4 February 2014

Suprajit Engineering

Growth despite slowdown in the home OEM market; Buy

Rating: **Buy**
Target Price: ₹58
Share Price: ₹49

Key takeaways

Sales up 25% yoy. Suprajit Engineering's 3QFY14 reported revenues were ₹1.42bn (up 25.3% yoy), 1.5% above our estimated ₹1.4bn. Along with growth in its after-market business, the proportion of exports rose sharply. The ongoing brownfield expansion plans are well on track and would help towards volume growth. For 9MFY14, the topline grew 14.3% yoy. The auto OEM slowdown has led the company to focus on other channels (exports and aftermarket) for growth.

Margin up 138bps. The EBITDA margin was up 138bps yoy to 18.5%, chiefly because of lower raw material cost (down 226bps to 63.6% of sales). There were no one-time additional costs in the quarter. Other expenditure and employee cost (as percent of sales) were up during 3QFY14. Ahead, with the expected rise in volumes of high-margin products, the margin is likely to hold at present levels.

Profit grows 25.1%. Because of greater sales, profit was up 25.1% yoy to ₹140m, just 0.6% above our estimate. The PAT margin was flat at 9.9% yoy. During the quarter the tax rate increased by 539bps, to 34.1%.

Capacity addition for strategic plant location. Since Suprajit is operating at 100% utilisation, the management have chalked out an expansion plan for the next two years, This would raise group capacity to 225m units. The capex would entail ₹0.6bn, which would be funded through internal accruals.

Our take. Sales growth would be further boosted by more revenue from its aftermarket and export businesses. The expanded capacity has already begun to contribute, from 2HFY14. All the plants are currently operating at 100% utilization. At our price target, we value the stock at 13x Mar'15e PE. At present, it quotes at FY15e EV/EBITDA of 6x. **Risks:** Higher interest rates, commodity price rises and keener competition.

Quarterly results (YE Mar)	3QFY13	3QFY14	% yoy	9MFY13*	9MFY14	% yoy
Sales (₹m)	1,134	1,422	25.3	3,075	3,514	14.3
EBITDA (₹m)	194	262	35.5	541	614	13.5
EBITDA margin (%)	17.1	18.5	138 bps	17.6	17.5	(12) bps
Interest (₹m)	25	30	20.1	69	86	25.4
Depreciation (₹m)	14	18	30.7	40	51	26.1
Other income (₹m)	2	(2)	(230.4)	8	29	284.9
PBT (₹m)	157	213	35.3	388	506	30.6
Tax (₹m)	45	73	60.7	134	162	21.0
Tax rate (%)	28.7	34.1	539 bps	34.6	32.0	(251) bps
PAT (₹m)*	112	140	25.1	254	344	35.6

*Source: Company *Adjusted for extra ordinary items*

Key data	SEL IN /SUPE.BO
52-week high / low	₹62/ ₹31
Sensex / Nifty	20514 / 6252
3-m average volume	US$0.1m
Market cap	₹5.9bn / US$94m
Shares outstanding	120m

Shareholding pattern (%)	Dec'13	Sep'13	June'13
Promoters	51.84	51.84	51.84
- of which, Pledged	-	-	-
Free Float	48.16	48.16	48.16
- Foreign Institutions	1.9	1.4	0.91
- Domestic Institutions	1.6	1.7	1.37
- Public	44.7	45.06	45.88

Financials (YE Mar)	FY15e	FY16e
Sales (₹m)	5,565	6,153
Net profit (₹m)	535	592
EPS (₹)	4.5	4.9
Growth (%)	12.0	10.8
PE (x)	11.0	9.9
PBV (x)	2.4	2.0
RoE (%)	23.9	22.1
RoCE (%)	27.3	28.1
Dividend yield (%)	1.8	1.8
Net Debt Equity	13.1	(0.9)

Source: Anand Rathi Research

Girish Solanki
+9122 6626 6712
girishsolanki@rathi.com

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Net sales	4,238	4,625	5,037	5,565	6,153
Sales growth (%)	22.2	9.2	8.9	10.5	10.6
- Op. expenses	3,551	3,853	4,189	4,615	5,100
EBIDTA	**686**	**772**	**848**	**950**	**1,053**
EBITDA margins (%)	16.2	16.7	16.8	17.1	17.1
- Interest	93	102	122	139	159
- Depreciation	75	81	102	112	121
+ Other income	29	28	31	34	39
- Tax	150	197	177	199	220
Effective tax rate (%)	27.3	29.5	27.1	27.1	27.1
Reported cons. PAT	398	471	477	535	592
Adjusted cons. PAT	398	435	477	535	592
FDEPS (₹/share)	3.3	3.9	4.0	4.5	4.9
Adj. FDEPS (₹/sh)	3.3	3.6	4.0	4.5	4.9
Adj. FDEPS growth (%)	21.6	9.1	9.8	12.0	10.8
DPS (₹/share)	0.7	0.8	0.8	0.9	0.9

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Share capital	120	120	120	120	120
Reserves & surplus	1,172	1,547	1,912	2,320	2,786
Shareholders' fund	1,292	1,667	2,032	2,440	2,906
Debt	748	1,029	879	679	479
Deferred Tax Liab (net)	46	60	60	60	60
Capital employed	**2,086**	**2,757**	**2,972**	**3,180**	**3,446**
Net Fixed assets	1,137	1,365	1,462	1,400	1,380
Investments	183	454	454	454	454
- of which liquid					
Working capital	735	862	914	966	1,107
Cash	31	76	141	359	505
Capital deployed	**2,086**	**2,757**	**2,972**	**3,180**	**3,446**
Net Debt	717.2	952.8	737.8	320.0	(25.7)
Net Debt/Equity (%)	55.5	57.1	36.3	13.1	(0.9)
W C turn (days)	59.5	63.0	64.3	61.7	61.5
Book Value (₹/sh)	10.8	13.9	16.9	20.3	24.2

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Consolidated PAT	398	471	477	535	592
+ Non-cash Items	83	96	102	112	121
Cash profit	481	567	580	646	713
- Incr./(Decr,) in WC	89	127	52	52	141
Operating cash-flow	392	440	527	594	572
- Capex	302	309	200	50	100
Free cash-flow	90	131	327	544	472
- Dividend	91	105	112	126	126
+ Equity raised	-	-	-	-	-
+ Others	15.1	9.6	-	(0.0)	(0.0)
+ Debt raised	90	281	(150)	(200)	(200)
- Investments	100	271	-	-	-
Net cash-flow	4	45	65	218	146
+ Opening cash	27	31	76	141	359
Closing cash	31	76	141	359	505

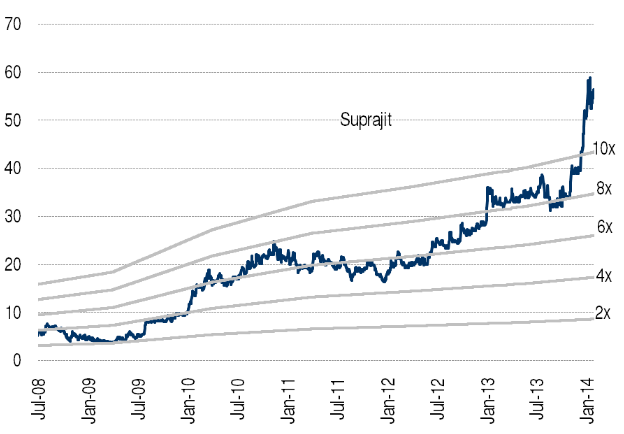
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹49

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
P/E (x)	14.8	12.5	12.3	11.0	9.9
Cash P/E (x)	12.2	10.6	10.1	9.1	8.2
EV/EBITDA (x)	9.3	8.3	7.3	6.0	5.1
EV/Sales (x)	1.5	1.4	1.2	1.0	0.9
P/B (x)	4.6	3.5	2.9	2.4	2.0
RoAE (%)	35.2	31.8	25.8	23.9	22.1
RoACE (%)	32.6	28.5	26.0	27.3	28.1
Dividend yield (%)	1.2	1.4	1.5	1.6	1.6
Dividend payout (%)	22.8	22.3	23.5	23.6	21.3
Debt/Equity (x)	0.6	0.6	0.4	0.3	0.2
Receivable days	70.1	71.9	71.0	71.0	71.0
Inventory days	30.9	34.7	33.6	30.5	30.5
Payable days	75.4	84.3	80.0	80.0	80.0
Working capital days	59.5	63.0	64.3	61.7	61.5
Fixed asset T/O (x)	4.1	3.7	3.6	3.9	4.4

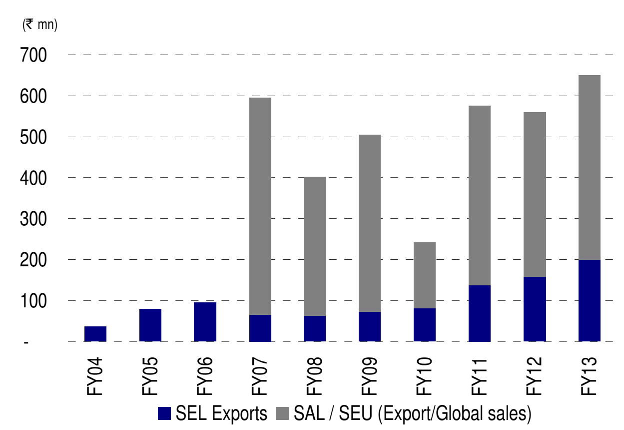
Source: Company, Anand Rathi Research

Fig 5 – Valuation chart (PE Chart)



Source: Bloomberg, Anand Rathi Research

Fig 6 – Export Revenue (FY13)



Source: Companies

Result highlights

Fig 7 – Estimates vs Actuals

(₹m)	3QFY13	3QFY14	% var	2QFY14	% var	3QFY14e	% var
Revenues	1,134	1,422	25.3	1130.7	25.7	1400.1	1.53
EBITDA	194	262	35.5	198.7	32.1	240.0	9.35
PBT	157	213	35.3	166.8	27.6	208.1	2.27
PAT	112	140	25.1	115.1	21.9	139.5	0.63

Source: Company, Anand Rathi Research

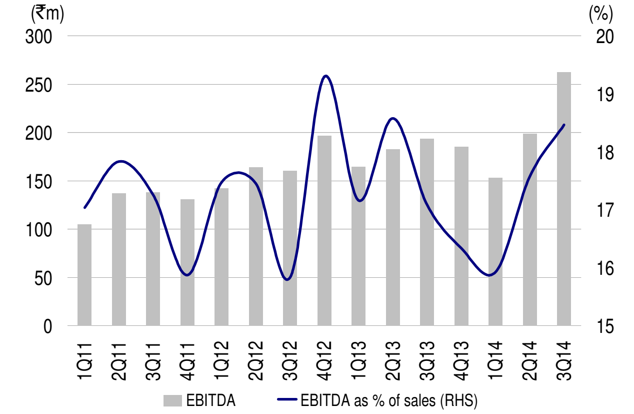
Operating performance improves

Suprajit Engineering's 3QFY14 reported revenues were ₹1.42bn (up 25.3% yoy), beating our estimated ₹1.4bn by 1.5%. The growth in its after-market business was 35%, while the non-auto exports rose by a sharp 45%. The ongoing brownfield expansion plans are well on track and would help towards volume growth. For 9MFY14, the topline grew 14.3% yoy. The auto OEM slowdown has led the company to focus on other channels (exports and aftermarket) for growth.

On the EBITDA front the margin inched up 138bps yoy to 18.5%, chiefly because of lower raw material cost (down 226bps to 63.6% of sales). There were no one-time additional costs in the quarter. Other expenditure and employee cost (as percent of sales) were up during 3QFY14. Ahead, with the expected rise in volumes of high-margin products, the margin is likely to hold at present levels.

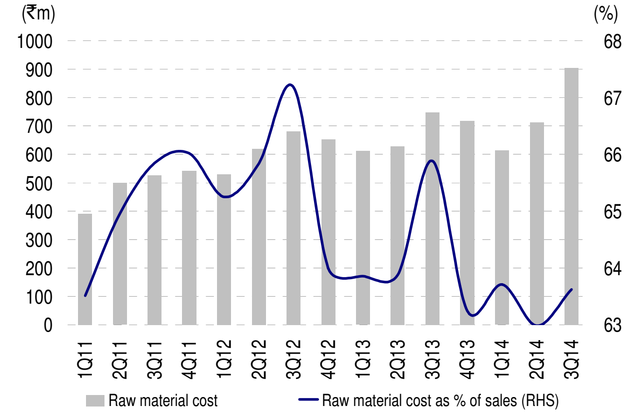
Profit grew 25.1%. Because of greater sales, profit was up 25.1% yoy to ₹140m, just 0.6% above our estimate. The PAT margin was flat at 9.9% yoy. During the quarter the tax rate increased by 539bps, to 34.1%.

Fig 8 – Strong EBITDA margin



Source: Company, Anand Rathi Research

Fig 9 – RM/sales decline yoy



Source: Company, Anand Rathi Research

Suprajit plans to increase its group capacity to 225m cables per annum. Additional capacities would be of plants to cater to Honda Motors and Scooters India, and Yamaha by FY15.

For its capex in the next two years Suprajit plans a further ₹0.6bn funded mostly through internal accruals. At the quarter's end, net debt was ₹0.3bn. Despite lower domestic auto demand, 3QFY14 sales were robust due to more sales to the aftermarket and exports. Results ahead are expected to be on similar lines as orders from clients have been sturdy. Its non-auto business is expected to grow briskly in the next two years.

Valuations

Though two-wheeler volume growth is decelerating, we expect stable demand from specific OEMs, shoring up control-cable growth in the auto and non-auto markets, exports and replacements. Consequently, we estimate the domestic control-cable sub-segment to record a 5-8% CAGR over FY14-16. Apart from benefiting from the domestic demand, the company's sharper focus on exports and replacements would lead to revenue growth. We expect a comparatively healthy EBITDA margin and return ratios.

The one-year-forward PE in the past three years has largely ranged between 3.5x and 8x. The P/BV has ranged between 1.1x and 2.5x. At the ruling price of ₹49, the stock trades at PE of 11x and 10x FY15e and FY16e earnings respectively, and EV/EBITDA of 6x and 5.1x.

We expect the increased capacity, growth in exports and thrust on setting up plants at new locations to propel revenues at a 15.3% CAGR over FY13-16. Due to the increased operating leverage, the operating margin is projected to be a high 17%. Its strong brand has led to the company increasing revenue as well as market share. We believe increased traction in exports and its after-market business are likely to keep the RoCE over FY13-15 at around 27-28%. The stock has been re-rated on account of the strong balance sheet, better return ratios and healthy free-cash-flow generation.

We are positive on Suprajit and maintain a Buy. We assign a one-year-forward PE of 13x (Mar'15e) and derive a target of ₹58.

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 trim its 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.

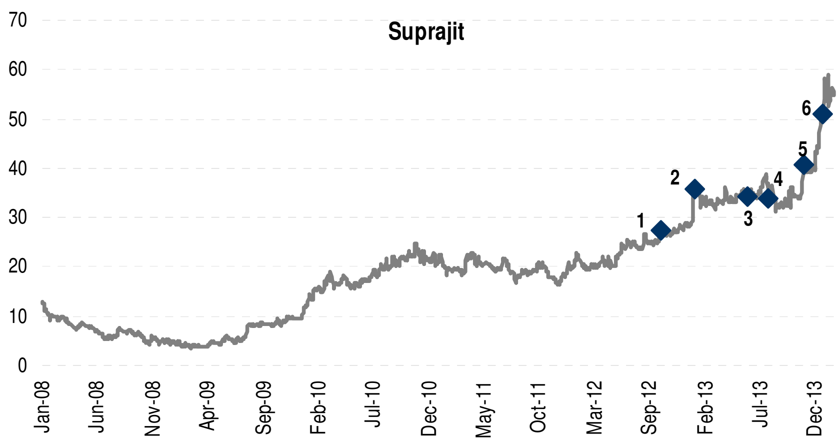
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 1 February 2014)



	Date	Rating	TP (₹)	Share Price (₹)
1	24-Sep-12	Buy	32	24
2	7-Jan-13	Buy	41	34
3	3-Jun-13	Buy	42	34
4	2-Aug-13	Buy	40	34
5	8-Nov-13	Buy	47	39
6	31-Dec-13	Buy	58	55

The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

Anand Rathi Research Ratings Distribution (as of 2 Jan 2014)	Buy	Hold	Sell
Anand Rathi Research stock coverage (179)	61%	29%	9%
% who are investment banking clients	5%	0%	0%

Other Disclosures

This report has been issued by ARSSBL which is a SEBI regulated entity, and which is in full compliance with all rules and regulations as are applicable to its functioning and governance. The investors should note that ARSSBL is one of the companies comprising within ANAND RATHI group, and ANAND RATHI as a group consists of various companies which may include (but is not limited to) its subsidiaries, its affiliates, its group companies who may hold positions, views, stakes and may service the companies covered in this report independent of ARSSBL. Investors are cautioned to be aware that there could arise a potential conflict of interest in the views held by ARSSBL and other companies of Anand Rathi who maybe affiliated, connected or catering to the companies mentioned in the Research Report; even though, ARSSBL and Anand Rathi are fully complaint with all procedural and operational regulatory requirements. Thus, investors should not use this as a sole basis for making their investment decision and should consider the recommendations mentioned in the Research Report bearing in mind the aforementioned.

Further, the information herein has been obtained from various sources which we believe is reliable, and we do not guarantee its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes an offer, or an invitation to make an offer, to buy or sell any securities or any options, futures or other derivatives related to such securities (hereinafter referred to as "Related Investments"). ARSSBL and/or Anand Rathi may trade for their own accounts as market maker / jobber and/or arbitrageur in any securities of the companies mentioned in the Research Report or in related investments, and may be on taking a different position from the ones which haven been taken by the public orders. ARSSBL and/or Anand Rathi and its affiliates, directors, officers, and employees may have a long or short position in any securities of the companies mentioned in the Research Report or in Related Investments. ARSSBL and/or Anand Rathi, may from time to time, perform investment banking, investment management, financial advisory or any other services not explicitly mentioned herein, or solicit investment banking or other business from, any entity and/or company mentioned in this Research Report; however, the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the other companies of Anand Rathi, even though there might exist an inherent conflict of interest.

Furthermore, this Research Report is prepared for private circulation and use only. It does not have regard to the specific investment objectives, financial situation and the specific financial needs or objectives of any specific person who may receive this Research Report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this Research Report, and, should understand that statements regarding future prospects may or may not be realized, and we can not guarantee the same as analysis and valuation is a tool to enable investors to make investment decisions but, is not an exact and/or a precise science. Investors should note that income from such securities, if any, may fluctuate and that each security's price or value may rise or fall. Past performance is not necessarily a guide to future performance. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investments mentioned in this report.

Other Disclosures pertaining to distribution of research in the United States of America

This material was produced by ARSSBL, solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the United States of America by Enclave Capital LLC (19 West 44th Street, Suite 1700, New York, NY 10036) and elsewhere in the world by ARSSBL or an authorized affiliate of ARSSBL (such entities and any other entity, directly or indirectly, controlled by ARSSBL, the "Affiliates"). This document does not constitute an offer of, or an invitation by or on behalf of ARSSBL or its Affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which ARSSBL or its Affiliates consider to be reliable. None of ARSSBL or its Affiliates accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

1. ARSSBL or its Affiliates may or may not have been beneficial owners of the securities mentioned in this report.

2. ARSSBL or its affiliates may have or not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.

3. ARSSBL or its affiliates may have or not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.

4. However, one or more of ARSSBL or its Affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon, either on their own account or on behalf of their clients.

5. As of the publication of this report, ARSSBL does not make a market in the subject securities.

6. ARSSBL or its Affiliates may or may not, to the extent permitted by law, act upon or use the above material or the conclusions stated above, or the research or analysis on which they are based before the material is published to recipients and from time to time, provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.

Enclave Capital LLC is distributing this document in the United States of America. ARSSBL accepts responsibility for its contents. Any US customer wishing to effect transactions in any securities referred to herein or options thereon should do so only by contacting a representative of Enclave Capital LLC.

Additional information on recommended securities/instruments is available on request.