Suprajit Engineering

10 July, 2022

Reuters: SUPE.NS; Bloomberg: SEL IN

Initiating Coverage

Replicating Indian success on the global platform

We initiate coverage on Suprajit Engineering (SEL) with a BUY rating. SEL is one of the largest manufacturers of Automotive Control Cables and Halogen Lamps, supplying to domestic & international OEMs and in the aftermarket segment. Over the years, the company has diversified its product profile besides consolidating its market position across all its legacy product segments. It also supplies Non-Auto Control Cables to the Outdoor Power Equipment (OPE) industry. Our positive stance on SEL is predicated on: (1) Increasing traction in foreign OEMs and domestic aftermarket segments to drive growth in the Automotive Cables division. (2) Acquisition of LDC to further aide SEL by adding new clients and new products to the portfolio. (3) Gaining traction in the Non-Auto business (84% is Wescon) and product portfolio expansion. (4) Recovery in the domestic automotive industry to benefit SEL, which has a dominant market share in 2Ws (~75%) and 4Ws (~32%). (5) The large scale of its operations and India-based production helps SEL to maintain cost leadership vis-a-vis its peers, making it a dominant player on the global platform. Furthermore, SEL maintains a strong free cash flow generating model with nominal capex requirements along with a debt-free balance sheet. We are building in Revenue/EBITDA CAGR of 29%/29% over FY22-24E along with ROE/ROCE of 17%/21% for FY24E. We value SEL at 23x FY24E EPS to arrive at a target price (TP) of Rs437.

Exports to drive growth ahead of industry in Automotive Cables business: SEL is the market leader in Automotive Cables with a ~75% market share in 2W OEMs (48% of segment revenue) and ~32% in 4W OEMs (18% of segment revenue). While we believe that in 2W and 4W OEMs, the company will grow in line with industry growth, the next leg of outperformance will be led by pick-up in exports. Exports contribute ~18% to the Auto Cable revenue. The acquisition of LDC will further make it a dominant global player on the back of huge scale of operations (2nd largest globally), close proximity to customers, cost leadership (due to facilities located in low-cost geographies) and complementary customer & product portfolio. We thus expect SEL and LDC to gain a significant market share in Global Automotive Cable industry (~5% currently). We expect LDC to post revenue of Rs7.40bn in FY24 and SEL's Automotive revenue to clock a 16% CAGR over FY22-24.

Shift towards organized players to help SEL consolidate its position in aftermarket: Cables aftermarket is dominated by a large number of unorganised players. Aftermarket accounts for ~16% of the cable division's revenue. However, over the last few years, due to the shift from unorganised to organised players, SEL has seen good traction in the aftermarket segment. SEL also sells halogen lamps in the domestic aftermarket segment under the Phoenix brand.

New product offerings and new customer addition to drive Non-Auto revenue for SEL: SEL derives ~90% of the Non-Auto business revenue from the overseas markets (Wescon Controls). It is the largest cable manufacturer for the OPE segment in USA, OPE contributes ~70% to SENA revenue. Management is expanding into other segments like Agriculture, Construction, Medical Equipment, Home etc besides also expanding its footprint into other markets like Brazil and Mexico. SENA business is also expected to benefit from restructuring efforts undertaken by Wescon. We expect revenue CAGR of 9% in the Non-Auto business over FY22-24E.

Initiate with a BUY: SEL is expected to post Revenue/EBITDA CAGR of 29%/29% over FY22-24E, significantly outperforming auto OEM growth, led by increasing traction in exports, aftermarket and non-automotive segments. The company has consistently outperformed industry growth over the last 11 years, led by organic and inorganic expansions. Moreover, going ahead, we envisage a long runway for growth on the back of expansion in LDC's portfolio, non-automotive business and market share gain in the domestic aftermarket segment. We value SEL at 23x FY24E EPS to arrive at a TP of Rs437.

Y/E March (Rsmn)	FY20	FY21	FY22	FY23E	FY24E
Net Sales	15,628	16,409	18,405	27,653	30,668
% Growth	*(1.7)*	*5.0*	*12.2*	*50.2*	*10.9*
EBITDA	2,187	2,367	2,599	3,638	4,299
EBITDA margin (%)	*14.0*	*14.4*	*14.1*	*13.2*	*14.0*
Adj PAT	1,040	1,427	1,731	2,130	2,630
EPS (Rs)	7.4	10.3	12.5	15.4	19.0
EPS growth (%)	*-22.3*	*38.7*	*21.3*	*23.1*	*23.4*
P/E (x)	60.1	32.2	24.9	21.6	17.5
EV/Sales (x)	2.9	2.8	2.4	1.6	1.4
EV/EBITDA (x)	20.9	19.1	17.0	12.0	9.7
P/BV (x)	5.4	4.6	4.2	3.5	2.9
Dividend yield (%)	0.5	0.6	0.8	1.2	2.1
RoCE (%)	*16.3*	*17.2*	*17.1*	*20.0*	*21.0*
RoE (%)	*12.2*	*14.4*	*16.0*	*16.4*	*16.9*

Source: Company,Nirmal Bang Institutional Equities Research

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BUY

Sector: Automobile

CMP: Rs329

Target Price: Rs437

Upside: 33%

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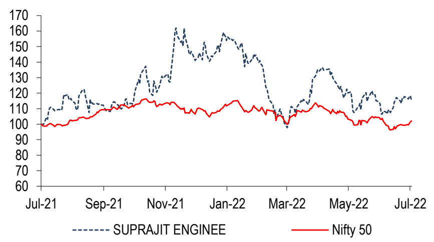
Key Data	
Current Shares O/S (mn)	138.4
Mkt Cap (Rsbn/US$mn)	45.5/573.9
52 Wk H / L (Rs)	478/272
Daily Vol. (3M NSE Avg.)	189,242

Share holding (%)	4QFY22	3QFY22	2QFY22
Promoter	44.6	44.6	44.6
Public	55.4	55.4	55.4
Others	-	-	-

One -Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
Suprajit Engineering	8.1	(26.3)	15.2
Nifty Index	0.1	(10.2)	3.4

Source: Bloomberg

FY21 Annual Report

4QFY22 results

Investor presentation

Automotive Cables business – The crown jewel

Next leg of industry outperformance to be led by exports

SEL has been consistently outperforming the industry both through organic expansion and inorganic expansion. We believe that going ahead, the Automotive Cables business growth will be led by growth in the exports segment. Exports currently account for ~18% of the Auto Cable revenue (see Exhibit 3). SEL has been supplying Auto Cables to foreign OEMs like BMW, VW, John Deere, MTD, Kubota and Honda. SEL has been successfully increasing its wallet share with these customers by gaining new business and new model platforms. Owing to its low-cost operations, it is the cost leader among its peers, which along with the long-standing relationships with the OEMs aides in expanding the footprint globally. Furthermore, preference of OEMs to de-risk reliance on China and vendor consolidation is benefitting SEL in expanding its presence across global markets.

Globally, the Automotive Cables market is significantly large and is valued at ~Rs200bn, providing significant growth opportunity. Currently, the company enjoys mid-single-digit market share in exports and thus has considerable headroom to grow its presence in exports. We expect the Auto Cables export segment to clock ~20% CAGR over FY22-24.

SEL-LDC a synergistic deal; set to replicate Indian success story abroad

In Oct'21, SEL signed an agreement to acquire the assets of the Light Duty Cables (LDC) business unit of Kongsberg Automotive. The asset-purchase deal was valued at an EV of US$42mn. LDC is among the leading suppliers of cables and cable-based actuation systems, supplying to all the major OEMs and Tier-1 suppliers. Its product portfolio consists of a broad range of mechanical cables and electromechanical actuation (EMA) systems. LDC has the capacity to manufacture ~106m cables per annum through its 3 production facilities in Mexico, China and Hungary (low cost manufacturing locations) while it also has 9 sales offices located in close proximity to major customers.

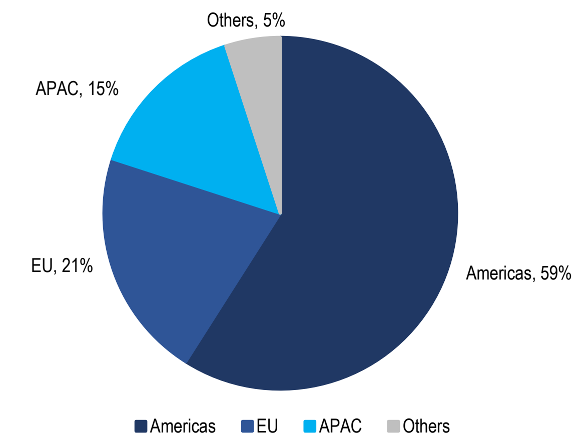
Over the years, SEL has strengthened its presence in the domestic Auto Cables business on the back of its cost competitiveness, high scale and strong relationships with customers. The company aims to replicate this stellar performance in the global markets post LDC's acquisition with further improvement in its market share.

The combined entity is the world's second largest cable manufacturer (410mn p.a. combined capacity) with a presence across four continents (Asia, NA, SA and Europe), thus providing it huge scale of operations and a diversified geographic presence, thus providing it better margins and greater cost competitiveness.

Moreover, LDC's acquisition also provides SEL access to complementary products and technologies and cross-selling opportunities. LDC has a major share in automotive seat related products (~38% of revenue) and EMA (15% of revenue) where SEL has a limited presence. SEL mainly supplies body and interior cables. Additionally, SEL's business would also get access to US auto OEMs. LDC has been working with OEMs like Tesla, FCA, Land Rover, Honda and Husqvarna and ancillary companies like Adient, Lear Corporation, Magna, and Chinese EV players etc. while SEL has a double-digit wallet share with OEMs like VW and BMW. On the other hand, LDC benefits from sharper management focus, efficient operations with reduced overheads and joint RM procurement post integration with SEL.

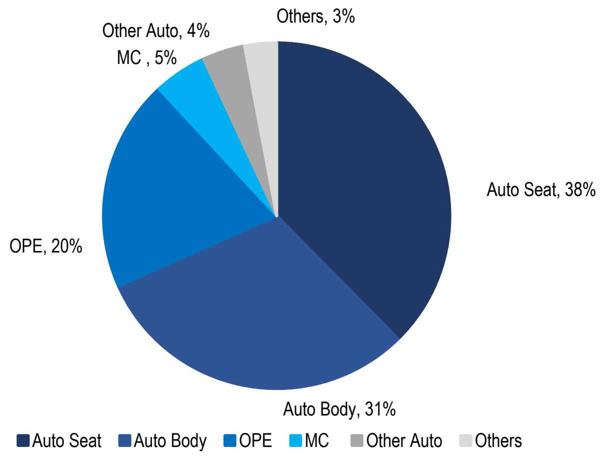
We expect LDC to add ~Rs7.4bn to the company's topline with operating margin of 10% in FY24

Exhibit 1: LDC geographical revenue mix



Source: Company, Nirmal Bang Institutional Equities Research

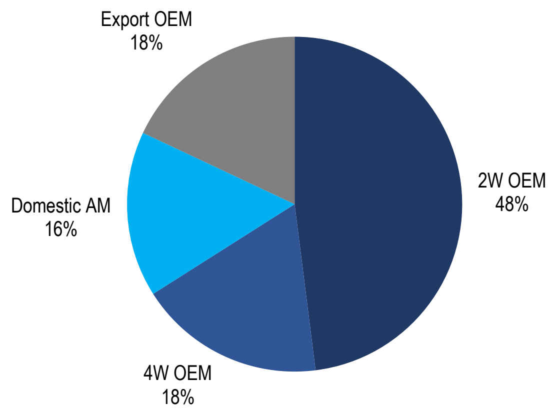
Exhibit 2: LDC product revenue mix



Source: Company, Nirmal Bang Institutional Equities Research

The domestic aftermarket for Auto Cables is largely dominated by unorganized players, with SEL having a 17-18% market share, as per the management. Also, aftermarket is largely dominated by the 2W segment. SEL has a network of more than 400 dealers and has over 20,000 retail touchpoints in India. Aftermarket contributes ~15% to the company's total Auto Cables revenue, up from ~10% in FY15. Management expects the share of aftermarket to rise to 25% over a medium term, led by market share gains as customers are increasingly opting for organized branded players. We expect the auto cables aftermarket segment to clock ~17% CAGR over FY22-24E.

Exhibit 3: Revenue segmentation of Automotive Cables division



Source: Company, Nirmal Bang Institutional Equities Research

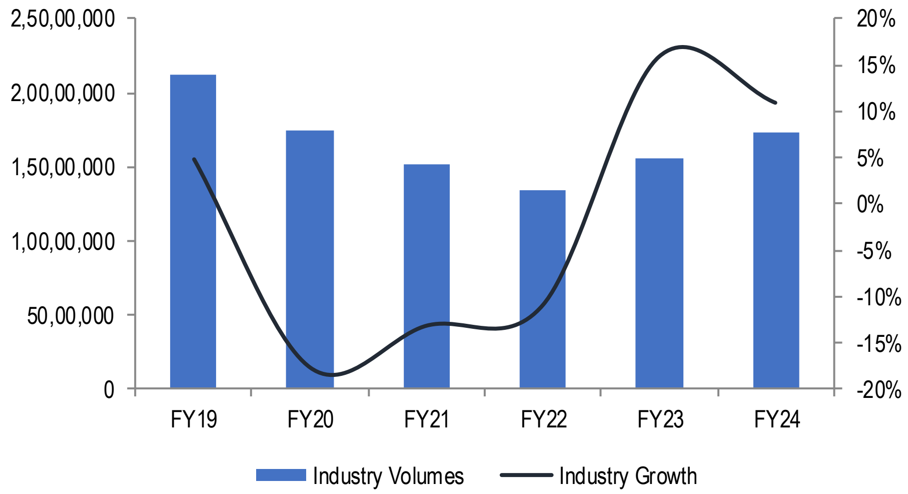
Set to benefit from 2W recovery; enjoys a dominant 75%+ market share in OEMs

SEL commenced its operation with only one OEM customer (TVS) in 1985, but over the years, it has successfully scaled up its presence in the market. It enjoys a dominant wallet share with all the leading OEMs viz. TVS (100%), Hero (~80%), Bajaj Auto (~80%), HMSI (70%), RE and Yamaha. 2W OEMs contributes ~48% to Automotive Cables revenue (see Exhibit 3). SEL is a market leader in 2W OEMs, with over ~75% market share in Indian 2W OEMs.

Considering the high market share in 2W OEMs, we see limited opportunity for SEL to further increase its wallet share with the incumbent OEMs. We thus expect the 2W OEM business for Auto Cables to grow marginally ahead of industry growth. We are factoring in a strong recovery of ~13% CAGR in 2W sales over FY22-24E on the back of **(1) Improving rural incomes, led by higher crop yields and better MSPs (2) Urban demand recovery, driven by opening up of schools & colleges (3) Lower base effect.** However, SEL is also having a strong presence across new-age EV OEMs, which also provides upside risk to our revenue estimates.

Typically, an ICE 2W has ~5-7 cables, used mainly for Clutch, Speedometer, Seat, Brakes, Throttle and Lid Opening. Whereas the EVs don't require cables for Throttle and Clutch; thus, increasing electrification can have a marginal impact on content per vehicle over the longer term.

Exhibit 4: Expect 2W industry to grow at 13% CAGR over FY22-24E



Source: Bloomberg, Nirmal Bang Institutional Equities Research

4W business to grow in line with industry; company to maintain market share

SEL currently has a market share of ~32% vs 20% in FY15 in the 4W segment. It has grown this business inorganically over the last 5 years with the acquisition of Speedo cables business from Pricol in FY15. SEL entered the 4W Auto Cables business with the acquisition of Shah Concabs Pvt. Ltd. in 2002. We expect this business to clock ~12% CAGR over FY22-24E since we don't expect any material market share gains or new customer addition. It has a marginal presence in Maruti Suzuki India (MSIL) and has found it difficult to scale its presence there as Hi-Lex, a Japanese player, has a dominant share in MSIL.

However, over the medium term, we expect the content in 4Ws to rise with the growing premiumisation trend. A PV on an average has 15-20 cables, actuating various mechanisms like seat, windows, sunroof, doors, boots etc. We believe even with premiumisation and growing electrification in the 4Ws, OEMs would prefer to continue with Auto Cables as they are the most cost-effective method of actuation.

Cost leadership derived from economies of scale and lean cost structure

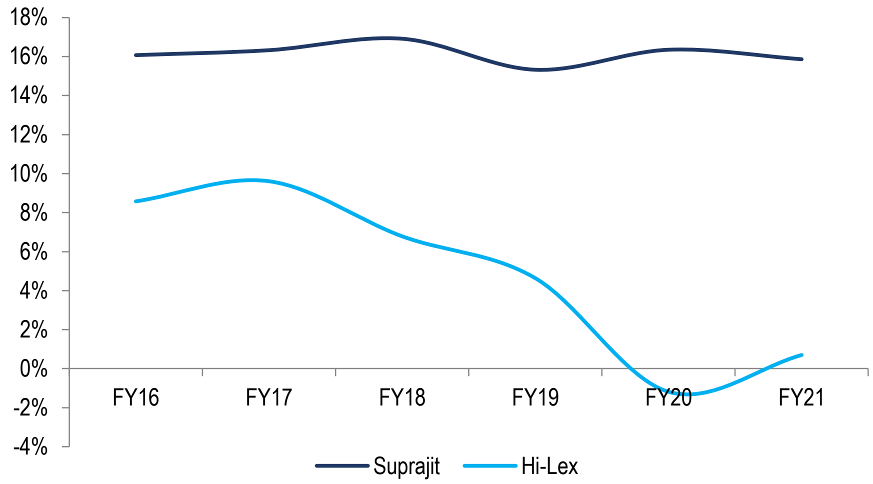
SEL is the cost leader in the Auto Cables industry. It is the largest Auto Cable manufacturer in India and one of the largest in the world thus benefitting from the Economies of scale. Furthermore, it has adopted the strategy of manufacturing from low-cost locations like India & Mexico and selling in other geographies through its warehouses near the customer base thus making the cost structure lean through lower employee cost and lower overheads.

Thus, being a cost leader, SEL is able to gain greater traction in the cost-conscious OEM market. For instance, the closest competitor (Hi-Lex), a Japanese supplier, suffers from high employee costs due to highly paid foreign Japanese expats and higher overheads thus limiting its ability to develop cables at a low cost and compete effectively in cable industry.

Hi-Lex Financials

	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Net Sales	3,232	3,363	4,259	4,596	4,577	4,234	3,668
EBITDA	497	288	409	312	212	(50)	26
EBITDAM	*15.4%*	*8.6%*	*9.6%*	*6.8%*	*4.6%*	*-1.2%*	*0.70%*
EBIT	377	122	234	126	7	(281)	(401)
PAT	247	78	157	83	1	(171)	(357)
ROCE (%)	*14%*	*4%*	*7%*	*4%*	*0%*	*-7%*	*-11%*
ROE (%)	*10%*	*2%*	*5%*	*2%*	*0%*	*-5%*	*-9%*

Exhibit 5: Margin comparision of Suprajit vs Hi-Lex



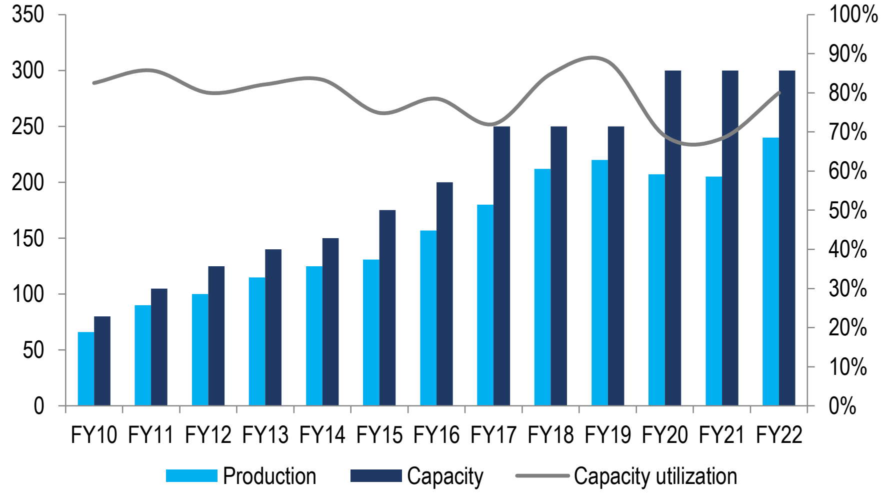
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Moving closer to customer helps in reducing the transit time and deepens the association

SEL has been strategically expanding its capacities to benefit from high market growth and has been setting up satellite plants closer to the OEMs. Moving closer to the customer is imperative for a player like SEL since Auto Cables are the bigger items having lower stock level norms at OEM's end. Thus, they have to be delivered in smaller batches at frequent intervals.

In the last 10 years, SEL has tripled its cable manufacturing capacities. Furthermore, it is efficiently sweating its assets with capacity utilization ranging north of 80% (see Exhibit 6). The company has 15 plants located across the auto hubs in India while Hi-Lex has only 5 plants.

Exhibit 6: Production capacity and capacity utilization



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Facilities of SEL are spread across major auto hubs in India

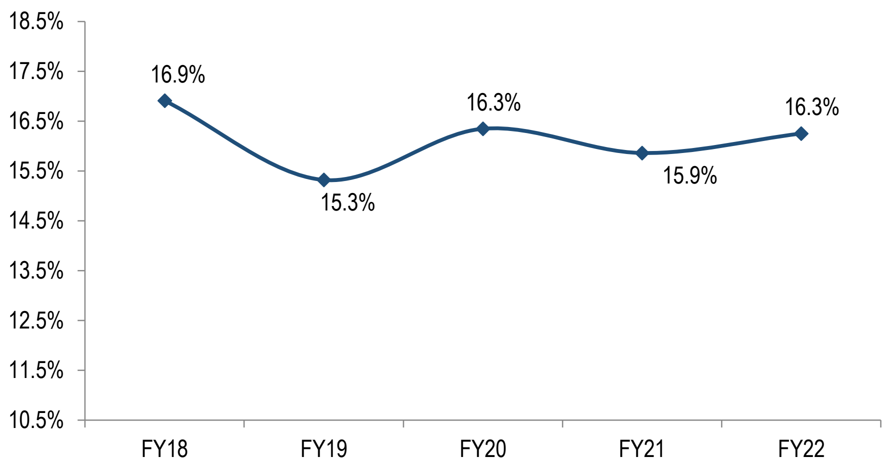
State	Suprajit	Hi-Lex
Karnataka	6	
Tamil Nadu	2	1
Haryana	1	2
Rajasthan	1	-
Utarrakhand	2	-
Maharashtra	1	-
Gujarat	2	2
Total	**15**	**5**

Source: Company, Nirmal Bang Institutional Equities Research

Higher OEM dependency lends stability to margins; albeit lower margins than exports or AM

About 80% of the segment revenue in the Auto Cable division is contributed by OEMs. This helps in easy pass-through of commodity cost inflation as it is a back-to-back arrangement. The major RM component in Auto cables is Steel and polymers, which have seen significant volatility over the last 5 years. However, SEL has successfully maintained a stable EBITDA margin profile in the segment during the same period

Exhibit 8: Margin profile of Automotive Cable division



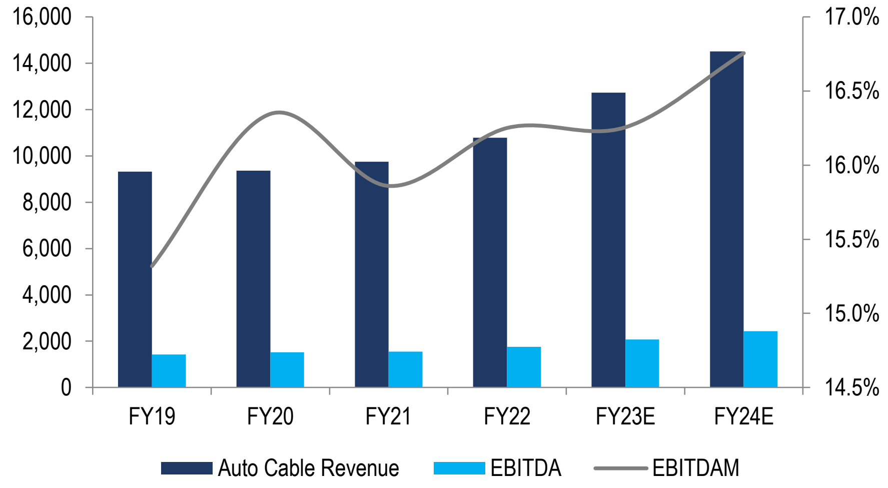
Source: Company data, Nirmal Bang Institutional Equities Research

Expects revenue to clock 16% CAGR over FY22-24E and margin to expand by 70bps

We model a revenue CAGR of ~16% over FY22-24E, led by 20% CAGR in exports, 12% CAGR in 4Ws and 17% CAGR in Aftermarket vs 2W OEM CAGR of 15% over the same period. The company has consistently outperformed the 2W industry growth over the last 5 years. The Auto Cable division clocked 9% CAGR during FY18-22 vs the 2W industry decline of ~10% CAGR.

We also factor in the margin expansion of ~50bps over FY22-24E, driven by a better product mix and softening of commodity prices. The realizations in PV, aftermarket and export segments are better than 2W OEM business.

Exhibit 9: Revenue to grow at 16% CAGR; expects 50bps margin expansion



Source: Company, Nirmal Bang Institutional Equities Research

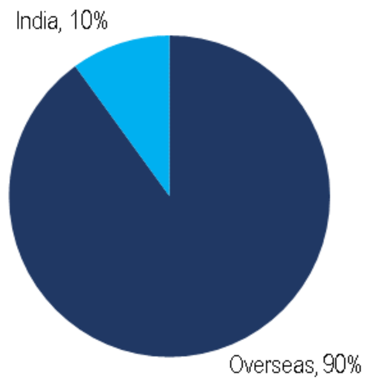
SENA Division – A long runway for growth

Significant presence in the overseas market to benefit from expanding business segment

SEL's Non-Auto business derives majority of revenue from Wescon Controls, which caters to the US Non-Auto market. ~70% of the SENA revenue comes from the OPE segment. It is the largest cable manufacturer for the OPE segment in USA, which includes lawn mowers, trimmers & edgers, snow throwers, etc. and serves customers like MTD, Husqvarna, John Deere, TORO, Honda, etc. Overseas market contributes ~90% to SENA revenue.

Wescon was acquired by SEL in FY17. Wescon traditionally operated and maintained presence largely in the OPE segment, but failed to expand in other product segments due to lack of focus from previous promoter (a PE fund). There lies a sizeable opportunity in the allied segments like Agriculture, Construction, Power-sports, Medical Equipment, Home segments etc., which SEL is looking to tap. Each of these segments is estimated to have a market size of USD25-75mn per year. It has already started making cables for tractors, construction machines and electrical appliances (washing machines) and is currently supplying to players like Tafe, Kubota, Whirlpool, JCB, etc. Additionally, SEL also plans to expand its geographic footprint besides venturing into new markets like Brazil and Mexico.

Exhibit 10: 90% of SENA revenue comes from overseas markets (FY22)



Source: Company, Nirmal Bang Institutional Equities Research

Leveraging LDC synergies to expand product portfolio and geographic presence

About 28% of LDC's revenue comes from the Non-Auto segment, of which 20% is from the OPE segment in different geographies and 8% from motorcycles and other end user segments. Post-acquisition, LDC would help increase SEL's OPE business presence in China and Europe besides adding newer Non-Auto segments.

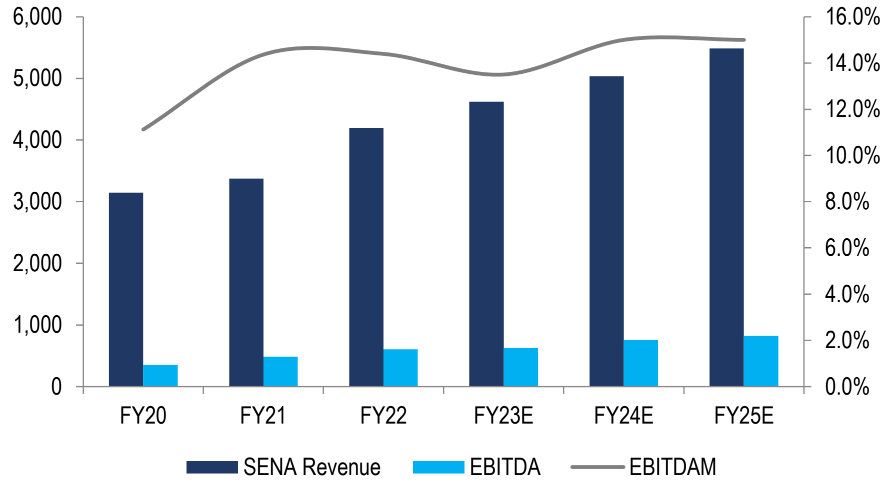
Market share gains on the back of cost competitiveness and enhanced operating scale

The Non-Auto market in North America is highly fragmented with smaller players dominating a particular product category. We believe that SEL will be able to expand its presence in different categories, led by its cost competitiveness and a strong balance sheet. Over the last 3 years, the US Non-Auto market has seen significant consolidation, with financially weaker players going out of business. Management has guided that it would continue with the 3-plant strategy of supplying low-cost products out of India, medium-cost products out of Mexico and high-cost products out of the US. The company's manufacturing presence in India and large scale of operations give Wescon a significant cost advantage over its competitors in the US/EU.

Expects revenue to clock 9% CAGR and margin expansion of 60bps over FY22-24E

We remain upbeat about the company's revenue growth in the SENA business and expect 9% CAGR over FY22-24E. Growth will be mainly led by market share gains, new product launches and expanding geographic footprint. Margin expansion will be led by softening of the commodity prices and economies of scale

Exhibit 11: Revenue to grow at 9% CAGR and margin to grow by 60bps over FY22-24E



Source: Company, Nirmal Bang Institutional Equities Research

Prudent Capital Allocation – Leads to value creation

Scouting for prospective companies to be turned around through improving operational efficiencies and management focus

Adding new products and markets through inorganic expansion

Over the years, SEL has successfully grown and diversified the business through acquisitions. These acquisitions have not only helped in strengthening the core automotive business, but have also helped in diversifying into newer products such as Automotive Headlight Lamps (Phoenix Lamps) and the Non-Auto segment (US-based Wescon Controls).

SEL did its first acquisition of Shah Concabs in FY03 to enter the cable manufacturing business for 4Ws. Then in April'06, it acquired CTP Gills Cables Ltd., a UK-based cable manufacturer to enter the 4W cables export business and expand into the EU automotive markets. Through this acquisition, SEL got access to customers like BMW, VW, GM etc mainly based in Europe. It ramped up Auto Cables exports revenue (SAL & SEU) from Rs 410mn in FY10 to Rs1,925mn in FY21. It then acquired Pricol's speedo business to enter MSIL 4W cable supply in Sept'14 for ~Rs52mn.

Further, SEL entered the lighting business with the acquisition of Phoenix Lamps, which was the largest manufacturer of halogen lamps in India and among the top 5 globally. This acquisition helped SEL expand its footprint in the domestic aftermarket by providing access to the retail touchpoints and the distributor network. Post this acquisition, SEL's management focused on increasing presence in the global aftermarket segment by investing in modern technology (Rs300mn in new H7 line), diversifying into aftermarket segment in other geographies and optimising European subsidiary operations. However, this segment was largely affected by pricing pressure, lower auto sales in EU and transition to LEDs.

SEL acquired Wescon from Nova Capital (PE fund) to enter the Non-Auto market of North America. Wescon was a market leader in the OPE segment. There are several niche segments with market size of US$25-75mn in non-auto side in America, company strives to tap these segments. Also, through Wescon SEL got an opportunity to supply to European operations of existing customers Management has successfully turned around Wescon over last 3 years.

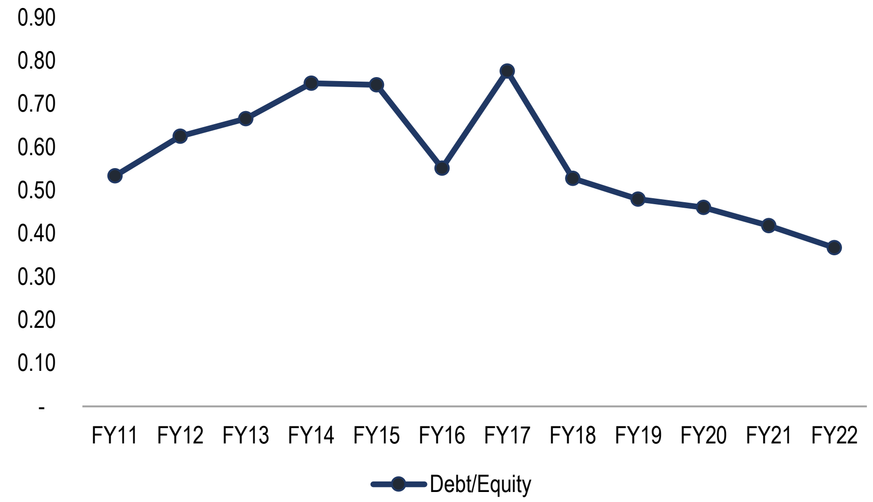
The company purchased Halogne light assets of Osram Chennai in FY20 at a reasonable valuation, thus expanding its capacity to 110mn lamps and becoming the third-largest automotive lamp manufacturer globally besides adding a new customer in Osram global.

Latest in the sequence is the acquisition of Kongsberg Automotive's Light Duty Cables business, which was acquired at EV/Sales of 0.47x and EV/EBITDA of 4.5-5x on CY21E. It provides huge opportunity in the global Auto Cables market, with revenue at US$72mn (3% market share) and a huge available capacity located at cost competitive locations (Hungary, China and Mexico). SEL plans to turn around the performance by providing more management focus to grow its revenue and reduce overheads. Earlier, it was not a core business area for Kongsberg, thus it led to lack of management focus. Moreover, it is a synergistic acquisition with lot of value unlocking prospects for the company's core Auto Cable and SENA businesses.

SEL has always been prudent in acquisitions and has consciously acquired companies where it can improve operational performance and turn it around through SEL's expertise and increased management focus. It has looked to acquire companies with a dominant market position and a decent financial profile at fair value.

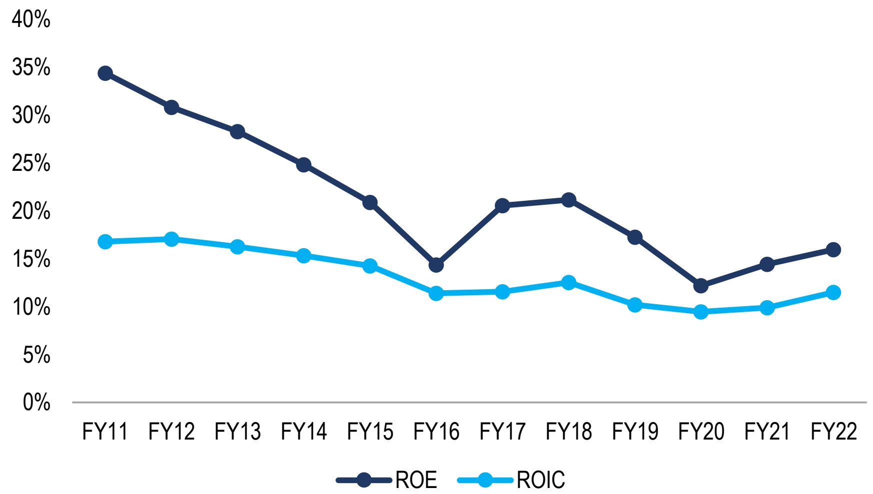
Furthermore, the acquisitions were done with minimal impact on the company's financials and SEL has consistently maintaining stable ROICs over the last 11 years. Also, it has largely funded the acquisitions through internal accruals, thus keeping the balance sheet in good shape.

Exhibit 12: Debt/Equity has remained stable



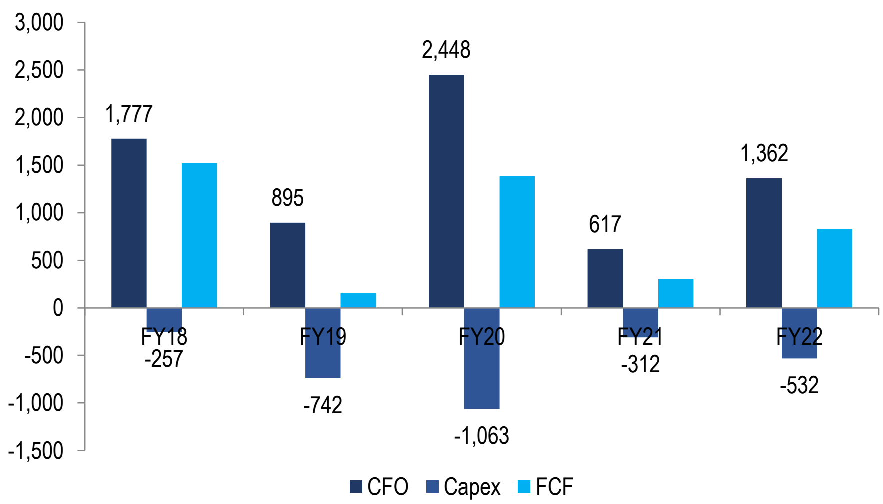
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: ROE & ROIC over 11 years



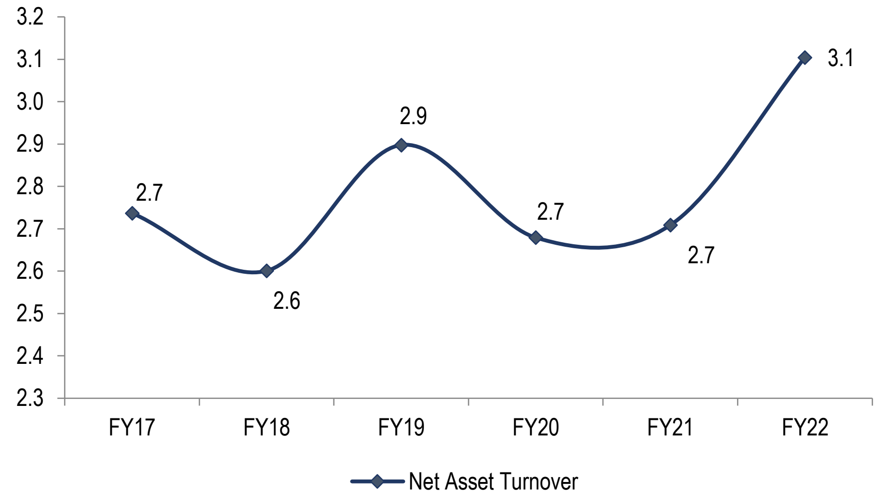
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Successfully generated positive FCFF over last 5 years



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Net asset turnover



Source: Company, Nirmal Bang Institutional Equities Research

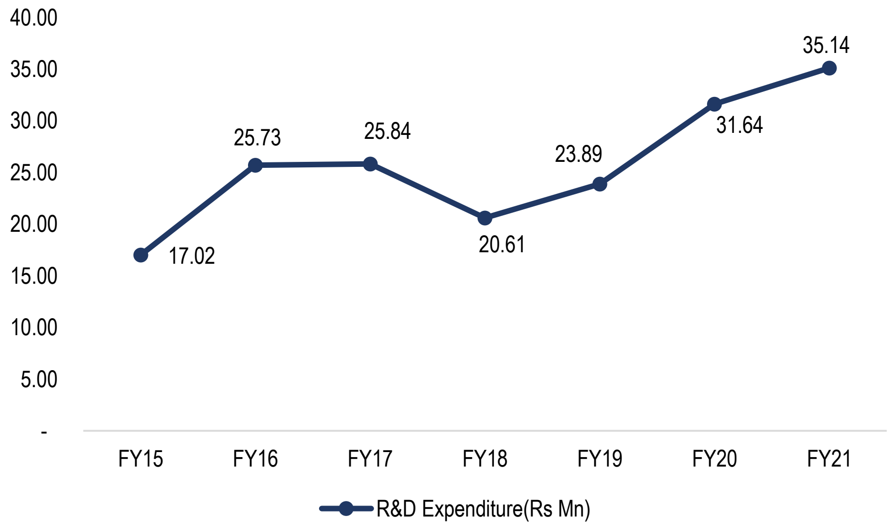
Investing in future-ready products

SEL, through its technology centre in Bengaluru, has developed several new products which are complementary and allied to its current product offerings, thus expanding the overall product portfolio. Few of these products like Electronic Throttle unit are also replacement for the current product (Throttle Cable). These newly launched products are also expected to increase SEL's kit value due to higher realizations. for instance, Throttle Cable (eThrottle ASP is 3-4x higher) and Analog Speedometer (launched Digital Speedometer) and increase in the no of products. Furthermore, SEL is also focused at developing sub-assemblies, which can be cross sold to OEMs and in Aftermarket.

Till date, SEL has developed products such as Electronic Throttle Control Unit, CBS Systems, Drop in LED solution (Aftermarket), Digital Instrument Clusters, Brake Shoe and Seeder Gear Boxes with electromechanical clutches. The company has several products awaiting approvals from various OEMs. The order book from the newly developed products stands at ~Rs1bn as of 4QFY22.

Along with STC, the company also has R&D centres located in the US and the UK, which it acquired through Suprajit USA and Suprajit Europe, respectively. Moreover, it has also now acquired the requisite technology knowhow besides enhancing its R&D capabilities for products like EMA post the acquisition of LDC. LDC also has its own Technology Center at Detroit, USA and the combined entity thus has four R&D centers located in Detroit (USA), Wichita (USA), Tamworth (UK) and Bengaluru (India).

Exhibit 16: R&D expenses over FY15-21



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Products that replace or enhance existing product portfolio

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: New products with higher realization

Products	Customers	Price (INR)	Future Growth
Digital Clusters	HERO electric, TORK MOTORS, VST, TI INDIA, ESCORTS, Ultraviolette Automotive	700-7500	Growth in ICE and Global OPE Customers. Won first order in Canada
Mechatronic Seeder Gearboxes	CNH INDUSTRIAL	15000+	Made for Brazil with our cable, This Agritech product is used by our big 3 Agri customers globally
Parking Brake Release Systems	ALSTOM BOMBARDIER	20000+	Successfully deployed in 2 Metro rail projects in India and now we are getting global tenders

Source: Company, Nirmal Bang Institutional Equities Research

Financial profile to improve

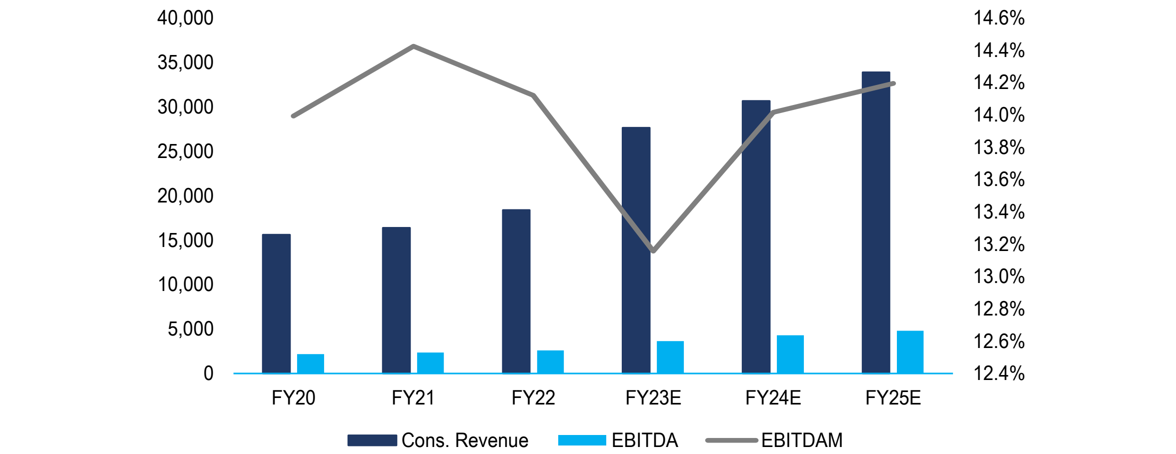
Top-line growth to be led by all-round pick-up in the business

Expects revenue to grow at 23% CAGR over FY22-25E

We expect 23% revenue CAGR for SEL over FY22-25E, led by all-round growth across all business segments and addition of LDC revenue. Ex-LDC, we expect CAGR of ~9% over FY22-25E. Auto Cable business is expected to grow at 15% vs 2W industry growth of 12% over the same period, led by pick-up in exports and impending auto upcycle while SENA is expected to grow at 9% CAGR on the back of new market addition and new products. We further expect LDC to contribute ~Rs8.1bn in FY25 with a growth of 10% over the previous year. However, we expect the performance of Phoenix Lighting Division (PLD) to remain muted at 4% CAGR on the back of pricing issues and slowdown in the EU market.

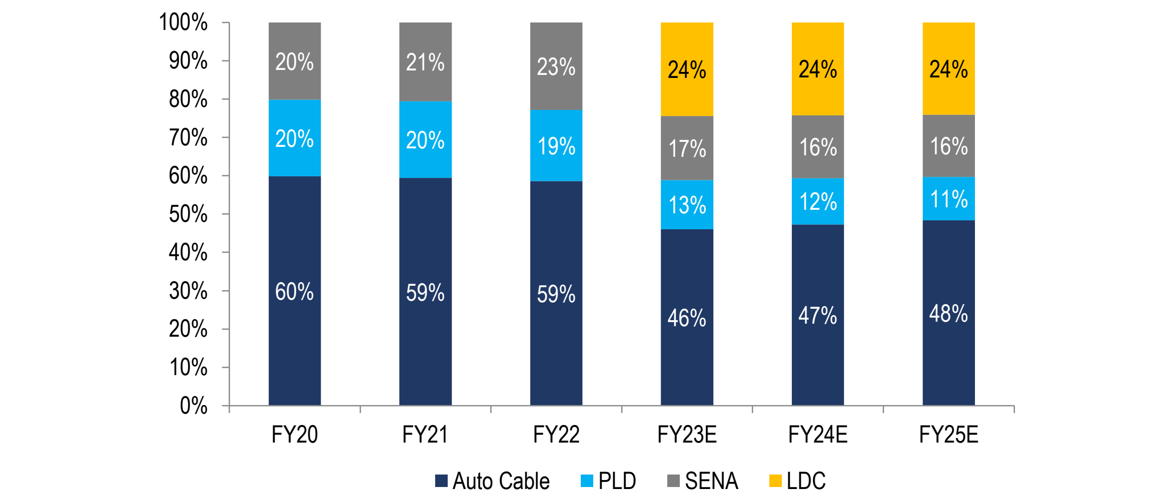
We also expect the share of exports in the Auto Cable division to rise by ~150bps in the segment revenue pie (Ex-LDC), largely led by a superior growth profile. The PLD division may face certain headwinds from transition to LEDs, but we expect it to benefit from ongoing consolidation in the industry. On the other hand, the SENA business will maintain its growth trajectory on the back of new product launches, geographic expansion and market share gains from competition.

Exhibit 19: Expect 23% growth in the consolidated revenue over FY22-25E



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Share of different businesses

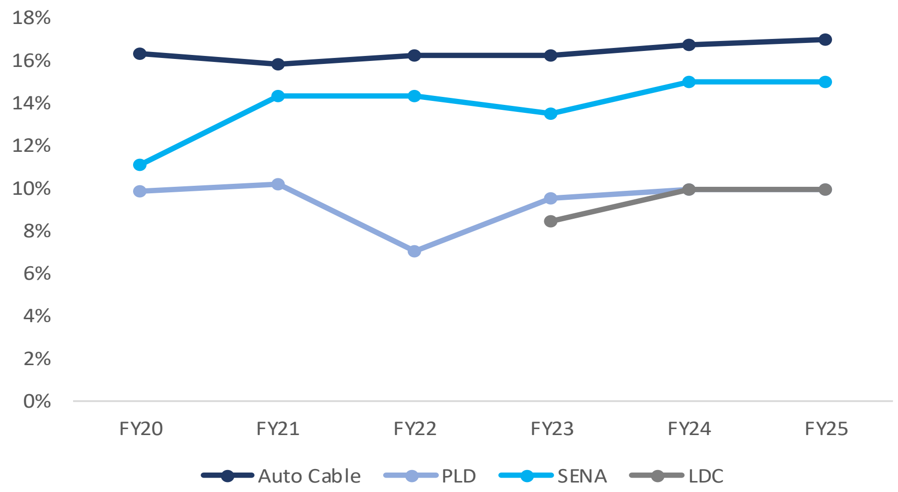


Source: Company, Nirmal Bang Institutional Equities Research

Margins to remain flattish over FY22-25E due to lower margin profile of LDC

SEL has been a highly cost-conscious company and has kept strict controls on costs over the years. While we expect margin expansion of ~50bps in matured businesses like SENA and Auto Cables on the back of improvement in product mix and softening commodity prices, overall margins are expected to remain flattish due to lower margin profile of LDC. However, going ahead, we expect LDC's margin profile to improve with business synergies coming into play amid improved management focus. Historically also, SEL has been successful in turning around investments with its cost control initiatives and streamlining of operations. In the case of Wescon and PLD, which both had high cost structures that affected their margin profiles, the company had spent ~Rs200mn in FY20 on their restructuring, thereby optimising their costs and streamlining operations, leading to an improved margin profile in FY22 despite commodity inflation.

Exhibit 21: EBITDAM profile of operating segments of SEL (FY20-25E)



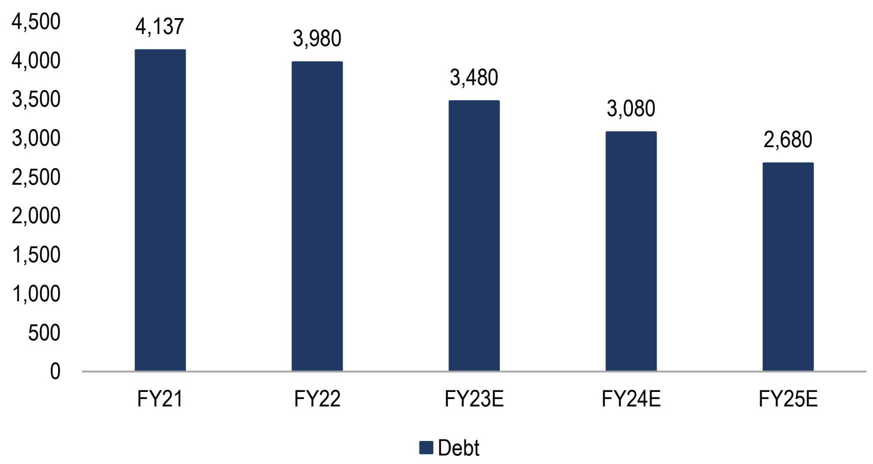
Source: Company, Nirmal Bang Institutional Equities Research

Balance sheet to remain healthy; to be aided by strong cash flow generation

Over FY13-22, SEL has generated ~Rs13bn as operating cash flow and has spent ~Rs10bn as capex and investment. Over these years, the company has also acquired Pricol's Speedo business, Wescon, Phoenix Lamps, Osram's Chennai facility and Kongsberg's LDC business in FY14, FY17, FY16, FY20 and FY22, respectively.

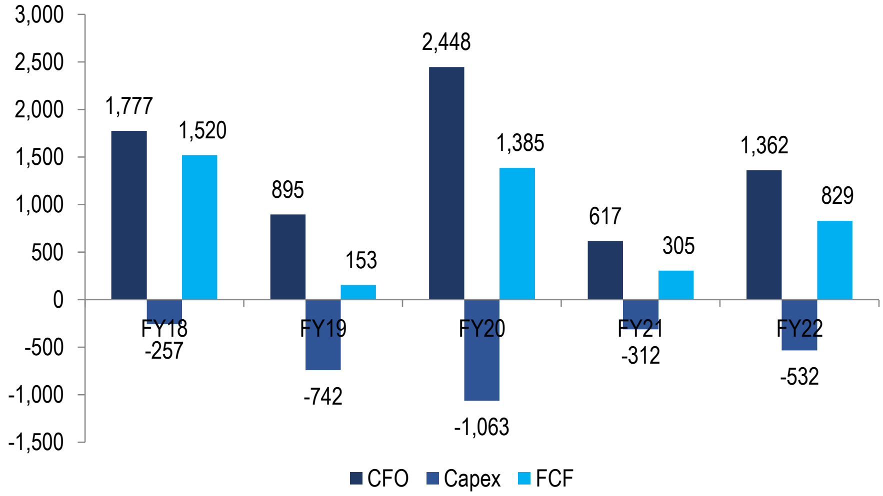
Over FY22-25E, we expect capex requirements to remain moderate, which along with strong operating cash flow generation will lead to reduction in debt and increase in dividend payout. Management has also indicated that most of the capacity expansion is over and over the next 2 years, majority of the capex will be maintenance capex. However, it has also indicated that it continues to scout for inorganic opportunities in related technologies. We thus factor in ~Rs1.3bn debt repayment over FY22-25E, leading to lower interest costs.

Exhibit 22: Company to reduce debt by Rs 1.3bn over FY22-25E



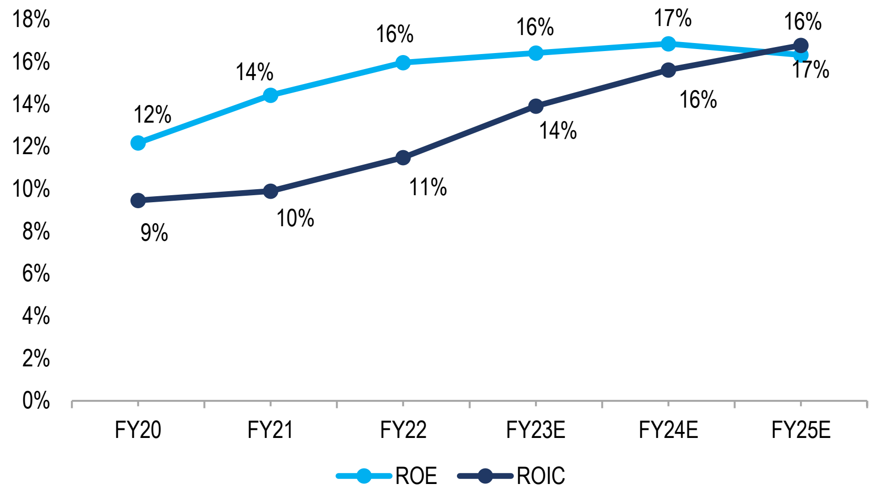
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: Lower capex requirement will lead to strong FCF generation



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: ROE ROIC to improve going ahead



Source: Company, Nirmal Bang Institutional Equities Research

Forecast: Key assumptions

Expect 23%/23%/21% CAGR in Revenue/EBITDA/PAT over FY22-25E

We expect 23%/23%/21% CAGR in Revenue/EBITDA/PAT over FY22-25E, driven by:

- About 16%/9%/4% CAGR in Auto Cables division/SENA/PLD over FY22-25E.
- LDC is expected to add ~Rs6.8bn in FY23 and ~Rs8.1bn in FY25.
- Further, we expect margin expansion of ~50bps in SENA and Auto Cables division while in PLD, we expect margin expansion of ~290bps over FY22-25 as a result of the restructuring efforts undertaken in FY20.
- For LDC, we expect EBITDA margin of 10% over FY24-25. We expect further margin expansion in LDC going ahead with synergies driving cost and operational efficiencies.
- We also expect the capex intensity to moderate over the next two years as the company has sufficient capacity for cables and halogen lamps.
- FCF generation to improve going ahead.

AUTOMOTIVE CABLES	FY21	FY22	FY23	FY24	FY25	CAGR 3YR
REVENUE	9,751	10,787	12,728	14,510	16,396	15%
% YOY GROWTH	4.2%	10.6%	18.0%	14.0%	13.0%	-
EBITDA	1,547	1,753	2,069	2,431	2,787	17%
EBITDAM	15.9%	16.3%	16.3%	16.8%	17.0%	-
% YOY GROWTH	1.1%	13.3%	18.0%	17.5%	14.6%	-
NON-AUTOMOTIVE CABLE (SENA)	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	
REVENUE	3,375	4,200	4,620	5,035	5,488	9%
% YOY GROWTH	7.3%	24.4%	10.0%	9.0%	9.0%	
EBITDA	485	604	624	755	823	11%
EBITDAM	14.4%	14.4%	13.5%	15.0%	15.0%	
% YOY GROWTH	38.6%	24.7%	3.2%	21.1%	9.0%	
PHEONIX LAMPS DIVISION (INCLUDING TRIFA & LUXLITE)	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	
REVENUE	3,283	3,419	3,555	3,698	3,846	4%
% YOY GROWTH	5.1%	4.1%	4.0%	4.0%	4.0%	-
EBITDA	336	242	338	370	385	17%
EBITDAM	10.2%	7.1%	9.5%	10.0%	10.0%	-
% YOY GROWTH	9.3%	-28.0%	39.8%	9.4%	4.0%	-
LDC	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	
REVENUE	-	-	6750	7425	8168	-
% YOY GROWTH	-	-		10.0%	10.0%	-
EBITDA	-	-	608	743	817	-
EBITDAM	-	-	9.0%	10.0%	10.0%	-
% YOY GROWTH	-	-	-	22.2%	10.0%	-

Risks & Concerns

- **Risk of product obsolescence:** LEDs are gaining prominence and are preferred over Halogen Lamps by OEMs. With the increasing preference for LEDs, the price difference between LEDs and Halogen Lamps has significantly narrowed. The price differential in FY19 was at ~7-10x, which has reduced to ~2-2.5x. Increasing adoption of LEDs poses a risk to PLD. However, we believe that demand from the Aftermarket segment, where PLD has a dominant position, will continue. Also, the company has introduced LEDs in the Aftermarket segment, which it can expand going ahead.

- **Delayed recovery in Automobile industry**: A large part of SEL's revenue is dependent on the automobile industry. We believe that the auto industry is set for a recovery, but any delay in this recovery can affect our topline estimates.

- **Geopolitical risks**: SEL has significant exposure to foreign markets like the EU and the US. Geopolitical issues, if they get prolonged, can affect the company's growth prospects. Furthermore, inflation and recessionary risks can further hurt exports.

- **Currency risk:** About 40% of SEL's revenue comes from exports. The company exports primarily to the US and the EU. Any adverse currency movements can affect the topline. However, the company has a natural hedge for part of this revenue as the costs in foreign subsidiaries are in the same currency. Also, SEL hedges a part of its exposure on a rolling basis.

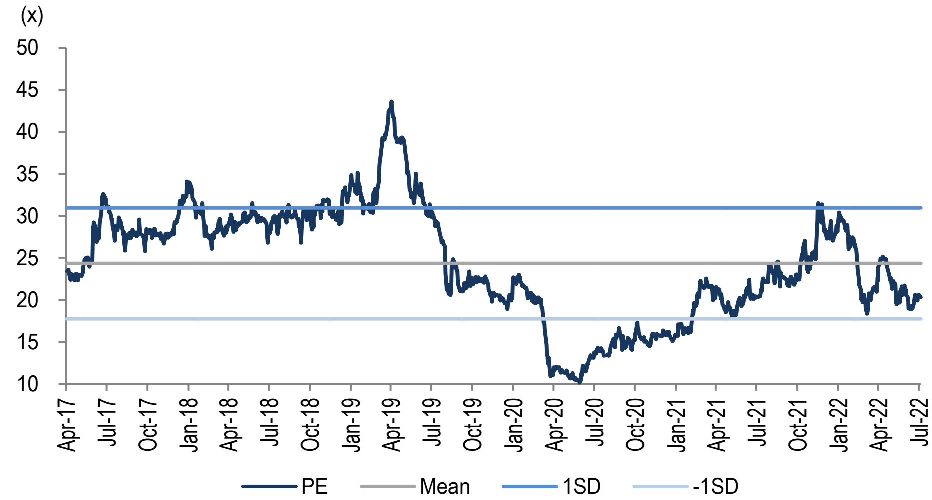
Valuation

We initiate coverage on SEL with a BUY rating as we are banking on SEL's ability to outperform the broader market growth. We derive comfort about growth from the following factors:

- Improving growth prospects with the acquisition of LDC. LDC is expected to add ~Rs7.4bn to total revenue in FY24.
- Traction in exports and Aftermarket segments to drive ~16% CAGR in Auto Cable segment revenue over FY22-24E.
- SENA division is benefitting from market and product expansion; to grow at 9% CAGR over FY22-24E.
- We expect margin expansion of ~120bps for the business (ex-LDC). LDC has a lower margin profile, which will lead to flattish margins over the next 2 years.
- Overall, we expect EPS to grow at 23% CAGR over FY22-24E.
- We further gain comfort from management's ability to execute and turn around acquired businesses and prudent capital allocation policy, leading to value creation.

To factor in SEL's superior growth prospects and market leadership in the operating segments, we value the business at 23x March'24E EPS to arrive at a TP of Rs437. We initiate coverage on SEL with BUY. The stock currently trades at ~18x FY24E EPS compared to its avg PE of ~24x. We expect the company to continue to outperform industry growth and report strong 23% EPS CAGR over FY22-24E, led by ~23% sales CAGR.

Exhibit 25: 1-year forward PE chart



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 26: 1-year forward EV/EBITDA

Source: Company, Nirmal Bang Institutional Equities Research

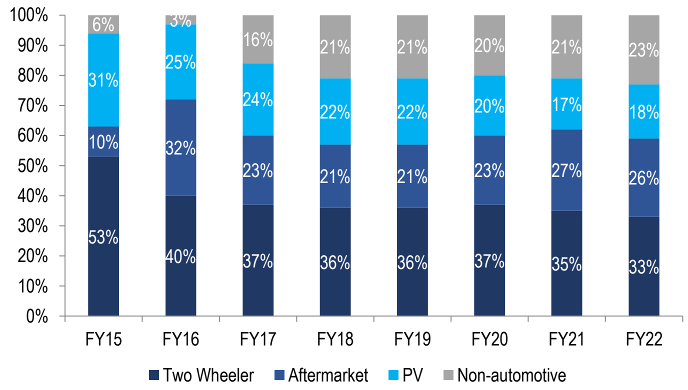
Exhibit 27: Peer Comparision

Company	CMP	M-cap	CAGR FY21-24E			P/E (X)			EV/EBITDA (X)			ROE (%)		
	(Rs)	(US$mn)	Sales	EBITDA	EPS	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Minda Corp	212	634	22.4%	31.0%	39.7%	31	21	16	15	11	9	14	15	17
Endurance Tech	1,490	2,627	16.6%	26.7%	25.7%	43	36	27	22	16	13	14	15	17
Bosch	16,096	5,934	14.3%	22.4%	19.7%	35	33	27	27	25	20	12	13	15
Bharat Forge	665	3,870	11.0%	15.9%	19.1%	30	25	20	18	15	13	18	18	19
Gabriel India	136	244	12.4%	23.1%	24.1%	18	17	14	10	10	8	12	14	15
Minda Industries	502	3,584	20.7%	32.4%	43.3%	68	50	36	29	25	19	12	16	19

Source: Bloomberg, Nirmal Bang Institutional Equities Research

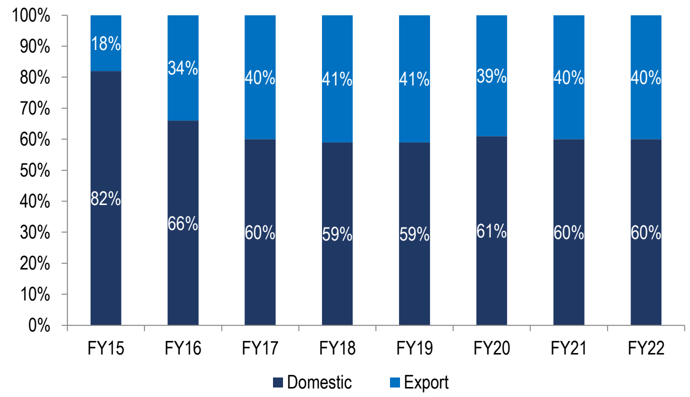
Story in Charts

Exhibit 28: Consolidated revenue distribution



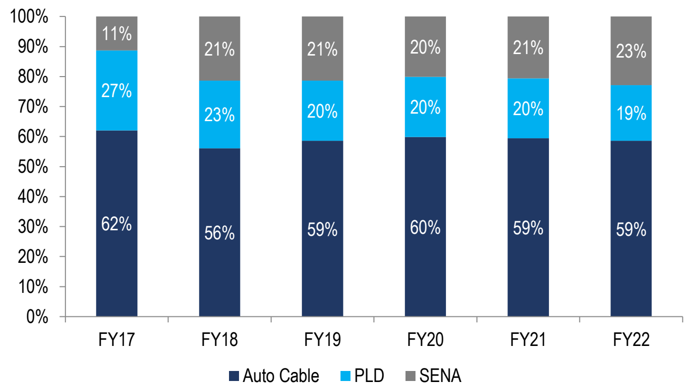
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 29: Exports contribute ~40% to revenue



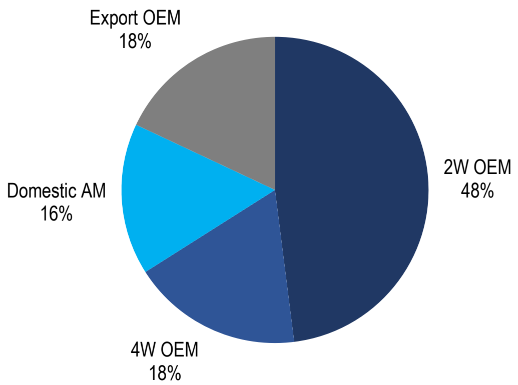
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 30: Segment-wise revenue distribution



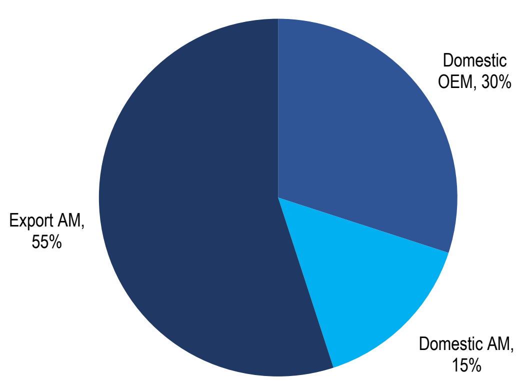
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 31: Revenue distribution of Auto cable division (FY22)



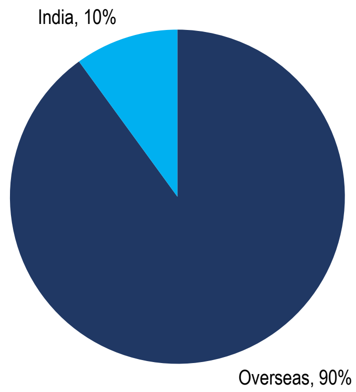
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 32: Revenue distribution PLD (FY22)



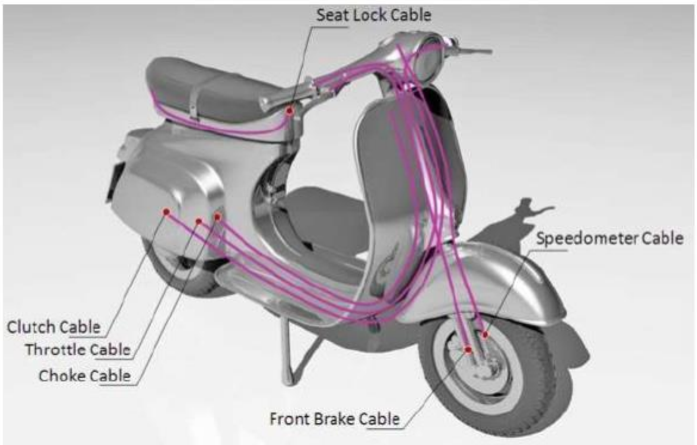
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 33: Revenue distribution of Auto Cable division (FY22)



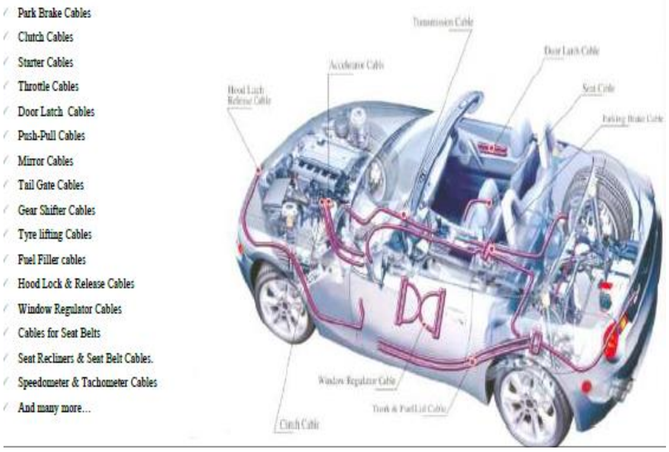
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 34 :Cables in 2Ws



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 35: Cables in PVs



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 36: Key customers across segments

Segment	Customers
Two & Three-wheeler cables	TVS Motor, Bajaj Auto, Hero MotoCorp, Honda Motors, Yamaha, Piaggio, Harley Davidsson, Atul Group, Mahindra, Royal Enfield, KTM, Suzuki
Automotive	BMW, VW, Renault, Nissan, GM, Toyo Seat, Maruti Suzuki, ISRI Seats, M&M, Suzuki, Ford, Skoda, Swaraj Mazda, Hyundai, Force Motors, Inteva, Bosch, J-Ushin, Land Rover, PHA, Lear, Benteler, BOS GmbH & Co. KG, ITW, Toyota, Edscha, Brose, Minda Industries, Ashok Leyland, Tata Motors, Aston Martin, Witte, Magna, BEHR, Jaguar, VECV
Lighting	Unitech Machines Ltd., Varroc, Rinder India, Fiem, Valeo, Magneti Mareli, Hella, Neolite, IJL
Non-Automotive	John Deere, Husqvarna, Piaggio, MTD, TORO, Honda Power Equipment, Jacobsen, EZGO, TAFE, Kubota, Codica Automotive, JCB, New Holland, Whirlpool, Briggs & Stratton

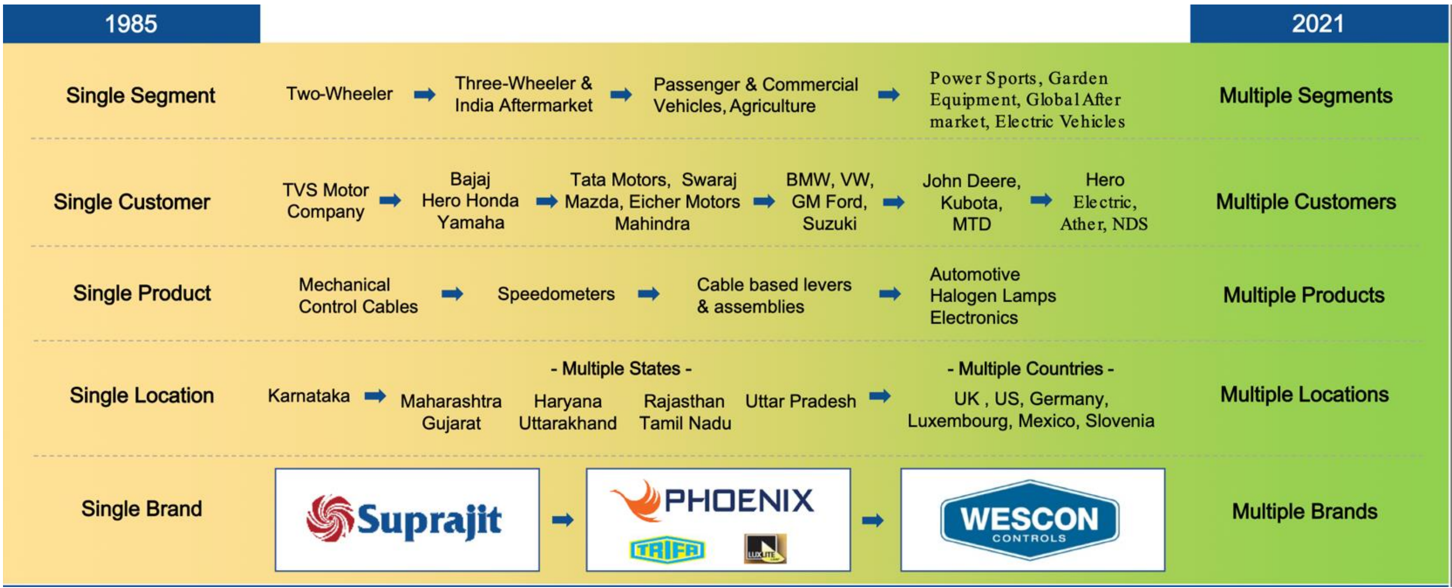
Source: Company, Nirmal Bang Institutional Equities Research

Top 10 Customers Span all verticals

BMW, VW, TVS, Hero, BAJAJ, HONDA, JOHN DEERE, MTD, TORO, OSRAM

Company Overview

Suprajit Engineering Ltd was incorporated in 1985 in Bengaluru by Mr Ajith Kumar Rai to manufacture Automotive Cables for the mechanical control application. The company initially started off as a supplier of single liner cable to the single customer TVS. Over the years, it has added several products to its kitty and has expanded its product portfolio. It has strengthened its market position by increasing customer and geographical base. The company primarily manufactures mechanical control cables for the automotive and non-automotive segments, speedometers for 2Ws, halogen lamps for 2Ws, 3Ws, PV, CV, off-road applications and non-auto control cables for outdoor power equipment. SEL's customer profile comprises marquee domestic OEMs in 2W & 3W space; under the PV segment, it caters to domestic and international OEMs. Along with OEMs, the company also has a significant presence in the aftermarket segment.



The group has 3 major sources of revenue i.e. Automotive Cables Division, Pheonix Lamps Division and Non-Automotive cables (SENA division).

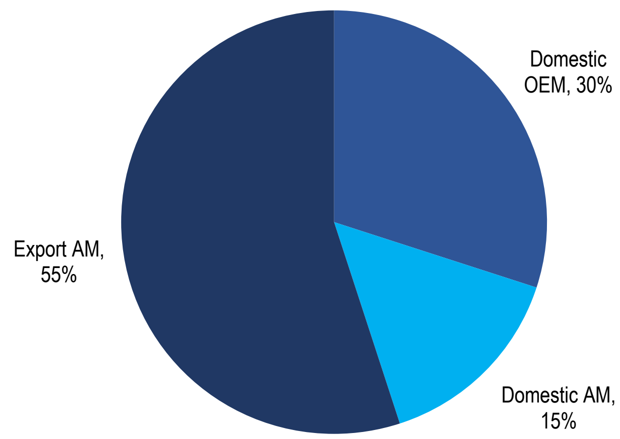
Automotive Cables Division (59% of FY22 revenue)

SEL is the largest manufacturers of Automotive Control Cables, supplying cables to domestic and international OEMs and in the aftermarket segment. Within the domestic 2W OEM segment, it is the market leader with high wallet share across all major 2W OEMs (~75% market share). The company is further gaining share in domestic PV OEMs (~35% market share). In the export market, the company has developed strong relationships with reputed PV OEMs such as Volkswagen, BMW, Renault etc over the years. In the aftermarket segment as well, the company has presence through two channels – (a) Own distribution channels (b) Through the OEM channel. The company has more than 20k retail touchpoints in the aftermarket segment.

Phoenix Lamps Division: Only large Halogen Lamp supplier for OEMs (19% of FY22 revenue)

Phoenix Lamps is the largest automotive halogen bulb manufacturer in India with ~80% share in 2W, 50% in PV and ~75% in CV OEM segments. After the acquisition of Osram's Chennai facility (23mn capacity), Phoenix Lamps is the only remaining large manufacturer of halogen head lamps in India with a total capacity of 110mn bulbs per annum. The halogen lamp industry is seeing consolidation, largely led by the increasing adoption of LEDs. OEMs contribute ~30% to the segment revenue for PLD, which is a declining business due to the shift towards LEDs. Halogen bulbs are being replaced by LEDs across the industry. LEDs are superior to Halogen in terms of technology and offer greater flexibility in terms of designing; they have better aesthetic properties and are also superior in terms of energy efficiency. We believe that LEDs will capture a dominant share in automotive lighting space over the medium term. The possibility of obsolescence of Halogen Lamps is driving consolidation in the industry.

Exhibit 37: Revenue split of Phoenix Lighting Division (FY22)



Source: Company, Nirmal Bang Institutional Equities Research

We expect the consolidation to playout in the global halogen market. Over the last three years, few of the small and financially weaker players have already exited the market; we believe that over the next 2-3 years, few more players will exit, leading to reduction in capacity. Even the larger bulb manufacturing players like Osram have started focussing on the LED opportunity. Phoenix is one of the stronger players and the third largest player in Auto Halogen Lighting business globally. It is well positioned to benefit from the ongoing industry consolidation. It has already started supplying halogen lamps to competitors like Osram.

PLD primarily caters to the aftermarket segment in the overseas market. Exports contribute ~55% to the segment revenue. The company operates the overseas business through two wholly-owned subsidiaries i.e Trifa and Luxlite. PLD supplies to most countries in Europe and select regions in South America and East Africa. Going forward, management intends to increase its geographic presence by entering the markets of North America, Russia and China, which are significantly larger markets for halogen bulbs. These markets are expected to be serviced directly from India, thus giving it the cost advantage.

In FY20, PLD acquired the assets of Osram Lighting. Osram is the world's largest manufacturer of halogen bulbs and competes with SEL in the Indian market. As part of this acquisition, SEL signed a sale-back agreement with Osram, under which SEL manufactures bulbs under 'Osram' brand and sells in the domestic market, thus replacing a part of its competition. The collaboration with Osram also benefits SEL in terms of getting access to Osram's global customer base. Furthermore, SEL has started supplying to Osram in the overseas market.

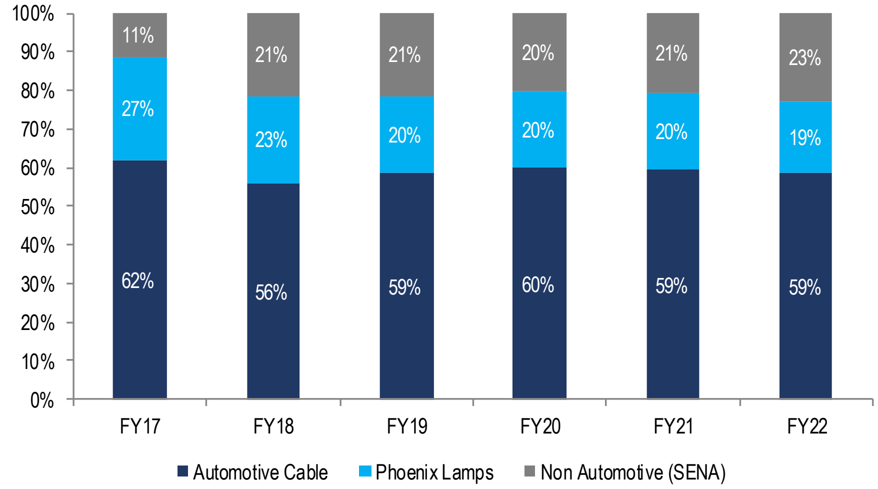
In the Domestic aftermarket segment, which is largely dominated by unorganised players, SEL has ~70% market share in the organized market. SEL serves aftermarket through two distribution channels similar to the auto cables business.

- OEM aftermarket sales
- Own distribution network

Suprajit Engineering Non-Automotive Business (23% of FY22 revenue)

SEL caters to the Non-Auto businesses through two entities – one is the standalone entity (15% of segment revenue) and Wescon Controls LLC (85% of total revenue). Wescon is the market leader in the Non-Auto Power Equipment cables in USA and has recently diversified by supplying cables to other Non-Auto segments such as Power Sports Vehicles (PSV) and medical instruments. SEL acquired Wescon in FY17.

Exhibit 38: Increasing share of Non-Auto cables over FY17-22



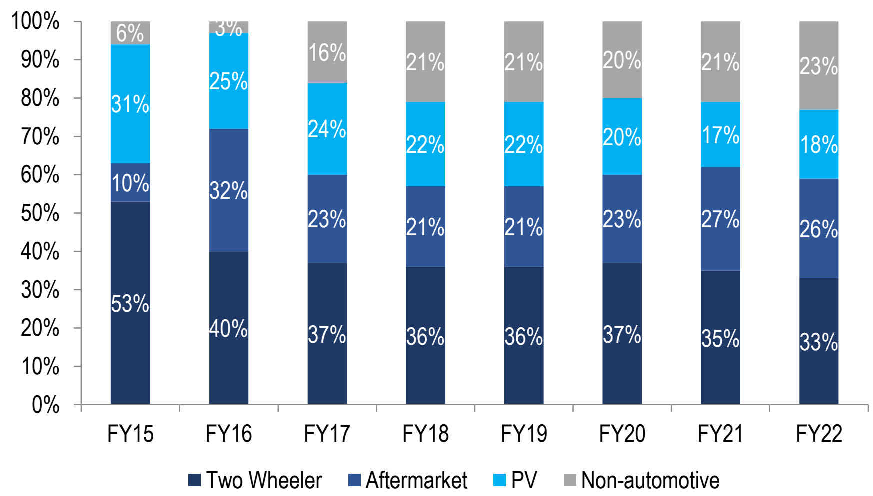
Source: Company, Nirmal Bang Institutional Equities Research

Diversifying the product profile by reducing the dependence on 2Ws

SEL through organic and inorganic means has substantially increased its revenue base besides improving its revenue mix through diversification and adding new businesses and products. It's revenue grew at a CAGR of over 17% during FY07-FY11 on the back of addition of the export business of PV (CTP Gills acquisition). From FY11-15, it grew at 15% CAGR while the acquisition of Speedo, Weson and PLD, along with industry growth led to 27% CAGR in revenue growth during FY15-19. During FY19-22, SEL grew at ~6% CAGR despite the 2W industry declining by more than 36% in volume terms.

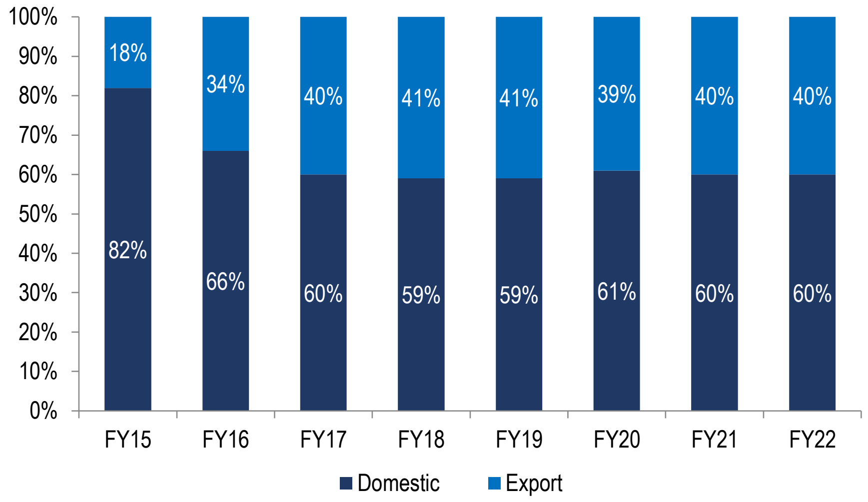
Moreover, these acquisitions have also helped in revenue diversification by improving presence in 2W, 3W, PV, CV and non-auto segments, along with exports and aftermarket. The contribution from Auto OEM segment continues to be the highest (FY22: 51%; FY15: 84%). However, the share of aftermarket (FY22: 26%; FY15: 10%) and Non-Auto (FY22: 23%; FY15: 6%) grew significantly post the addition of the lamps and non-auto cables division. Similarly, the company is also looking at diversifying its geographic footprint as the share of exports rose to 40% in FY22 from 18% in FY15.

Exhibit 39: Increasing share in PV, After Market, and non-auto to diversify revenue base



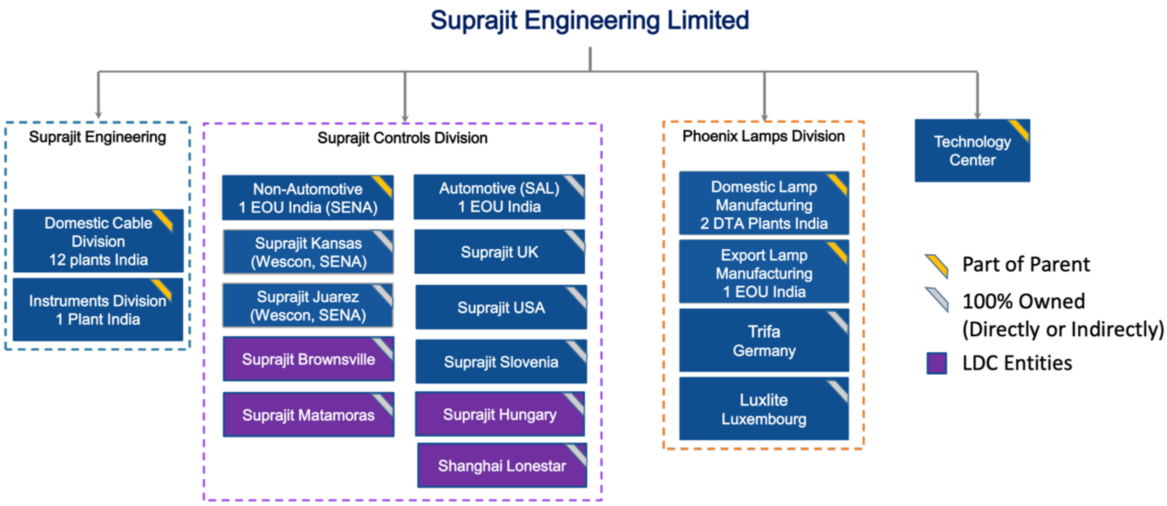
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 40: Growing share of exports



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 41: Group Structure



Source: Company, Nirmal Bang Institutional Equities Research

Subsidiary	Overview
Suprajit Automotive Pvt Ltd.	SAPL was incorporated as 'CTP Suprajit Automotive Private Limited' dated December 21, 2004, its name was then changed to 'Suprajit Automotive Private Limited' in Feb 2007. It was initially set-up to be a joint-venture that would function as a 100% export-oriented unit, it acquired the entire shareholding of joint-venture partner in the entity in Fiscal 2007. Consequently, SAPL became, and remains wholly owned Subsidiary.
Suprajit Europe Limited (UK)	Suprajit Europe was first incorporated as 'COBCO 750 Limited' on February 2, 2006, its name was subsequently changed to 'Gills Cables Limited' on March 22, 2006. Its name was changed to 'Suprajit Europe Limited' on June 1, 2011. Suprajit Europe was set-up to acquire the business of CTP Gills Cables Limited, UK, which it completed in Fiscal 2007. Currently, owns 100% of the share capital of Suprajit Europe.
Phoenix Lamps Ltd.	Incorporated in 1991, Phoenix Lamps Limited (PLL) primarily manufactures halogen lamps for the automobile industry. The company has strong presence in international aftermarket with high proportion of consolidated sales arising from overseas markets. PLL has two international subsidiary, Luxlite Lamps S.A.R.L and Trifa Lamps GmbH. PLL was promoted as an Indo-Japanese JV by Mr. B.K. Gupta co-promoted by Pradeshiya Industrial & Investment Corporation of UP Ltd. (PICUP) in technical and financial collaboration with Phoenix Electric Co. Limited and Soei Tsusho Company Limited. In FY07 Actis acquired 66% ownership stake in the company through a mix of stake purchase from previous promoters, preferential allotment and an open offer. Subsequently in August 2013, PLL transferred its general lighting business to its subsidiary Halonix Technologies Limited (HTL) and sold it to Actis. During FY2016, SEL had acquired 61.93% stake in PLL for a total consideration of Rs.154.3 crore, post which it acquired rest of stake through an open offer. Consequent to this acquisition, PLL became a subsidiary of SEL.
Wescon Controls LLC	During September 2016, the group has acquired 100% of shares in the US-based Wescon Controls LLC (WCL), through its wholly owned US-based subsidiary, Suprajit USA Inc. (SUI) for a consideration of US$ 44.4 million during. WCL manufactures mechanical control cables used in non-automotive and outdoor power equipment. The acquisition was expected to aid the group in diversifying its product and geographic profiles and also provide cross selling opportunities. SEL funded the acquisition through internal accrual and liquid funds of Rs 1.27 billion and external debt of Rs 1.68 billion, respectively.

Key management profile

Mr. Kula Ajith Kumar Rai: Mr. Kula Ajith Kumar Rai is the Executive Chairman of Suprajit Engineering Ltd. since April 1, 2019 and served as the Managing Director and until March 31, 2019. Prior to that Mr. Rai served as the Chief Executive Officer of Suprajit Engineering Limited until February 2017. He has been the Non-Executive Chairman of Phoenix Lamps Limited since June 18, 2015. He holds bachelor's degree in mechanical engineering from the National Institute of Engineering, University of Mysore and Master of Applied Science Degree in Industrial Engineering from Dalhousie University (formerly known as Technical University) of Nova Scotia, Canada. He is also the Member of American Institute of Industrial Engineers, CII, ACMA.

Mr. Mohan N.S: Mr. Mohan N.Sis the Managing Director of Suprajit Engineering Ltd. since April 1, 2019. He is also the Chief Executive Officer of Phoenix Lamps Limited since June 2015. He has served as the Group Chief Executive Officer of Suprajit Engineering Limited since February 13, 2017 and served as its President since December 5, 2013 until February 13, 2017. He started his career with BOSCH Bangalore and thereafter Visteon and Hansen / ZF Transmissions. He has held various positions including that of Chief Operations Officer, Country Manager, Executive Director and Managing Director. He has managed businesses in India, Thailand, China, Belgium and USA. Mr. Nagamangala in-charge of International businesses of Suprajit group, involving two 100% EOUs. He has been Whole Time Director of Suprajit Engineering Limited since February 13, 2017. Mr. Nagamangala has been a Director of Phoenix Lamps Limited since June 2015. Mr. Nagamangala has a graduate degree in Mechanical Engineering. He is a member of Institute of Cost and Works Accountants and holds a Diploma in Management**.**

Mr. Akhilesh Rai: Mr. Akhilesh Rai is the Chief Strategy Officer and Whole Time Director at Suprajit Engineering Limited since June 12, 2020. Mr. Rai served as Head of Information Technology at Suprajit Engineering Ltd. since May 29, 2012 until June 12, 2020 and served as its Group CSO. Mr. Rai worked for a short period in startup IT Company in Dallas, USA and in India. He joined Suprajit Automotive Private Limited in August 2011 as an `Executive IT'. He has good exposure to IT & IT related areas. He worked in Grant Thornton, Kushers, Yagna and Varaha. Mr. Rai holds Bachelors in Electrical-Engineering (Minor in Economics) from Purdue University, USA and Masters in Business Administration from London Business School, UK.

Mr. J. Medappa Gowda: Mr. J. Medappa Gowda is the Chief Financial Officer of Phoenix Lamps Limited since May 27, 2017. Mr. Gowda serves as Chief Financial Officer, Compliance Officer and Company Secretary of Suprajit Engineering Ltd. Mr. Gowda served as its Senior General Manager and Vice President of Finance of Finance at Suprajit Engineering Ltd.

Key Milestones

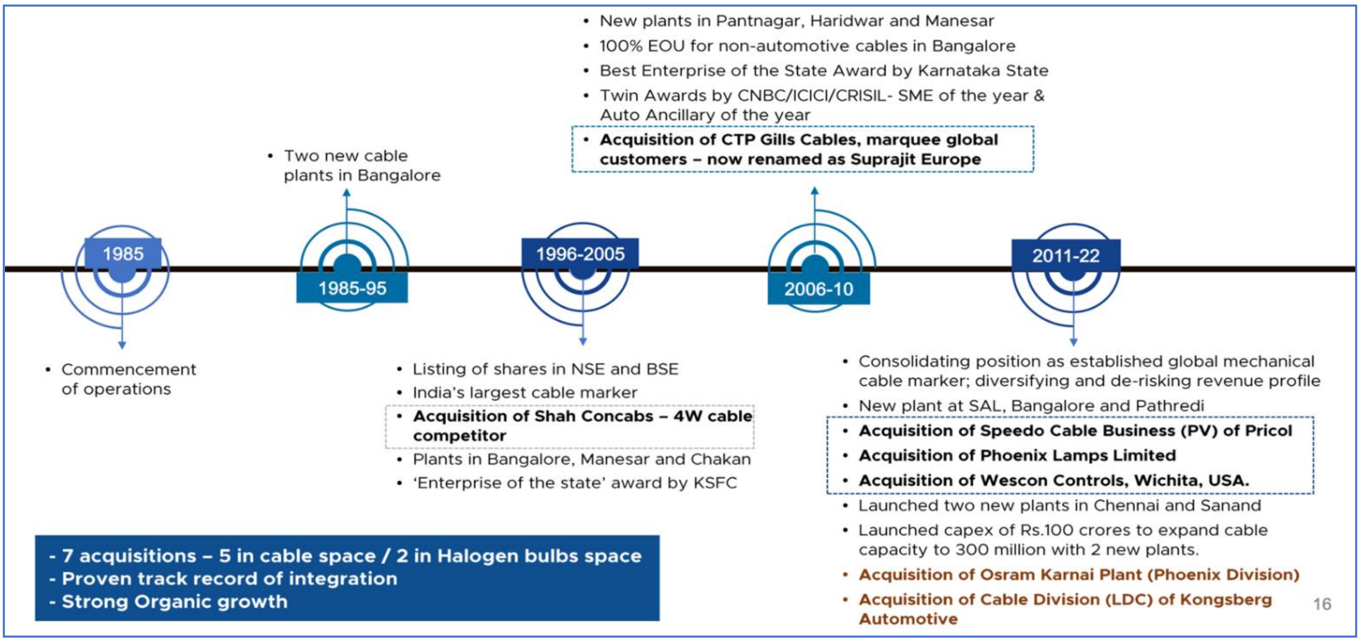
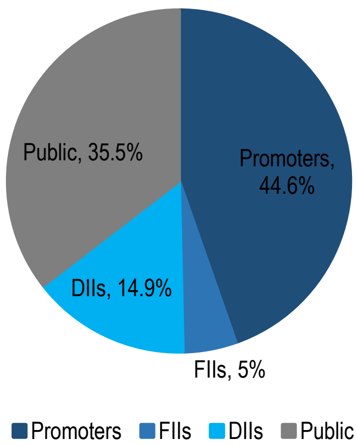


Exhibit 42: Shareholding pattern



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 43: Top institutional shareholders of Suprajit Engineering Ltd

Name	Holding (%)
DSP Small Cap Fund	6.01
HDFC Small Cap Fund	4.85
India Capital Fund Limited	2.80
DSP Midcap Fund	0.49
HDFC Multi Cap Fund	0.29

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Financials

Exhibit 44: Income statement

Y/E March (Rsmn)	FY20	FY21	FY22	FY23E	FY24E
Net Sales	**15,628**	**16,409**	**18,405**	**27,653**	**30,668**
% Growth	***(1.7)***	***5.0***	***12.2***	***50.2***	***10.9***
Raw material	9,151	9,547	10,787	16,239	17,824
Staff costs	2,927	3,083	3,364	4,957	5,407
Other expenses	1,364	1,411	1,655	2,819	3,138
Total expenses	13,441	14,041	15,806	24,015	26,369
EBITDA	**2,187**	**2,367**	**2,599**	**3,638**	**4,299**
% Growth	***(6.0)***	***8.2***	***9.8***	***40.0***	***18.2***
EBITDA margin (%)	***14.0***	***14.4***	***14.1***	***13.2***	***14.0***
Other income	224	336	366	270	282
Interest costs	227	192	145	277	227
Depreciation	581	568	585	784	839
Profit before tax (before x/o)	1,603	1,943	2,235	2,848	3,515
Exceptional items	(274)	-	116	-	-
Tax	289	516	621	718	886
Adj PAT	**1,040**	**1,427**	**1,731**	**2,130**	**2,630**
% Growth	***(22.3)***	***37.3***	***21.3***	***23.1***	***23.4***
Adj PAT margin (%)	***6.7***	***8.7***	***9.4***	***7.7***	***8.6***
EPS (Rs)	**7.4**	**10.3**	**12.5**	**15.4**	**19.0**
% Growth	***(22.3)***	***38.7***	***21.3***	***23.1***	***23.4***
DPS (Rs)	1.8	2.0	2.5	4.0	7.0
Payout (incl. div. tax) (%)	*23.5*	*19.4*	*20.0*	*26.0*	*36.8*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 46: Balance sheet

Y/E March (Rsmn)	FY20	FY21	FY22	FY23E	FY24E
Share capital	140	140	138	138	138
Reserves	8,398	9,757	10,701	12,831	15,461
Net worth	8,538	9,897	10,840	12,970	15,599
Total debt	3,932	4,137	3,980	3,480	3,080
Net deferred tax liability					
Capital employed	**12,469**	**14,034**	**14,820**	**16,450**	**18,679**
Gross block	7,802	8,195	8,675	9,425	10,625
Depreciation	1,667	2,214	2,799	3,583	4,422
Net block	6,134	5,981	5,876	5,842	6,203
Capital work-in-progress	152	49	102	102	102
Investments	890	348	31	31	31
Inventories	2,762	3,145	3,433	4,694	5,137
Debtors	2,750	3,320	2,972	4,064	4,447
Cash & Cash Equivalent	2,509	3,788	4,467	4,609	5,944
Loans & advances	271	270	14	19	21
Other current assets	337	232	490	597	634
Total current assets	8,629	10,754	11,377	13,983	16,183
Creditors	2,140	2,476	1,940	2,652	2,902
Other current liabilities & provisions	1,196	623	626	856	936
Total current liabilities	3,336	3,099	2,566	3,508	3,839
Net current assets	5,293	7,655	8,811	10,475	12,344
Application of funds	**12,469**	**14,034**	**14,820**	**16,450**	**18,679**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 45:Cash flow

Y/E March (Rsmn)	FY20	FY21	FY22	FY23E	FY24E
OP/(loss) before tax	1,606	1,800	2,014	2,854	3,459
Other income	224	336	366	270	282
Depreciation & amortization	581	568	585	784	839
Direct taxes paid	289	516	621	718	886
(Inc.)/dec. in working capital	693	(1,083)	(477)	(1,522)	(534)
Other/extra-ordinary Items	(1,072)	(526)	(1,294)	(1,712)	(1,998)
Cash flow from operations (after E/O)	**2,320**	**1,610**	**1,816**	**1,392**	**2,935**
Capital expenditure (-)	152	49	102	102	102
Net cash after capex	**2,472**	**1,659**	**1,918**	**1,494**	**3,037**
Other investing activites	(1,717)	(648)	263	(852)	(1,302)
Inc./(dec.) in total borrowings	(113)	(705)	(193)	(500)	(400)
Others	(494)	(155)	(922)	-	-
Cash from financial activities	**(607)**	**(860)**	**(1,115)**	**(500)**	**(400)**
Opening cash balance	2,185	2,509	3,788	4,467	4,609
Closing cash balance	2,509	3,788	4,467	4,609	5,944
Change in cash balance	324	1,279	679	142	1,335

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 47:Key ratios

Y/E March	FY20	FY21	FY22	FY23E	FY24E
Per share (Rs)					
EPS	7.4	10.3	12.5	15.4	19.0
EPS Growth (%)	(22.3)	38.7	21.3	23.1	23.4
Book value per share	61.0	70.8	78.3	93.7	112.7
DPS	1.1	1.1	1.1	1.1	1.1
Payout (incl. div. tax) %	14.8	10.7	8.8	7.1	5.8
Valuation (x)					
P/E	60.1	32.2	24.9	21.6	17.5
Cash P/E	28.4	23.1	19.7	15.6	13.1
EV/EBITDA	20.9	19.1	17.0	12.0	9.7
EV/Sales	2.9	2.8	2.4	1.6	1.4
P/BV	5.4	4.6	4.2	3.5	2.9
Dividend yield (%)	0.5	0.6	0.8	1.2	2.1
Return ratios (%)					
RoCE	16.3	17.2	17.1	20.0	21.0
RoE	12.2	14.4	16.0	16.4	16.9
Profitability ratios (%)					
EBITDA margin	14.0	14.4	14.1	13.2	14.0
PAT margin	6.7	8.7	9.4	7.7	8.6
Turnover ratios					
Debtors (days)	64	74	59	54	53
Inventory (days)	65	70	68	62	61
Creditors (days)	50	55	38	35	35
Asset turnover (x)	1.3	1.2	1.3	1.8	1.7
Leverage Ratio					
Net Debt/equity (x)	0.4	0.3	0.3	0.2	0.1

Source: Company, Nirmal Bang Institutional Equities Research

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