

Non-Automotive business to drive growth and margin

- Suprajit Engineering (SEL) displayed resilient performance in a tough quarter. Revenue de-grew 30% QoQ to Rs. 3.61 bn led by 36% QoQ fall in cable division and 40% fall in PLD division offset by flat revenue of Sena division. EBITDA margin contracted 232bps QoQ to 13.6% led by negative operating leverage.
- Despite the weakness in domestic 2Ws OEMs production, core cable business outperformed due to sharp jump in 2Ws OEMs export and strong traction in 4W export division. Management expects 2Q numbers to be strong despite all odds. In automotive, the company has added many products like electronics instrument cluster, CBS for E 2W and the brake shoes.
- From last two quarter Non-Automotive business (SENA division, Wescon and Unit 9) reported impressive numbers on both revenue and margin front and continue to be on strong footing led by new client and product addition (received gearbox cable order from Brazil for agriculture equipment and started supply of electronic throttle control in the US market) along with strong infra push by US government through USD 2 trillion stimulus package.
- 1Q was weak for the Lighting division because of the non-availability of oxygen. Noida and Chennai plants are operating at full capacity supporting customers like Osram, Bosch and Lumiled. The company has installed two oxygen plants but Margin pressure to continue due to share increase in prices of RM like special gases and Krypton.
- We maintain our positive stance on the stock led by 1) Strong market share in domestic 2W cable business (market share of 65%) and strong prospects for exports (both direct and indirect) 2) Revenue and margin revival in SENA division through increasing supply from India and entry into new areas such as agriculture, construction, and power sports vehicles and 3) strong aftermarket in both cable and lamp division.
- We expect Strong cash flows and minimal capex requirements would further strengthen its balance sheet. We roll out FY24 estimates and value the stock Rs. 377 (22x Sept 23E EPS) and maintain Accumulate rating.

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	3,616	1,775	103.8	5,130	(29.5)
Total Expense	3,124	1,823	71.4	4,313	(27.6)
EBITDA	492	(48)	(1119.1)	817	(39.8)
Depreciation	143	138	4.2	143	0.3
EBIT	349	(186)	(287.6)	674	(48.3)
Other Income	66	58	14.4	122	(45.8)
Interest	47	55	(14.2)	28	70.5
EBT	529	(183)	(388.6)	768	(31.2)
Tax	97	(38)	(354.9)	193	(49.7)
RPAT	432	(145)	(397.5)	575	(24.9)
APAT	270	(145)	(286.4)	575	(53.0)
			(bps)		(bps)
Gross Margin (%)	44.7	44.4	26	41.3	338
EBITDA Margin (%)	13.6	(2.7)	1633	15.9	(232)
NPM (%)	11.9	(8.2)	2011	11.2	72
Tax Rate (%)	18.4	20.8	(243)	25.1	(676)
EBIT Margin (%)	9.6	(10.5)	2012	13.1	(350)

CMP	Rs 338
Target / Upside	Rs 377 / 12%
NIFTY	16,364

Scrip Details

Equity / FV	Rs 140mn / Rs 1
Market Cap	Rs 47bn
	USD 629mn
52-week High/Low	Rs 358/ 162
Avg. Volume (no)	6,50,613
Bloom Code	SEL IN

Price Performance	1M	3M	12M
Absolute (%)	9	38	100
Rel to NIFTY (%)	4	24	53

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	44.6	44.6	44.6
MF/Banks/FIs	22.3	21.8	13.1
FIIIs	5.9	6.8	4.4
Public / Others	27.3	26.8	37.9

Valuation (x)

	FY22E	FY23E	FY24E
P/E	26.2	21.4	18.3
EV/EBITDA	15.8	13.3	11.5
ROE (%)	17.4	19.4	19.9
RoACE (%)	14.9	16.9	17.9

Estimates (Rs mn)

	FY22E	FY23E	FY24E
Revenue	18,923	21,552	24,442
EBITDA	2,910	3,390	3,833
PAT	1,785	2,186	2,554
EPS (Rs.)	12.9	15.8	18.5

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Concall Highlights

SEL Consol

- 1Q was a reasonably good quarter, fall in domestic revenue was partially offset by exports revenue. 2Q looks like a strong quarter (especially for the non-Automotive division). However, Shortage of electronic chip worldwide would continue to be a key constraint for growth.
- Despite the weakness in domestic 2W OEM production, core cable business outperformed as two of its customers substantially increased their export market share.
- Despite the chip shortage challenges automotive exports witnessed strong growth. Expect second quarter to be better than last year.
- Gross margin improved due to passing on some of the RM inflation to OEMs, the company has also taken price hike in aftermarket.
- The company is moving from mechanical instrument clusters to electronic instrument clusters with the launch of a new platform known as Supra 1.0 platform already launched for entry level, supra 2.0 platform is more sophisticated compared to Supra 1.0, Supra 2.5 is under development.

Phoenix Lamp

- Phoenix Lamps division is facing material cost headwinds. Halogen division uses a significant amount of special gases, Krypton and prices of all of these have gone 5x, 6x, 7x, some part of it has been passed on to customers and for some of them the company has a long-term pricing agreement where it is difficult to change the pricing till end of those contract.
- The company has installed two oxygen plants, one in Chennai, one in Noida. The Chennai plant has been commissioned and the Noida plant would be shortly commissioned.

SENA Business (Suprajit Engineering non-automotive)

- Non-Automotive, primarily, Wescon and Unit 9 have been performing well from the last two quarters and achieved highest Q1 sales during the quarter despite supply side challenges (A sensor which is required in IC still facing shortage issue).
- Margin contracted QoQ due to high container charges and inflation in engineering plastic prices.
- Received one-off income of Rs.158.98mn related to Paychek Protection program (PPP) from US federal govt.

Others

- Overall debt has reduced from Rs.3.54bn in June-20 to Rs.3.01bn as on June-21.
- Capex for FY22 would be ~2% of annual sales majorly on regular maintenance.
- Break shoe-offtake is performing very well in the aftermarket.
- In the EV portfolio the company supplies brake shoes for 2W OEM.
- Expect uses of cables to increase further in vehicles given the automatization of vehicles.
- There is delay in planned expansion of Narsapura and PLD plant due to Covid related disruption.

Exhibit 1: Actual vs Dart Estimates

(Rs Mn)	Actual	DART Est	% Variance	Remarks
Revenue	3,616	3,744	(3)	Prudent cost control measures
EBIDTA	492	337	46	
EBIDTA	13.6	9.0	461 (bps)	
PAT	270	183	48	

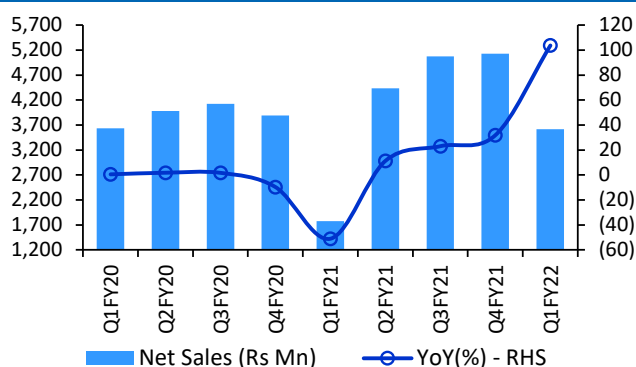
Source: DART, Company

Exhibit 2: Change in Estimates

Rs Mn	FY22E			FY23E		
	New	Previous	% Chg	New	Previous	% Chg
Net sales	18,923	18,766	0.8	21,552	21,089	2.2
EBITDA	2,910	2,825	3.0	3,390	3,238	4.7
EBITDA margin(%)	15.38	15.06	32.5 (bps)	15.73	15.35	37.8(bps)
APAT	1,785	1,744	2.4	2,186	2,064	5.9
EPS	12.9	12.6	2.4	15.80	14.92	5.9

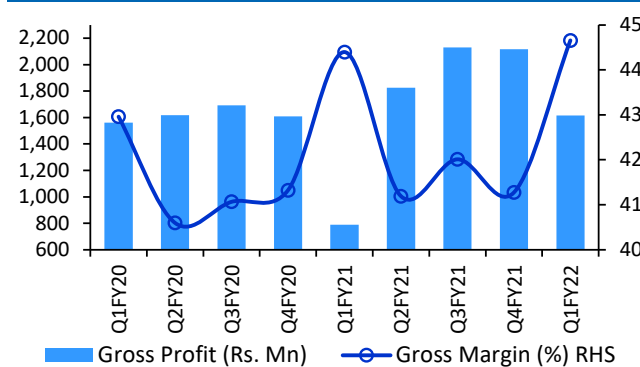
Source: DART, Company

Exhibit 3: Revenue de-grew QoQ



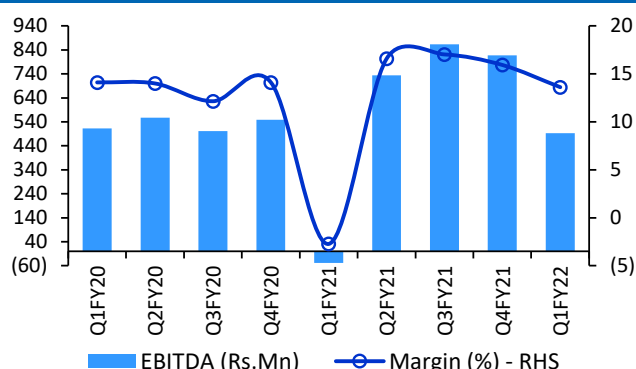
Source: DART, Company

Exhibit 4: Gross margin expanded QoQ



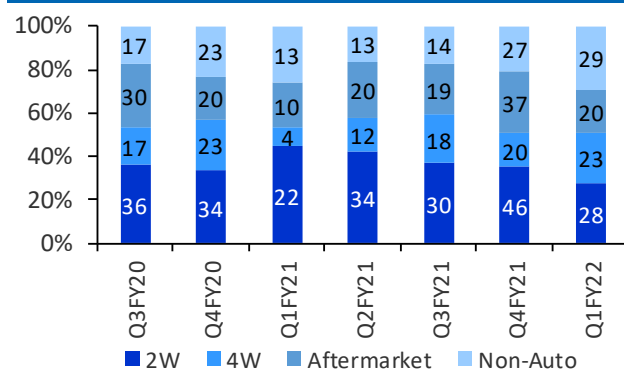
Source: DART, Company

Exhibit 5: EBITDA margin contracted QoQ

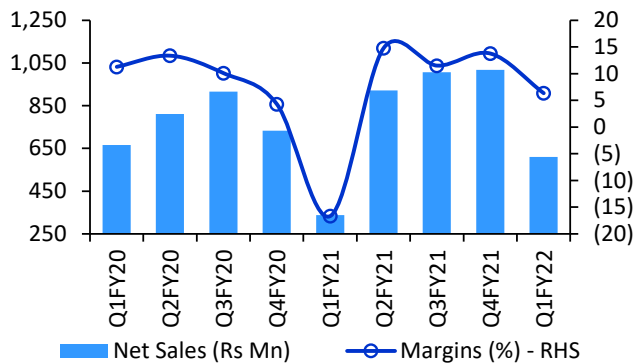


Source: DART, Company

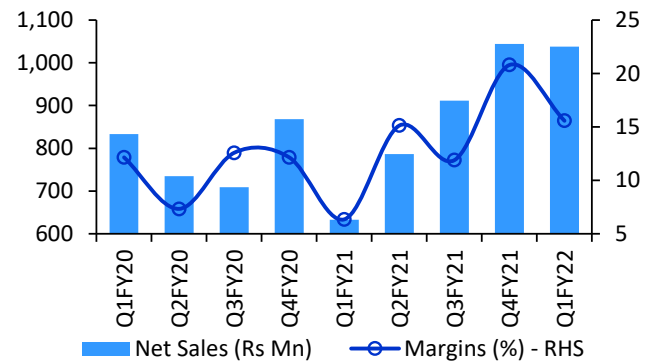
Exhibit 6: Segment mix (%)



Source: DART, Company

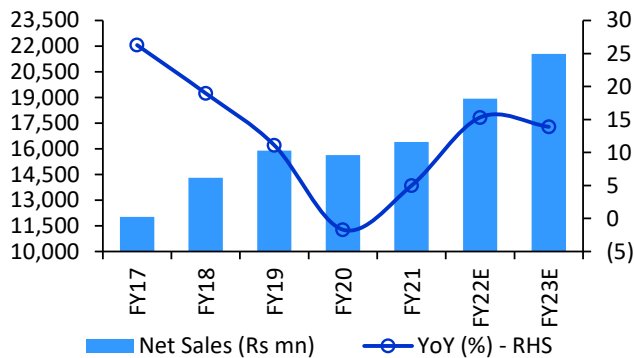
Exhibit 7: Phoenix – margin fell QoQ


Source: DART, Company

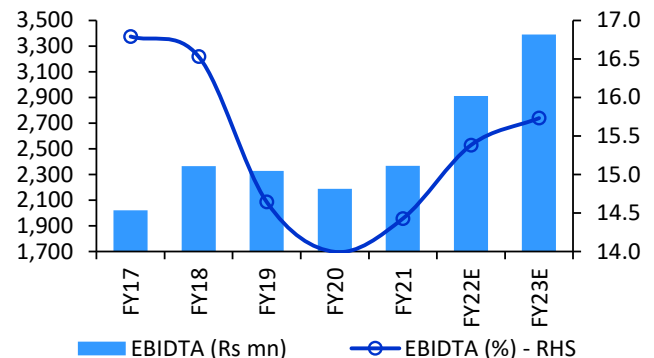
Exhibit 8: Wescon –margin contracted QoQ


Source: DART, Company

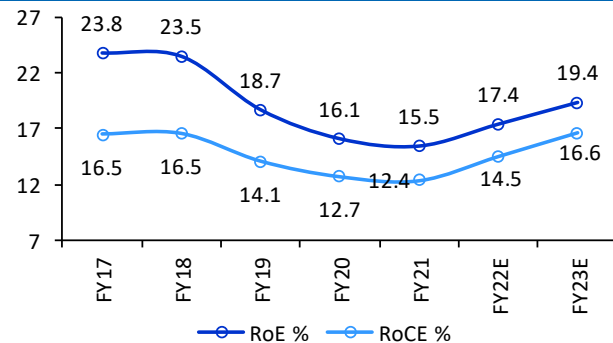
Annual Charts

Exhibit 9: Revenue to improve from FY22


Source: DART, Company

Exhibit 10: Margin to remain at healthy level


Source: DART, Company

Exhibit 11: RoE/ RoCE trend


Source: DART, Company

Exhibit 12: 1yrs Fwd PE Band


Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY21A	FY22E	FY23E	FY24E
Revenue	16,409	18,923	21,552	24,442
Total Expense	14,041	16,013	18,162	20,609
COGS	9,547	10,976	12,393	14,054
Employees Cost	3,083	3,391	3,959	4,501
Other expenses	1,411	1,646	1,810	2,053
EBIDTA	2,367	2,910	3,390	3,833
Depreciation	568	640	645	653
EBIT	1,800	2,271	2,745	3,180
Interest	192	185	164	158
Other Income	336	353	406	466
Exc. / E.O. items	0	0	0	0
EBT	1,943	2,439	2,987	3,489
Tax	516	654	800	935
RPAT	1,427	1,785	2,186	2,554
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,427	1,785	2,186	2,554

Balance Sheet

(Rs Mn)	FY21A	FY22E	FY23E	FY24E
Sources of Funds				
Equity Capital	140	140	140	140
Minority Interest	0	0	0	0
Reserves & Surplus	9,757	10,436	11,855	13,482
Net Worth	9,897	10,576	11,994	13,622
Total Debt	2,704	2,204	1,904	1,604
Net Deferred Tax Liability	552	552	552	552
Total Capital Employed	13,154	13,332	14,451	15,778

Applications of Funds

Net Block	4,624	4,534	4,638	4,735
CWIP	49	49	49	49
Investments	1,705	1,705	1,705	1,705
Current Assets, Loans & Advances	10,749	10,653	12,169	13,943
Inventories	3,145	3,111	3,602	4,018
Receivables	3,320	3,837	4,429	4,955
Cash and Bank Balances	3,788	3,039	3,457	4,271
Loans and Advances	140	286	301	319
Other Current Assets	355	380	380	380
Less: Current Liabilities & Provisions	3,973	3,608	4,110	4,653
Payables	2,476	1,750	1,996	2,244
Other Current Liabilities	1,497	1,858	2,115	2,409
<i>sub total</i>				
Net Current Assets	6,776	7,044	8,058	9,290
Total Assets	13,154	13,332	14,451	15,778

E – Estimates

Important Ratios

Particulars	FY21A	FY22E	FY23E	FY24E
(A) Margins (%)				
Gross Profit Margin	41.8	42.0	42.5	42.5
EBIDTA Margin	14.4	15.4	15.7	15.7
EBIT Margin	11.0	12.0	12.7	13.0
Tax rate	26.6	26.8	26.8	26.8
Net Profit Margin	8.7	9.4	10.1	10.4
(B) As Percentage of Net Sales (%)				
COGS	58.2	58.0	57.5	57.5
Employee	18.8	17.9	18.4	18.4
Other	8.6	8.7	8.4	8.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.2	0.2	0.1
Interest Coverage	9.4	12.3	16.7	20.1
Inventory days	70	60	61	60
Debtors days	74	74	75	74
Average Cost of Debt	6.6	7.5	8.0	9.0
Payable days	55	34	34	34
Working Capital days	151	136	136	139
FA T/O	3.5	4.2	4.6	5.2
(D) Measures of Investment				
AEPS (Rs)	10.3	12.9	15.8	18.5
CEPS (Rs)	14.4	17.5	20.5	23.2
DPS (Rs)	1.8	3.9	4.7	5.7
Dividend Payout (%)	17.2	30.0	30.0	31.0
BVPS (Rs)	71.5	76.4	86.7	98.4
RoANW (%)	15.5	17.4	19.4	19.9
RoACE (%)	12.8	14.9	16.9	17.9
RoAIC (%)	18.9	23.1	25.8	28.3
(E) Valuation Ratios				
CMP (Rs)	338	338	338	338
P/E	32.7	26.2	21.4	18.3
Mcap (Rs Mn)	46,714	46,714	46,714	46,714
MCap/ Sales	2.8	2.5	2.2	1.9
EV	45,630	45,879	45,161	44,047
EV/Sales	2.8	2.4	2.1	1.8
EV/EBITDA	19.3	15.8	13.3	11.5
P/BV	4.7	4.4	3.9	3.4
Dividend Yield (%)	0.5	1.1	1.4	1.7
(F) Growth Rate (%)				
Revenue	5.0	15.3	13.9	13.4
EBITDA	8.2	23.0	16.5	13.1
EBIT	12.1	26.2	20.9	15.8
PBT	46.3	25.5	22.5	16.8
APAT	8.6	25.1	22.5	16.8
EPS	8.6	25.1	22.5	16.8

Cash Flow

(Rs Mn)	FY21A	FY22E	FY23E	FY24E
CFO	1,610	1,586	2,400	2,947
CFI	(598)	(549)	(749)	(749)
CFE	(860)	(1,785)	(1,232)	(1,384)
FCFF	1,280	1,037	1,650	2,198
Opening Cash	2,509	3,788	3,039	3,457
Closing Cash	3,788	3,039	3,457	4,271

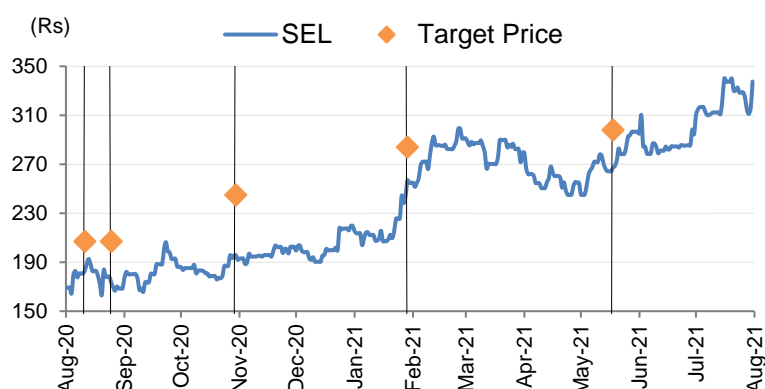
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-20	Accumulate	207	183
Sep-20	Buy	207	173
Nov-20	Buy	245	196
Feb-21	Accumulate	284	257
May-21	Accumulate	298	267

*Price as on recommendation date

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