



Suprajit Engineering Ltd

AGM update - LDC and growth 'beyond cables' to be exciting!

Performance in FY22

FY22 was a challenging year as global volumes shrunk, chip shortages, shipment problems, commodity price increase, port congestion, etc. impacted financials. Despite multiple challenges, performance was much ahead of the industry. Suprajit continue to report growth in its financials. Revenues increased by 12% YoY to Rs 18.4bn in FY22 vs. the industry growth of less than 2% for the same period. PAT increased by 21% YoY to Rs 17.3bn in FY22 (including exceptional items). Increased dividend to Rs 2.0 in FY22 vs. Rs 1.8 in FY21 and dividend payout was 16%. With 400mn cables capacity and 110mn lamps, Suprajit Engineering is having top capacities in the world.

Light Duty Cables (LDC) division

The LDC acquisition is completed and the management termed it as a transformational and marquee acquisition. This segment will give expansion and growth opportunities, along with support in de-risking business & growing profitability in the coming years. Post LDC, Suprajit's dependence on two-wheelers has come down from 34% in FY22 to 26% at present. LDC provides global manufacturing footprint, warehousing, and engineering support system to drive global business going forward. The combined strength of Suprajit and the LDC will make the company the best cable manufacturer in the world.

Suprajit Technical Centre (STC) and growing beyond cables

Significant traction emerged at STC, developed new products and launched a few products with customers. Suprajit is setting-up a digital instrument cluster and will start production in coming months. STC made sector agnostic products, widely acceptable in electric vehicles, relocated its R&D centre and increased number of engineers to 45, which will grow further. STC is doing 'beyond cables' and will further add wings to fly higher. LDC along with STC will aid in growing faster and higher than the industry growth.

Core business performance

The domestic cable division performed very well with increased OEM penetration, and it's aftermarket reported good growth as well. Many new businesses won in the past financial year, orders including LDC remain strong & robust. With quality, low cost and timely delivery, Suprajit has been able to grow its market share consistently over the period. Auto cables degrowth in exports will continue due to geopolitical situation and other challenges (as mentioned above) will continue. LDC's short-term margin related pressures will remain as restructuring & cleanup is happening and streamlining is ongoing. Non-auto segment performed well with stable margin, while Phoenix lamps segment impacted majorly due to steep increase in input costs/special gases.

Broad outlook

a) Expect 5-10% outperformance vis-à-vis industry to continue. b) EBITDA margin ex-LDC will maintain at 14-16% level. LDC will be a drag in FY23 and will touch double-digit margin by Q4FY24 with \$100mn in revenue in FY24. c) Doing one M&A at a time, which is on the philosophy of de-risking and growing profitable. Taking calculated risk & a conservative approach while doing acquisitions. d) The incremental Rs 20bn of revenue will come sooner than later.

Reasonably attractive valuations

- Suprajit's historic year-on-year outperformance is noticeable. We believe apart from strong growth visibility in its traditional business, LDC's global reach and high margin products from STC will be the new growth drivers for mid-to-long term.
- Its trading at ~17x FY24e EPS of Rs 19.3. **Assigned multiple of 21x FY24e to arrive at a fair value of Rs 405 per share. Recommend Buy!**

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY20	15,628	-1.7	2,187	14.0	1,040	-22.3	7.4	12.8	13.6	25.2	13.0
FY21	16,409	5.0	2,367	14.4	1,427	37.3	10.2	15.5	14.2	17.9	11.6
FY22	18,405	12.2	2,599	14.1	1,731	21.3	12.5	16.7	14.9	27.0	18.4
FY23e	28,183	53.1	3,103	11.0	1,732	0.1	12.5	15.0	14.4	26.1	16.1
FY24e	31,255	10.9	4,377	14.0	2,670	54.2	19.3	19.9	17.3	16.9	11.0

Source: Company, SMIFS Institutional Research Estimates

Rating: Buy Upside: 24.1%
 Current Price: 326 Target Price: 405

Earlier recommendation

Previous Rating: Buy
 Previous Target Price: 400

Market data

Bloomberg:	SEL IN
52-week H/L (Rs):	478/272
Mcap (Rs bn/USD bn):	45.1/0.6
Shares outstanding (mn):	138.4
Free float:	55.0%
Daily vol. (3M Avg):	0.23 mn
Face Value (Rs):	1
Group:	BSE 500

Source: Bloomberg, SMIFS Institutional Research

Shareholding pattern (%)

	Jun-22	Mar-22	Dec-21	Sep-21
Promoter	44.6%	44.6%	44.6%	44.6%
FIIIs	4.9%	5.0%	5.9%	4.7%
DIIIs	14.9%	14.9%	14.1%	13.3%
Public/others	35.6%	35.5%	35.4%	37.4%

Source: BSE

Price performance (%) *

	1M	3M	12M	36M
BSE 500	-3%	11%	-3%	57%
SEL	-4%	-2%	4%	90%

*As on 26th Sept 2022; Source: AceEquity, SMIFS Research

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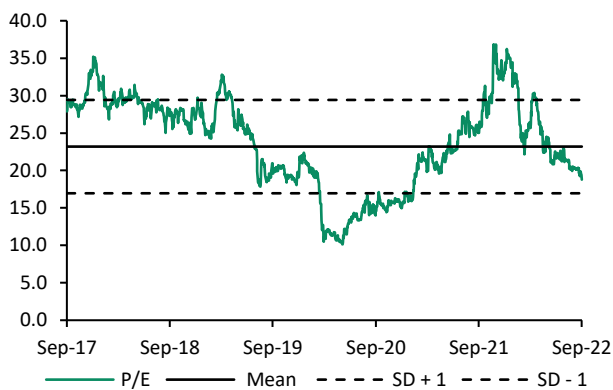
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Outlook and Valuations

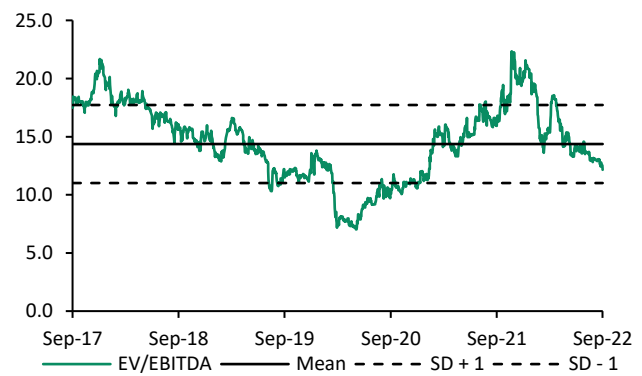
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Fig 1: 1-year forward P/E



Source: AceEquity, SMIFS Institutional Research

Fig 2: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS Institutional Research

Financial Statements

Income Statement					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
Revenues	15,628	16,409	18,405	28,183	31,255
% Growth	(1.7)	5.0	12.2	53.1	10.9
Raw Materials	9,151	9,547	10,787	16,938	18,066
% of sales	58.6	58.2	58.6	60.1	57.8
Personnel	2,927	3,083	3,364	5,496	5,939
% of sales	18.7	18.8	18.3	19.5	19.0
Other Expenses	1,364	1,411	1,655	2,647	2,874
% of sales	8.7	8.6	9.0	9.4	9.2
EBITDA	2,187	2,367	2,599	3,103	4,377
EBITDA Margin (%)	14.0	14.4	14.1	11.0	14.0
Other Income	224	336	366	479	512
Depreciation & Amortization	581	568	585	979	1,028
EBIT	1,830	2,136	2,380	2,603	3,862
Finance Cost	227	192	145	249	234
PBT From Operations	1,603	1,943	2,235	2,353	3,628
Exceptional Income/(Expense)	-274	0	116	0	0
PBT	1,329	1,943	2,352	2,353	3,628
Tax-Total	289	516	621	621	958
Effective tax rate (%)	21.8	26.6	26.4	26.4	26.4
Reported PAT	1,040	1,427	1,731	1,732	2,670
PAT Margin	6.7	8.7	9.4	6.1	8.5
% Growth	(22.3)	37.3	21.3	0.1	54.2

Source: Company, SMIFS Institutional Research Estimates

Key Ratios					
YE March	FY20	FY21	FY22	FY23e	FY24e
Growth Ratios (%)					
Net Sales	(1.7)	5.0	12.2	53.1	10.9
EBITDA	(6.0)	8.2	9.8	19.4	41.1
Net Profit	(22.3)	37.3	21.3	0.1	54.2
Margin Ratio (%)					
EBITDA Margin	14.0	14.4	14.1	11.0	14.0
EBIT Margin	11.7	13.0	12.9	9.2	12.4
PBT margins	10.3	11.8	12.1	8.3	11.6
PAT Margin	6.7	8.7	9.4	6.1	8.5
Return Ratios					
ROE	12.8	15.5	16.7	15.0	19.9
ROCE	13.6	14.2	14.9	14.4	17.3
ROIC	13.2	13.0	14.4	11.9	16.2
Turnover Ratios (days)					
Gross Block Turnover (x)	2.2	2.2	2.3	2.7	2.4
Inventory	110	120	116	108	108
Debtors	64	74	59	59	59
Creditors	85	95	66	70	70
Cash Conversion Cycle	89	99	109	97	97
Solvency ratio (x)					
Debt-equity	0.4	0.3	0.3	0.4	0.3
Net Debt-Equity	0.2	(0.1)	(0.1)	0.2	0.0
Gross Debt/EBITDA	1.7	1.4	1.2	1.7	1.1
Current ratio	1.5	1.8	2.0	1.7	1.9
Interest coverage ratio	8.1	11.1	16.4	10.4	16.5
Dividend					
DPS (Rs.)	1.8	1.8	2.0	2.0	3.1
Dividend Yield (%)	0.5	0.5	0.6	0.6	0.9
Dividend Payout (%)	23.5	17.2	16.0	16.0	16.0
Per share (Rs.)					
Basic EPS (reported)	7.4	10.2	12.5	12.5	19.3
FDEPS (adjusted)	7.4	10.2	12.5	12.5	19.3
CEPS	11.6	14.3	16.7	19.6	26.7
BV	61.0	70.8	78.3	88.8	105.0
Valuation					
P/E	25.2	17.9	27.0	26.1	16.9
P/BV	5.3	4.6	4.2	3.7	3.1
EV/EBITDA	13.0	11.6	18.4	16.1	11.0
EV/Sales	1.8	1.7	2.6	1.8	1.5

Source: Company, SMIFS Institutional Research Estimates

Balance Sheet					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
Sources of funds					
Capital	140	140	138	138	138
Reserves & Surplus	8,398	9,757	10,701	12,156	14,399
Shareholders' Funds	8,538	9,897	10,840	12,295	14,537
Total Loan Funds	3,803	3,277	3,115	5,349	5,013
Deffered tax liabilities	563	552	554	848	941
Other liabilities	2,901	3,406	2,877	4,257	4,606
Total Liabilities	15,805	17,133	17,385	22,748	25,097
Application of funds					
Gross Block	7,489	7,749	8,100	12,954	13,623
Accumulated Dep.	1,610	2,099	2,619	3,598	4,625
Net Block	5,878	5,649	5,482	9,356	8,998
Capital WIP	145	42	94	94	91
Net Assets	6,024	5,691	5,576	9,450	9,089
Investments	890	348	31	31	31
Other non current assets	408	485	603	586	615
Inventories	2,762	3,145	3,433	5,012	5,345
Sundry Debtors	2,750	3,320	2,972	4,551	5,047
Cash & Bank Balances	694	945	1,962	387	1,940
Loans and Advances	10	10	14	22	24
Other current Assets	2,268	3,188	2,796	2,711	3,006
Total Current Assets	8,483	10,608	11,176	12,682	15,362
Sundry Creditors	2,140	2,476	1,940	3,248	3,465
Other Current Liabilities	3,531	3,415	3,461	3,944	4,340
Provisions	118	135	142	217	241
Total Current Liabilities	5,789	6,025	5,542	7,410	8,046
Net Current Assets	2,695	4,583	5,634	5,272	7,317
Total Assets	15,805	17,133	17,385	22,748	25,097

Source: Company, SMIFS Institutional Research Estimates

Cash Flow					
YE March (Rs mn)	FY20	FY21	FY22	FY23e	FY24e
Operating profit before WC changes	2,292	2,519	2,832	3,581	4,888
Net chg in working capital	499	(427)	(432)	(1,481)	(487)
Income taxes paid	(470)	(482)	(584)	(630)	(971)
Cash flow from operating activities (a)	2,320	1,610	1,816	1,470	3,430
Capital expenditure	(664)	(251)	(525)	(4,853)	(666)
Free Cash Flow	1,656	1,359	1,291	(3,384)	2,764
Cash flow from investing activities (b)	(1,565)	(598)	365	(4,796)	(894)
Cash flow from financing activities (c)	(607)	(860)	(1,115)	1,707	(997)
Net chg in cash (a+b+c)	148	152	1,066	(1,619)	1,539

Source: Company, SMIFS Institutional Research Estimates

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