 – Quarterly results (standalone)**

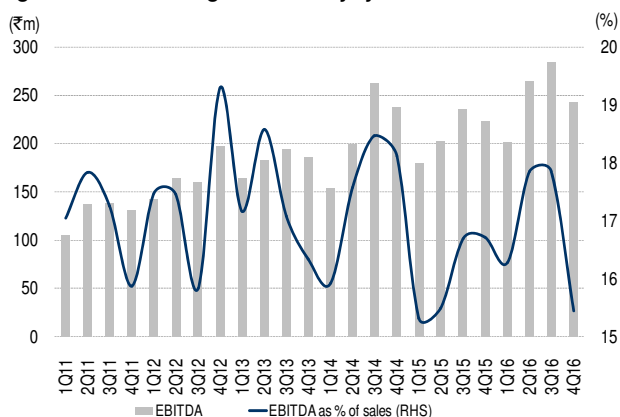
Quarterly results	Q4FY15	Q4FY16	% var	Q3FY16	% var	Q4FY16e	% var
Sales	1,333	1,572	18.0	1590.7	(1.2)	1492.7	5.3
EBIDTA	223	243	9.0	283.9	(14.5)	262.7	(7.6)
PBT	167	180	7.5	235.7	(23.6)	207.1	(13.1)
PAT	108	101	(6.4)	153.2	(34.1)	202.3	(50.1)

Source: Company, Anand Rathi Research

Suprajit has signed an MoU with a Korean company to set up a project in India to manufacture gear-shifters and brake-levers. The Sanand plant has been operational for 3-4 months. The trial run for the new facility at Chennai has started and is likely to commence operation from Jun'16. The tax rate is likely to be ~33%

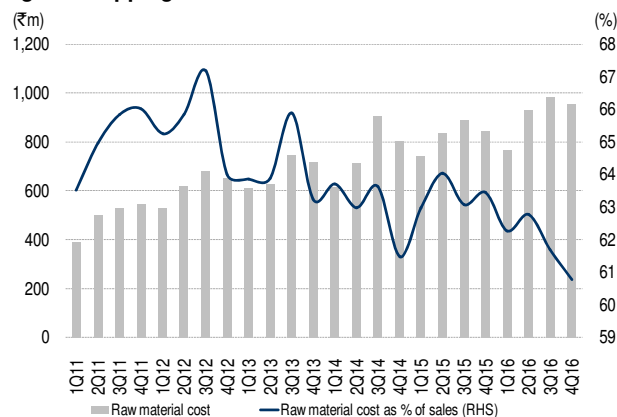
To diversify its business Suprajit acquired a 62% stake in Phoenix Lamps. Capex of ~₹300m for Phoenix is likely to be completed by Dec'16 and the company would incur another ~₹50m in FY17. Due to declining commodity prices, Phoenix's performance was affected in FY16. Production in FY16 was ~55m units

**Fig 8 – EBITDA margin declines yoy**



Source: Company, Anand Rathi Research

**Fig 9 – Dropping raw material cost**



Source: Company, Anand Rathi Research

## Valuation

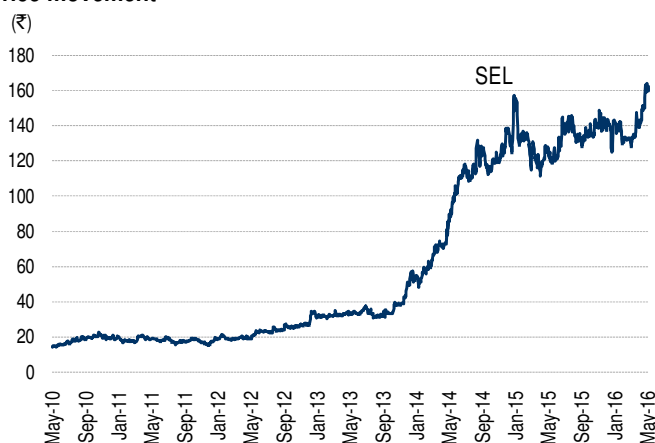
We expect stable demand from specific OEMs and the shoring up of control-cable growth in the auto and non-auto markets, exports and replacements. The acquisition is likely to bring in operating synergies. Apart from benefiting from domestic demand, the company's sharper focus on exports and the aftermarket would lead to revenue growth. We expect a comparatively healthy EBITDA margin and return ratios.

At the ruling price of ₹157, the stock quotes at PE of 22x and 16.9x FY17e and FY18e earnings respectively, and EV/EBITDA of 10.8x and 8.4x.

We expect the increased capacity, growth in exports and thrust on setting up plants at new locations to propel revenues at a 21.5% CAGR over FY16-18. Due to the increased operating leverage, the operating margin is projected to be a high 16.9%. We believe that increased traction in exports and its aftermarket business is likely to keep the RoCE in FY18 at ~23.9%.

We are positive on Suprajit and maintain our Buy recommendation. We assign a one-year-forward PE of 20.5x (FY18) and derive a target price of ₹190.

Fig 10–Price movement



Source: Bloomberg

### Risks

- **Slowdown in OEMs:** Nearly 83% of Suprajit's sales are to OEMs; the rest to the replacement, non-auto and export markets. Hence, low volume growth for OEMs could slash revenue.
- **Higher interest rates:** A substantially high percentage of vehicles is purchased through auto finance. In today's high-interest-rate regime, financing costs have risen, affecting volume growth of auto manufacturers and, thereby, Suprajit. Any further rise in interest rates could prove to be a significant negative.
- **Rise in input costs:** Raw-material costs (primarily steel and PVC), being as high as 65% of sales, play a large part in pricing and margins.
- Any adverse movement in prices could erode margins.

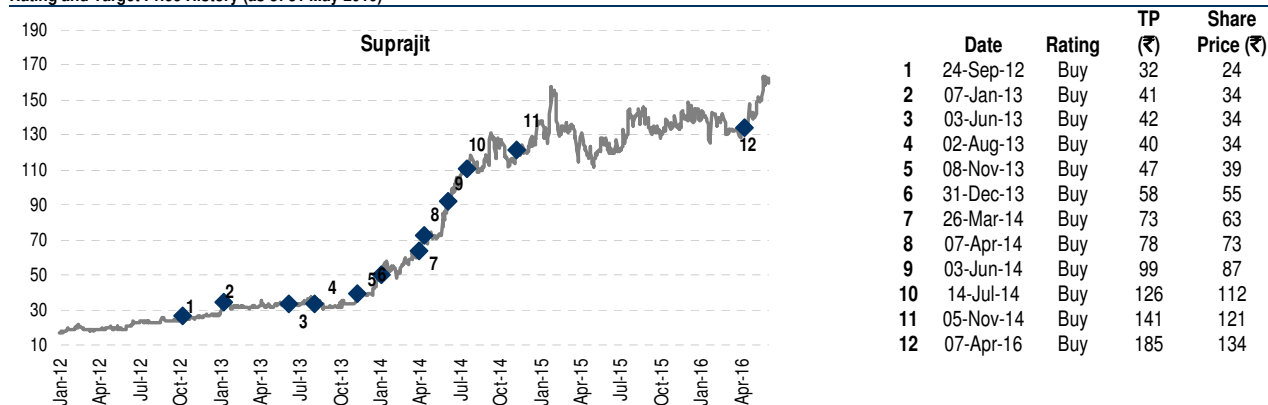
## Appendix

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